Cover photo (left to right)
Fay Beaton, Chair, Family Advisory Council and Member, Patient and Family Services Planning Team;
Tobi Flanagan, Occupational Therapist, Geriatric Psychiatry and Member, Geriatric Psychiatry Services Planning Team;
Tony Khouri, Coordinator, Parkwood and Mental Health Sites, Facilities Planning & Development.

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FINANCIAL STATEMENTS OF ST. JOSEPH'S HEALTH CARE, LONDON

Year ended March 31, 2002

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Year ended March 31, 2002

Message from Leroy Innanen, Chair of the Resource Planning Committee

2002 Financial Statements

Over the last few years St. Joseph's Health Care, London (SJHC) has faced many challenges, not the least of which has been significant growth. As a result of the amalgamation with Parkwood Hospital in 1998, and the assumption, during 2001, of mental health programs and services of the London and St. Thomas Psychiatric Hospitals, St. Joseph's has doubled in size. Today, St. Joseph's has over 5,500 staff and has an annual budget of over $350 million. The March 31, 2002 financial statements represent the first full year of operation that this new family of services has been together.

At the same time, we are also moving our acute care operations toward a major focus on ambulatory services, including short-stay surgery and family birthing. We have seen a net reduction in acute services of $9.2 million over the last three years, as services have begun to relocate to London Health Sciences Centre (LHSC).

Over the next three to four years, SJHC will continue to transfer most acute inpatient services to LHSC, and also begin to implement the Health Services Restructuring Commission (HSRC) directives for mental health that will see some of the existing services relocated to other communities in Southwestern Ontario. We will be in a state of significant change for several more years. In the end, we estimate that approximately one-third of the current operations will have moved out of our organization to other providers.

Many preparations are necessary to make this new vision a reality, including construction of new ambulatory facilities at St. Joseph's Hospital, new mental health facilities on the Parkwood Hospital site and at Regional Mental Health Care, St. Thomas, and renovations to most of our remaining campuses. To this end, I am pleased to report that we have achieved a cost-sharing agreement for our ambulatory site with the Ministry of Health and Long-Term Care (MoHLTC) in April 2002. This agreement will ensure that the provincial funds required to complete the project will be available. Our funds for this project and the St. Joseph's Health Care Foundation's contributions are also well in hand.

We are committed to maintaining the viability of our services and to meeting our future commitments. In 2001/02, we invested $25.2 million in information technology, buildings, and medical equipment, including the purchase of a Positron Emission Tomography, CAT Scan Unit (PET/CT). This state-of-the-art technology will advance research in London and ensure our patients receive the latest in clinical care. In order to invest in the future, we need to not only manage our current operations, but also our existing resources. Therefore we have restricted, as required, our available assets to ensure we can meet our future commitments and obligations. These restricted investments are segregated on our balance sheet (March 31, 2002 – $117 million), and are managed by a professional investment manager under the direction of the Resource Planning Committee of our Board.

The past year has had other challenges as well. Our costs have continued to grow due to inflation, while funding has not kept pace. Manpower and physician shortages, technology innovation, and service demands are all driving costs higher and consuming management and staff time. The result has been that most Ontario hospitals saw a weakening in their balance sheets as they struggled to maintain service levels and capacity. Our working capital ratio dropped to 1.12:1, and although this is still healthier than most hospitals in the province, it is a trend we are concerned about. We are working with other hospitals in the province to highlight this issue for the government to advocate for adequate future funding. All hospital boards are also struggling with balancing the public's current demand for services and operating capacity while ensuring adequate long-term investment to financially sustain healthy organizations for the future.

St. Joseph's ended the year with a $2.4 million operating deficit (.7 percent of total operating expenditures) as cost and volume increases exceeded funding. Our capacity for growth was also limited as a result of staff and physician shortages, which minimized the deficit, but of course this translates into growing waiting lists. Hence, the dilemma faced by hospitals – public needs are out-growing public resources. The current national debate on health care is timely and needed. Total excess of revenues over expenses was $2.1 million, down from $7.5 million in 2001/02. An operating deficit, lower investment returns, and higher restructuring costs and lower restructuring reimbursement from the MoHLTC all contributed to the decrease. More detail on these results can be found in the following Management Discussion and Analysis.

In closing, I wish to recognize the outstanding leadership shown by our President/CEO Cliff Nordal and his entire leadership team during these challenging times. I also offer my thanks to all the physicians, staff and volunteers, who have guided and managed our resources so well through their commitment to the mission and vision of St. Joseph's Health Care, London. I would also like to thank our health care and education partners, MoHLTC staff, and the community for the continued support, for with your help, we will be able to work together to overcome the challenges of the future.

Leroy Innanen

Chair of the Resource Planning Committee

Management Discussion and Analysis

From left to right: Jim Flett, Vice President Integrated Chief Financial Officer; Cliff Nordal, President & CEO

Background

St. Joseph's Health Care, London (SJHC) now provides a wide spectrum of services, including acute care, rehabilitation, tertiary and forensic mental health, complex care, veterans care and long-term care, as well as many regional specialties within each of these services. However, the journey to the new role for SJHC has just begun. As summarized on the chart opposite we have been active on all fronts. The vision is for SJHC to be a specialty hospital leading several non-acute services, as listed above, while also being a state-of-the-art acute ambulatory site, including select surgery programs and family birthing.

In total, $22.9 million of acute care funding has already been realigned across the city, for a net transfer of $8.6 million from SJHC to LHSC and $.6 million to the London Regional Cancer Centre since the beginning of restructuring. The impact of moves in 2001/02 will be a net inflow to SJHC, which will result in an annualized increase of $3.1 million, due primarily to Ophthalmology and Rehabilitation. The full impact of this will not be felt until the 2002/03 fiscal year. Minimal movement is expected in fiscal 2002/03 as we prepare facilities during the next year. The next major moves will occur in the 2003/04 fiscal year. To make these moves possible, facilities have to be prepared, human resource issues addressed and, most importantly, clinical support for services coordinated. It is an enormous challenge to move operating programs and we must thank the many staff, physicians and volunteers who have contributed to the successful moves that have been orchestrated to-date.

To support the new integrated health system and movement of services, several new joint ventures, shared services, and integrated leadership positions have been implemented between LHSC and SJHC. As highlighted in the financial statements, we have three joint ventures that provide and coordinate procurement, inventory management, accounts payable, laboratory, and research activities. In addition, we have shared leadership over several services to help guide our linked missions and ensure we get the best possible from our available resources. The executive leadership is highly integrated as shown in Exhibit 1.

Restructuring Milestones to date:

- HSRC Directions – June 1997
- Transfer of Acute Mental Health Services from SJHC to LHSC – April 1998
- Final HSRC Directions – June 1998
- Merger between SJHC and Parkwood Hospital – December 1998
- Transfer of:
  - Oncology Program to LHSC and LRCC – July 1999
  - Diabetes to SJHC – May 2000
  - Cardiology to LHSC – June 2000
  - Rheumatology to SJHC – Sept. 2000
  - Renal to LHSC – Jan. 2001
- Transfer of Governance of London and St. Thomas Psychiatric Hospitals to SJHC – January & February 2001
- Transfer of:
  - Ophthalmology Phase 1 to SJHC – April 2001
  - Vascular/Thoracic to LHSC – Oct. 2001
  - Ophthalmology Phase 2 to SJHC – Oct. 2001
  - ENT, Cardiology, and Endocrinology moves – Dec. 2001
  - Rehabilitation move to SJHC – Feb. 2002

On top of mergers, acquisitions, restructuring, and manpower shortages, it is funding that offers hospitals in Ontario the greatest challenge. Ontario hospitals receive the majority of their funding from the province and recently government planning cycles have not been timely, leaving hospitals without information about future revenue sources until well into the fiscal period. The Ontario Hospital Association (OHA) has reported that hospital funding per capita was 19 percent lower in 2001/02 than in 1991/92. An estimated $1 billion funding pressure is estimated for the 2002/03 fiscal year that commenced on April 1, 2002. These realities are not well understood by the public and hospital funding, as a component of health expenditures, remains a constant of provincial program costs, as seen in Exhibit 2.

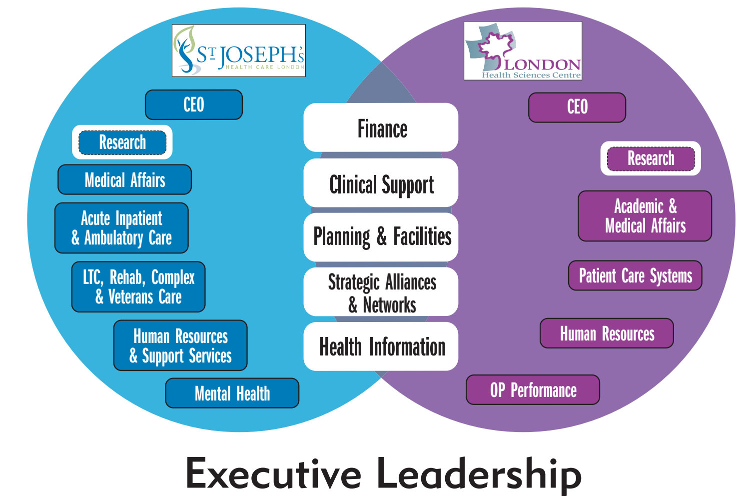


Exhibit 1

The 2001/02 fiscal year ended with a small operating deficit of $2.4 million. This is of concern and we are working with our provincial representatives to ensure the impact of under-funding is fully understood. Our working capital absorbed the impact as investment income is currently designated for future redevelopment. SJHC is one of few hospitals in the province that has strived to maintain a positive working capital, which has afforded us some flexibility and time to work through the effect of restructuring and provincial planning and minimize the impact on services. Provision has also been made in 2001/02 for the demolition of the old St. Mary's Hospital, which we have determined will not be used in the future. As noted in the statements (note 9), we have also provided for future obligations and restricted investments to support these commitments.

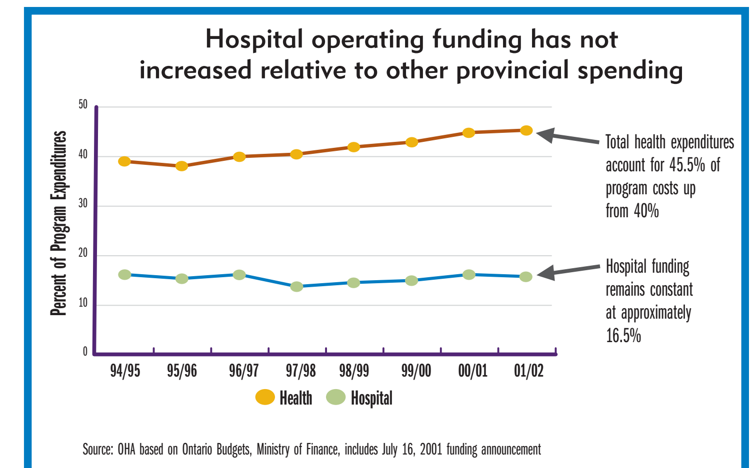


Exhibit 2

With all the change in our industry, our Board, in cooperation with London Health Sciences Centre's Board, introduced in 2000/01 an Internal Audit Service that operates on a citywide basis, serving both hospitals. The service has been outsourced to PricewaterhouseCoopers and supports management in reviewing key systems and controls across the organizations. We are now also working with peers across the province to share knowledge gained during our respective internal audits.

On behalf of the senior team, we would like to take this opportunity to recognize everyone who works so hard to support our organization; the volunteers, staff, physicians, and the many donors who contributed funds to help buy needed equipment or support future construction. Without their efforts we would not be able to provide the services so much needed by our communities today and in the future. If you have any questions after reviewing the Management Discussion and Analysis, please contact our offices at the numbers highlighted at the back of the document.

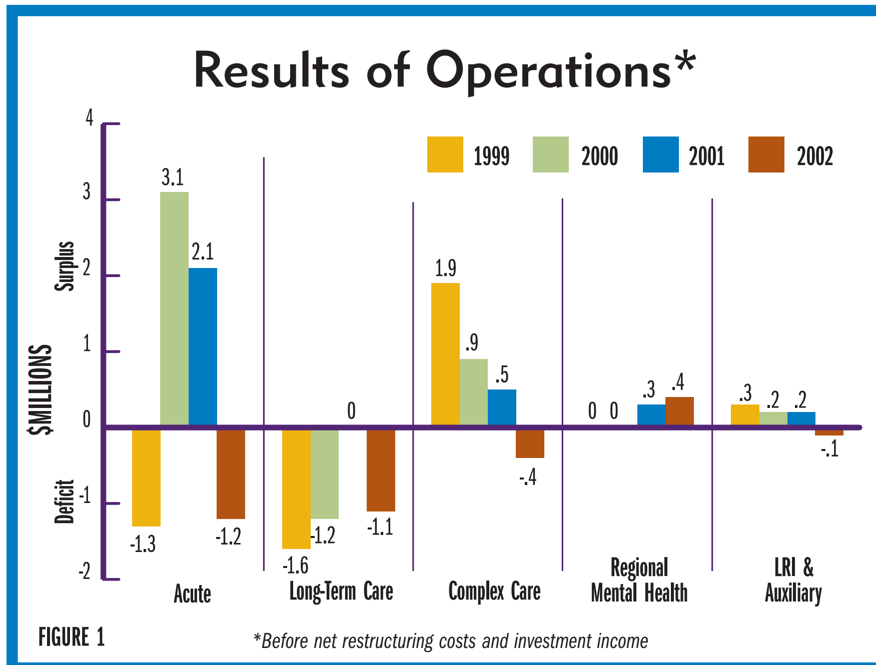
OVERVIEW

Senior Finance Team *Back from left to right: Bob Evans – Coordinator Fiscal Planning and Reporting; John Mockler – Director, Finance; David Morton – Coordinator Financial Capital Redevelopment and Organizational Financial Performance, Front: Cindy Bojin-Servos – Coordinator Treasury*

For the year ended March 31, 2002 our deficit from operations was $2.4 million or .7 percent of operating costs, before investment income and net restructuring costs (2001, $3.1 million surplus). The pressures that have contributed to this deficit were primarily focused in our acute care and long-term care operations, as highlighted in Figure 1. Higher-than-expected provincial wage settlements and continuing restructuring costs have had a significant impact on the organization.

After investment income and restructuring expenses, we had an overall excess of revenues over expenses of $2.1 million, down from a $7.5 million surplus in 2000/01. Contributing to the reduction was the operating deficit, restructuring costs and revenues, and a provision for demolition for the old St. Mary's Hospital of $1.6 million. Now that the plans for the redevelopment of St. Joseph's are clear it has been determined the building has no future use and will be torn down.

Restructuring funding and costs are reported separately on the Statement of Operations. They are one-time in nature and are specifically related to the province's vision for health care as outlined by the Health Services Restructuring Commission (HSRC) in 1997. Similarly, investment income is reported separately in the Statement of Operations. Investment income has been designated by the Board to support future capital and is therefore not currently available for operating purposes, except for $.3 million related to the Lawson Health Research Institute. The transfer of investment income to Restricted Funds is highlighted in the Statement of Changes in Net Assets. The result of protecting this investment income is that the operating loss contributes to the reduction in working capital year over year.



Note: The ***Veterans Care*** *Program had revenues equal to expenses in all four years due to the support of Veterans Affairs Canada.*

St. Joseph's Health Care, London Financial Statements

Financially, St. Joseph's remains a healthy organization. Working capital, although reduced, is still positive, and net assets have increased 1.6 percent. It is our goal to maintain infrastructure through steady investment in capital. In addition, the organization has been able to restrict assets to meet its planned redevelopment and other commitments as outlined in note 9 to the financial statements.

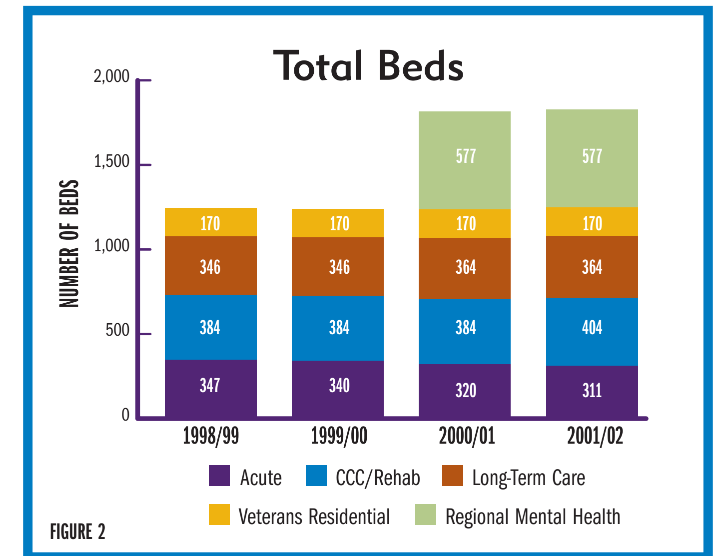
Service levels overall have been maintained, however levels in some areas have increased or decreased, reflecting changing trends and capacity to provide service. For example, acute care inpatient services overall, have seen a decline of .1 percent from 2000/01. This is primarily as a result of program transfers to London Health Sciences Centre (LHSC) in accordance with the HSRC directives.

Increasing costs on account of inflation, and the impact of reduced volumes resulting from program transfers and staff shortages, is of concern to the hospital as funding is influenced by our cost per case, as compared to our peers. During restructuring our ratio of fixed to variable costs has resulted in an increase in our cost per weighted case for acute and complex care patients. The costs have increased to the point where they exceed the level expected by the province. With the advent of new funding formulas, which consider efficiency in this regard, St. Joseph's is being negatively affected until such time as program transfers are complete, and the infrastructure to support remaining programs is resized to benchmark levels. Discussions are ongoing with the Ministry of Health and Long-Term Care (MoHLTC) with respect to this issue.

The business of health care and running hospitals is recognized as being very complex. At St. Joseph's, we provide care to the young and the old, acute and chronic, for physical and mental illnesses and disability, in an environment with rapidly changing technology, limited human resources, and increasing costs. Given the environment, our biggest challenge is creating a new organization amidst all the restructuring and change. To this end, during the year just ended we have consolidated all the financial, human resource, information and administrative systems, and leadership to support the operations of the new organization. We have also, as highlighted in the financial statements, progressed in citywide integration. This has occurred through joint ventures and integrated leadership with LHSC, capturing efficiencies and increasing service alignment to support program transfers.

ACTIVITY

With the transfer of the psychiatric hospitals from the MoHLTC, a significant number of beds (Figure 2) and services have been added to SJHC. *(Note: The Regional Mental Health Care (RMHC) beds transferred were 245 for St. Thomas in January of 2001 and 332 beds for London in February, 2001).*



Acute Care

Several key indicators are tracked by the hospital and the highlights are as follows:

I. Inpatient cases, including Rehab as shown in Figure 3, in total are higher year over year by .2 percent, however when program transfers are factored in, the result is an increase of 2.6 percent.

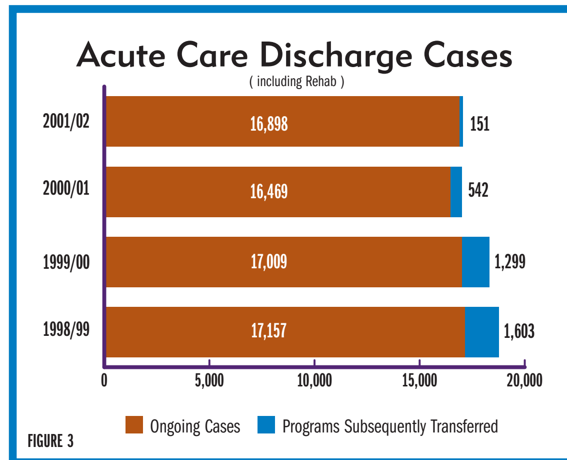


FIGURE 3

II. The addition of an obstetrician accounts in part for the 7.9 percent (or 256) increase in deliveries. (Figure 4).

III. Emergency visits continue to see increases at both London hospitals, at SJHC by 2.8 percent (Figure 5). As the region continues to face a shortage of family physicians and reductions in services provided by smaller community emergency departments, the emergency departments in London have seen greater demand.

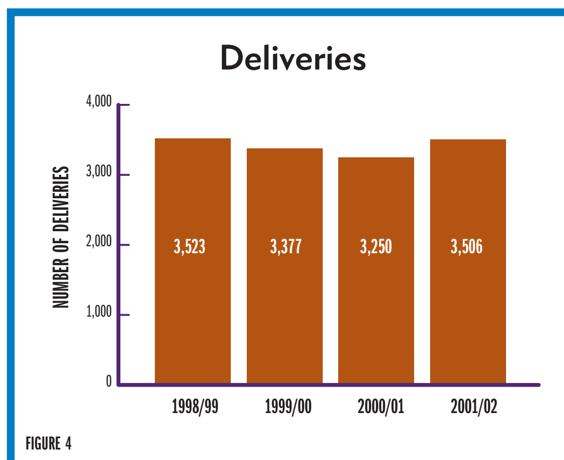


FIGURE 4

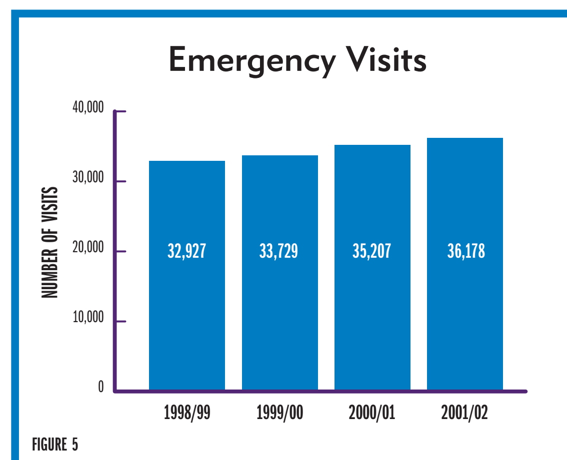


FIGURE 5

IV. The transfer of the ophthalmology program to St. Joseph's in October 2001 has contributed to higher outpatient visits and also increased day surgical volumes by over 8.8 percent (Figures 6,7).

On the inpatient side, volumes continue to feel the negative impact of the availability of physician resources, primarily anaesthetists. We have 13 operating rooms, but have been only able to keep open 10 on average for the year. Nursing shortages have also resulted in bed closures in several areas.

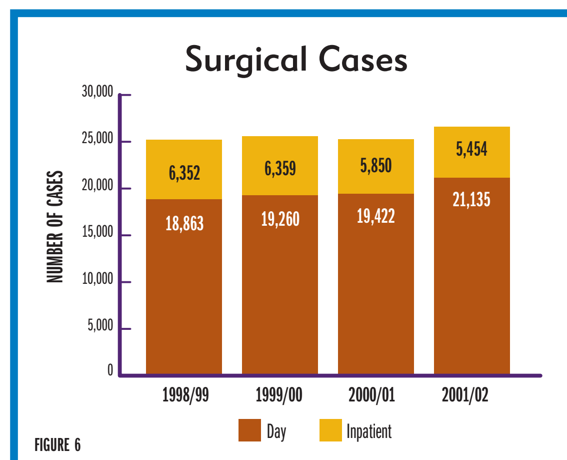


FIGURE 6

St. Joseph's Health Care, London Financial Statements

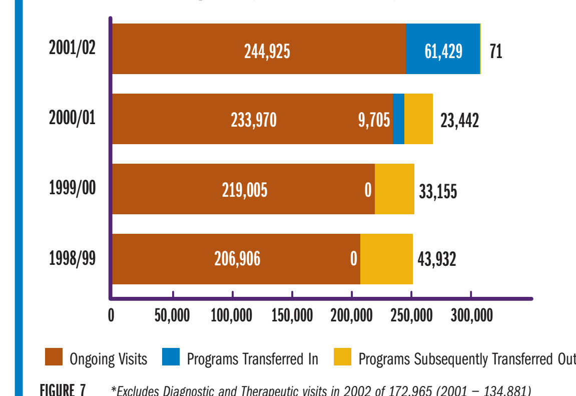


FIGURE 7 *Excludes Diagnostic and Therapeutic visits in 2002 of 172,965 (2001 – 134,881)

Rehabilitation

During the year this program saw the transfer of 21 beds from LHSC, and the consolidation of services to the renovated Parkwood from Mount Hope. The resultant 128-bed unit is the home for stroke, amputee, spinal cord injury, musculoskeletal, geriatric, and acquired brain injury patients. Total cases discharged were down 7.4 percent in the year as we prepared for the transfer. Visits to our day hospital were down slightly as we are investing in developing skills in the local teams to provide more comprehensive services. Services are expected to return to full operating capacity in the next fiscal year.

Complex Care

Patient days declined in complex continuing and palliative care by 2.6 percent over last year (Figure 8). The decline is due to several reasons, including a shortage of staff and family physicians, and bed closures to accommodate renovations at Parkwood Hospital. We expect volumes will return to normal levels next year as renovations are now complete and new family physician resources have been found.

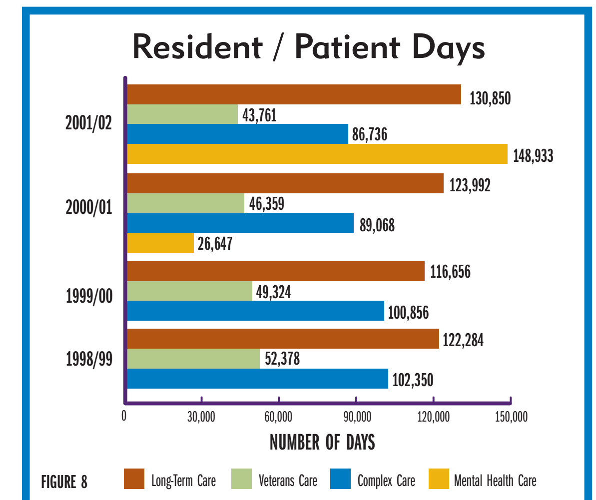


FIGURE 8

Long-Term Care

St. Joseph's operates 364 long-term care beds. 2001/02 was the first full year of operations since the significant investment in renovations at Marian Villa in 2001. We operated at full capacity for the year, and with the departure of the 30-bed rehab unit are working with the MoHLTC to increase the long-term care beds at Mount Hope. We anticipate activation of the new beds in the summer of 2002.

Veterans Care

As the population of war veterans declines, we are seeing a decline in the demand for care. The average age of our veteran patient is 84 years and, as the government has increased beds in the north and central parts of the province, further decreases are expected. Total veterans long-term care resident days declined by 5.6 percent. A similar decline shows in the need for more intense post-residential care for these patients, provided at Parkwood Hospital.

Mental Health Care

Our 2001/02 statements reflect the first full year of service to the patients of the RMHC-London and St. Thomas facilities. Total inpatient days were slightly less than 2000/01, at 1.8 percent. The 2001/02 Mental Health data in Figure 8 represents only a portion of services when the facilities were part of SJHC. In total, 577 beds are designated for long-term mental health care. Volume was down in 2001/02, due in part to a shortage of nursing staff and psychiatrists. Also, as the community outreach programs became fully operational, fewer admissions were required.

REVENUE

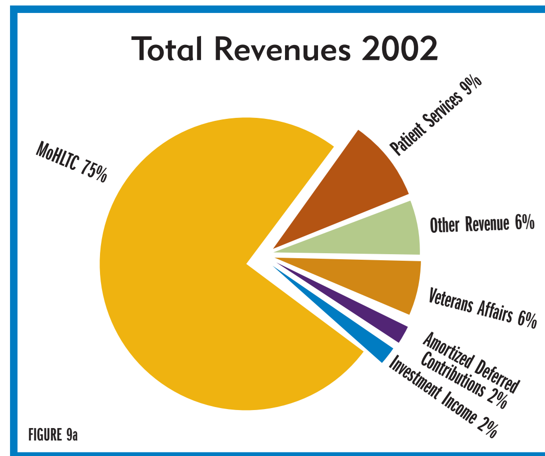


FIGURE 9a

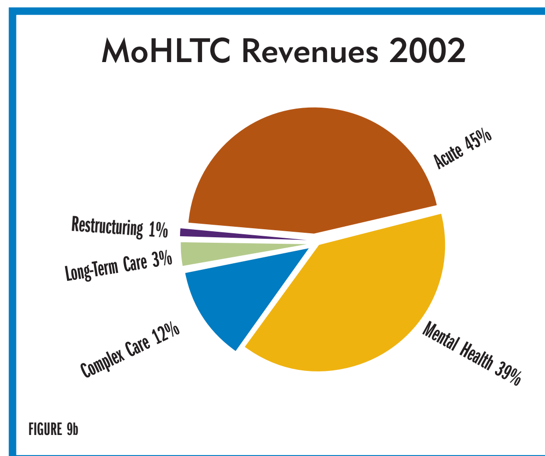


FIGURE 9b

The majority of funding for Ontario hospitals comes from the MoHLTC. Although current funding is based largely on historical allocations, new methodologies are being developed that take into consideration the changing needs of the region's population and each hospital's relative efficiency. These new methods are currently being used for some incremental funding, but are not yet complete and only reflect some of the hospital's activity.

At St. Joseph's, the MoHLTC provided $268.3 million or 75 percent of the total revenue, including restructuring income, in 2001/02. This represents an increase of $89 million over 2000/01 and primarily reflects the annualization of funding for assumption of long-term mental health care services by St. Joseph's in 2000/01. Also included in the increase was $4.8 million to cover the costs of inflation expected during the year, and reductions of $2.7 million to reflect transferred programs. St. Joseph's also receives funding from Veterans Affairs Canada to support the Western Counties Wing, and veterans requiring complex care at Parkwood Hospital. In 2001/02, Veterans Affairs Canada revenue was $21.9 million or 6 percent of total revenue.

Long-Term Care at St. Joseph's, as represented by Mount Hope, is undergoing transition in funding for its St. Mary's operations, from a complex-care level to long-term residential care level of funding. Annually this represents a 7 percent reduction in revenue ($.8 million in 2002). 2002/03 will be the sixth year of a seven-year transition period. A new model of care was introduced in 2001 to help with the transition and to prepare the organization to live within available funds. Long-Term Care is funded on a per diem basis, which reflects the complexity of the care and is adjusted on an annual basis.

The MoHLTC funds costs incurred on a one-time basis for restructuring. Those meeting a certain criteria are funded at 85 percent of the total cost. In 2001/02, St. Joseph's received $1.3 million to offset expenses. Both funding and expenses are separately grouped in the Statement of Operations. Costs not funded by the MoHLTC are funded 100 percent by the hospital.

Patient services and other revenue increased a total of $6.2 million. The greatest increases were seen in activity due to programs transferred to SJHC, an increase of 2 percent in fees billed to the Ontario Hospital Insurance Plan (OHIP), and increases in marketed services (ie. retail pharmacy and food sales).

COSTS

In 2001/02, 72.4 percent of our operating costs were people related, as is typical of the industry. Although growing in technology, we continue to be "high touch" and require a high-calibre team to deliver our caring mission. The balance of our expenses were spent on operating supplies and drugs (21.6 percent) and amortization of capital costs and restructuring (6 percent). Figure 10 shows the distribution of resources among programs and highlights the complex care services provided at Parkwood Hospital. With the transfer of the Rehabilitation Program in the latter part of 2001/02, and the resulting increase in budget of approximately $3 million, this program will be allocated over 43 percent of the resources at Parkwood Hospital.

Salary and benefit costs showed a net increase of $81.7 million, primarily due to a full year of mental health services (impact $75.3 million). After adjusting for the mental health acquisition, the net increase was 2.3 percent. Increases in salaries, due to inflation, were $3.1 million; increased benefit costs were $.7 million, including, for example, pension cost increases of $.4 million. This increase was partly offset by programs transferred out ($1.2 million) and changes in accounting for the new laboratory joint venture.

St. Joseph's Health Care, London Financial Statements

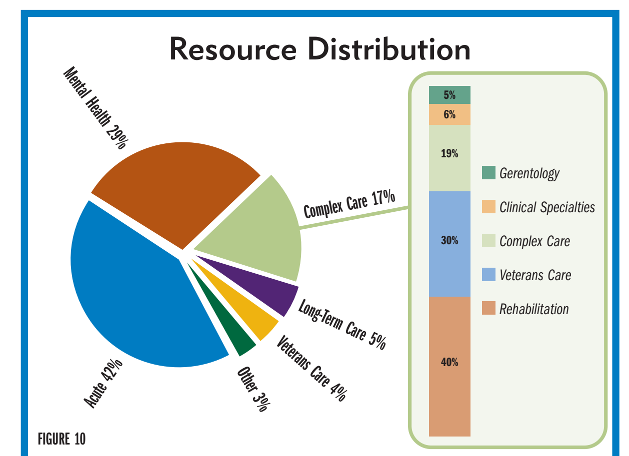


FIGURE 10

In 2001/02, SJHC laboratory services were consolidated with London Health Sciences Centre, forming a new joint venture (London Laboratory Services Group). Expenses for these services are now being accounted for as a service purchased from LHSC. Costs reflected as salaries in 2001/02 are now shown as a supply expense to the extent of $5.4 million. Higher research activity, and increased priority program spending account for the balance of change.

In 1998 costs to maintain the pension plan in a fully funded position were significantly decreased for a period up to January 2002. Costs increased to $.4 million in 2001/02, and are expected to increase to an annual level of $1.6 million in future years.

Annualization of mental health service costs ($12.4 million), reduction for program transfers ($1.3 million), and laboratory services consolidation ($5.4 million noted above) account for the majority of supply cost increases; the balance is due to inflation, including significant increases in utility costs ($.4 million).

Amortization costs remain consistent with last year, as St. Joseph's has continued an active equipment and facility replacement program, to ensure services can offer up-to-date technology as part of their care.

FINANCIAL POSITION AS AT MARCH 31, 2002

Our balance sheet remains solid with a working capital ratio of 1.12:1 and a long-term debt to net assets ratio of .037, an improvement from .046 in 2000/01. The organization incurred no new debt in 2001/02 and payments have continued on schedule. Although our working capital position has deteriorated, it is healthier than most of our peers across the hospital industry. Figure 11 highlights the changing financial position for our hospital as compared to other teaching hospitals across the province. Clearly the Ontario teaching hospitals are financially challenged. Lower liquidity ratios do limit our operating capacity and our ability to invest or meet new challenges. The Change Foundation[1] has indicated that 2:1 may be appropriate in some industries, and given public funding a lower ratio may be acceptable in hospitals, but it should be not less than 1:1. St. Joseph's financial health and performance was recognized as positive compared to its peers in the 2001 Hospital Report Card. This report can be found on the Canadian Institute for Health Information Web site. – www.cihi.ca

CURRENT RATIO (Figure 11)

	Teaching Hospital (TH) Avg. Current Ratio[1]	TH[1] Quick Ratio	SJHC Current Ratio	SJHC Quick Ratio
March 1999	.83	.73	1.33	1.29
March 2000	.85	.80	1.46	1.40
March 2001	1.1*	1.01*	1.22	1.16
December 2001	.83	NA	1.21	1.14
March 2002	NA	NA	1.12	1.06

** Disclosure differences surrounding Superbuild Unconditional Grant distorted the overall Teaching Hospital ratios.*

1 *"Financial Review of 137 Ontario Hospitals 2001", November 2001, authored by The Change Foundation (Ontario Hospital Association) and Canadian Imperial Bank of Commerce (CIBC), Deloitte & Touche LLP. Data for March 1999, March 2000, and March 2001 came from the report. December 2001 was provided by Ontario Council of Teaching Hospitals.*

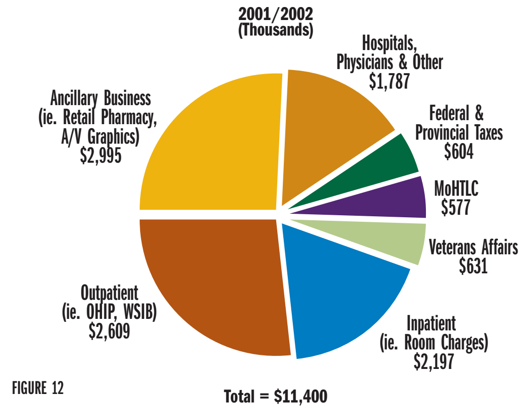


FIGURE 12

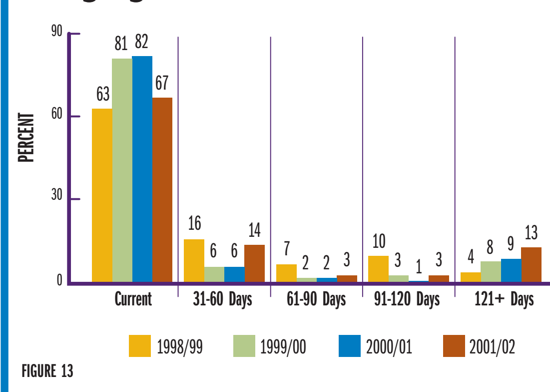


FIGURE 13

Accounts receivable at SJHC is primarily related to patient care activity as highlighted in the Figure 12. The accompanying aging (Figure 13) highlights a slight negative trend in the age of our accounts. This is due to the OPSEU strike at year-end that resulted in delays in cash flows from the MoHLTC, but also increasing collection periods with the insurance industry. The latter issue continues to be an ongoing challenge for hospitals.

To ensure SJHC can continue to meet future commitments, the Board has restricted some investments. Specifically, funds are restricted for expenses of future periods ($8.5 million), unspent contributions related to capital assets ($46.3 million), and amounts internally restricted by the Board ($62.7 million) to meet future obligations for employee sick benefits and post-employment benefits, equipment replacement, and planned capital redevelopment.

Professional investment managers, in accordance with our investment policy, manage our investments externally. Management and the Board annually review our investment policy and guidelines.

Figure 14 shows our Restricted Investments by type. Investments at March 31, 2002 yield a return as follows:

Government bonds	2.94 to 7.48%
Other fixed income	3.82 to 8.09%
GIC	4.89 to 6.52%

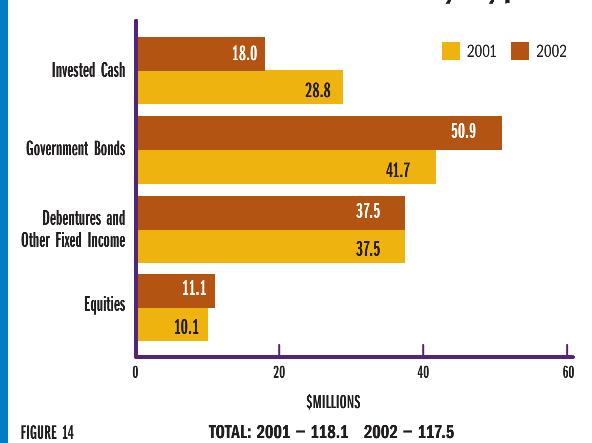


FIGURE 14

Interest earned on long-term investments in 2001/02 was 5.5 percent compared to 6.5 percent in 2000/01.

Total investments, including short-term investments, at March 31 are $149.8 million, compared to $130.4 million in 2000/01. Contained within are the funds in the amount of $33.6 million advanced in June 2000 by the MoHLTC under the Unconditional Grant program, towards the MoHLTC's funding commitment for approved capital redevelopment. As an externally restricted investment, all income earned on the Unconditional Grant was credited directly to restricted investments, and funds are drawn down as spending is incurred. At March 31, 2002, the balance of the Unconditional Grant is $33.9 million, with income earned to-date of $3.7 million and spending of $3.4 million.

During the year the organization spent $25.2 million on capital assets (Figure 15), including $12.1 million on buildings and $13.1 million on equipment. Over $8 million was spent on redeveloped facilities at Parkwood for the rehabilitation program transfer and completion of the Neurobehavioural Rehabilitation Centre. Spending has begun on planning for the redevelopment of St. Joseph's Hospital. Equipment expenditures include over $2 million for digital angiography replacement, telephone systems replacement at the psychiatric hospitals, and other clinical and information systems equipment.

St. Joseph's Health Care, London Financial Statements

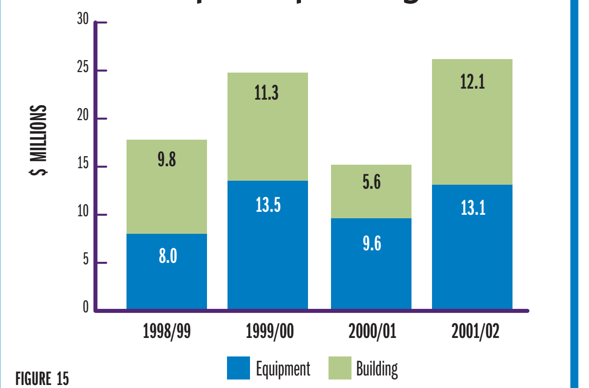


FIGURE 15

Spending on capital assets for SJHC for the past year was 7.2 percent of total revenue, and 5.9 percent in 2000/01. This number is behind the teaching hospital average of 9.1 percent in 2000/01. Hospitals in the province are increasingly relying on debt to acquire capital assets. In 2000/01 the long-term debt to total capital assets ratio for teaching hospitals in the province was .17, while St. Joseph's was at .03 in 2001 and .02 in 2001/02. With the steep technology curve, especially in imaging equipment and information technology, we are finding it increasingly difficult to rely on annual funding from the government, to both adequately replace old equipment, and to allow us to remain current with new technology. Over the past two years, $11 million has been invested beyond normal annual allocations for Year 2000 computer issues and for medical equipment utilizing one-time funding from the Federal Government's Replacement Fund Program and support from the province. Our industry is increasingly becoming dependent on these grants to replace equipment.

THE FUTURE

Regardless of all the challenges, the future does look bright. Although we struggle with rising costs and inadequate funding, we have a community that is united in a future vision. The government has in May 2002 reaffirmed its commitment to the necessary funding to redevelop the sites of the London hospitals. The recent funding allocation to St. Joseph's of $43.7 million, along with hospital and community support of $55.9 million, completes the $99.6 million redevelopment funds required for St. Joseph's Hospital. Figure 16 illustrates the spending to-date on this project and future spending and cash flows.

HSRC St. Joseph's Hospital Redevelopment

($000's)

	Activity Prior	◄ March 31, 2002 ►	Activity Post	TOTAL
Project Cost	13,632		85,961	99,593
MoH Funding	6,026		37,637	43,663
SJH Funding	7,606		23,324	30,930
Community Funding	–		25,000	25,000
	13,632		85,961	99,593

FIGURE 16

Investment in leading edge technology such as the Positron Emission Tomography / Computed Tomography (PET/CT) and transition to full digital imaging signifies our commitment to provide the most up-to-date technology available.

As we redevelop the Parkwood Hospital site, which will soon be the new home of long-term mental health care programs, we have expanded our imaging capability to that site. As noted in our financial statements, the province has committed to cover the cost of construction of the new mental health facilities. Construction will commence in the next few years.

In fiscal 2003/04, we will reach a major milestone in our continued program transfer process with critical care programs in ICU and Emergency scheduled to move to LHSC. Our planning process recognizes the risks to the continuity of care presented by such program transfers. Planning by leaders in both organizations is focused on keeping the community advised of progress to minimize disruptions to their care. This highly complex process involves detailed planning to ensure staff and equipment make the move into space that has been designed to support our caring mission, uses our resources wisely, and that focuses on patient, client or resident needs.

What we hope to achieve in the future is a level of service that is responsive to the needs of the community, and is sustainable with our funding allocation. Management is keenly aware of the obligations we have to be financially responsible with the resources given to us, and at the same time fulfill our role as advocates to the government for our patients, residents, and clients.

MANAGEMENT'S REPORT

The accompanying financial statements of St. Joseph's Health Care, London have been prepared by Management, and approved by the Board of Directors at their meeting of May 27, 2002.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit Sub-Committee of the Resource Planning Committee. Voting membership of this committee is comprised of outside volunteers. The Audit Sub-Committee meets with management and the internal and external auditors to review any significant accounting and auditing matters and discuss the results of audit examinations. The Audit Sub-Committee also reviews the financial statements and the auditors' report and submits its findings through the Resource Planning Committee to the Board of Directors for their consideration in approving the financial statements.

St. Joseph's Health Care, London maintains a system of internal accounting controls that is continually reviewed and improved to provide assurance that financial information is relevant and reliable, and that assets are properly accounted for and safe-guarded.

On January 22, 2001 and February 19, 2001, St. Joseph's Health Care, London assumed governance and operations of the St. Thomas and London Psychiatric Hospitals respectively. Therefore, the March 31, 2002 financial statements represent the first full year these services have been part of the operations of St. Joseph's Health Care, London.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Mr.Cliff Nordal, FCCHSE
President and CEO

Mr. Jim Flett, CA
Vice President

Mr. John Mockler, CMA
Director, Finance

May 27, 2002

St. Joseph's Health Care, London Financial Statements

AUDITORS' REPORT

To St. Joseph's Health Care, London

We have audited the statement of financial position of St. Joseph's Health Care, London as at March 31, 2002 and the statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of St. Joseph's Health Care, London's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of St. Joseph's Health Care, London as at March 31, 2002 and the results of operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
London, Canada

May 7, 2002

Statement of Financial Position

March 31, 2002, with comparative figures for March 31, 2001

		2002	2001
			(000's)
Assets			
Current assets:			
Cash and short term investments	$	**52,111**	36,428
Accounts receivable *(note 2)*		**11,400**	17,352
Inventories and prepaid expenses		**3,542**	2,994
		67,053	56,774
Restricted investments *(note 3)*		**117,486**	118,096
Capital assets *(note 4)*		**183,752**	177,179
		368,291	352,049
Liabilities, Deferred Contributions and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities		**58,795**	45,317
Current portion of loans and mortgages payable		**1,136**	1,136
		59,931	46,453
Long-term liabilities *(note 6)*		**4,478**	5,814
Provision for demolition *(note 11)*		**1,600**	–
Deferred contributions *(note 7)*			
Expenses of future periods		**8,507**	7,327
Capital assets		**140,264**	141,388
		148,771	148,715
Net assets:			
Invested in capital assets *(note 8)*		**85,358**	73,653
Restricted *(note 9)*		**62,668**	67,345
Unrestricted		**5,485**	10,069
		153,511	151,067
Commitments and contingencies *(note 10)*			
	$	**368,291**	352,049

See accompanying notes to financial statements.

St. Joseph's Health Care, London Financial Statements

Statement of Changes in Net Assets

Year ended March 31, 2002, with comparative figures for March 31, 2001

		Invested in Capital Assets *(note 8)*	Restricted *(note 9)*	Unrestricted	2002 Total (000's)	2001 Total (000's)
Balance, beginning of year	$	73,653	67,345	10,069	**151,067**	138,442
Excess (shortfall) of revenues over expenses		(9,992)	5,839	6,269	**2,116**	7,464
Net change in invested in capital assets		21,512	(20,661)	(851)	–	–
Transfers to restricted *(note 9)*		–	10,145	(10,145)	–	–
Increase in net assets *(note 6(e))*		185	–	143	**328**	5,161
Balance, end of year	$	**85,358**	**62,668**	**5,485**	**153,511**	151,067

See accompanying notes to financial statements.

Statement of Operations

Year ended March 31 2002, with comparative figures for March 31, 2001

		2002	2001
			(000's)
Revenues:			
Ministry of Health and Long-Term Care	$	**267,007**	177,156
Veterans Affairs Canada		**21,949**	21,514
Patient services		**32,737**	29,192
Other revenue		**21,479**	18,821
Amortization of deferred contributions		**8,554**	8,491
		351,726	255,174
Expenses:			
Salaries and benefits		**258,510**	176,822
Supplies		**77,038**	57,365
Amortization of capital assets		**18,546**	17,840
		354,094	252,027
Excess (shortfall) of revenues over expenses from operations		**(2,368)**	3,147
Health Services Restructuring:			
Current expenditures		**(1,334)**	(3,589)
Ministry of Health and Long-Term Care funding		**1,306**	2,199
Provision for demolition *(note 11)*		**(1,600)**	–
Investment income		**6,112**	5,707
Excess of revenues over expenses	$	**2,116**	7,464

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2002 with comparative figures for March 31, 2001

		2002	2001
			(000's)
Cash provided by (used for):			
Operating activities:			
Excess of revenues over expenses	$	**2,116**	7,464
Items not involving cash:			
Amortization of capital assets		**18,546**	17,840
Amortization of deferred contributions related to capital assets		**(8,554)**	(8,491)
Provision for demolition		**1,600**	–
Change in non-cash operating working capital		**18,882**	17,065
Net increase in deferred contributions related to expenses of future periods		**1,180**	1,468
		33,770	$35,346
Financing and investing activities:			
Increase in deferred contributions related to capital assets		**7,430**	44,664
Reduction in long-term liabilities		**(1,336)**	(1,199)
Purchase of capital assets		**(25,204)**	(15,172)
Disposal of capital assets		**85**	210
Net change in restricted investments		**610**	(58,675)
Increase in net assets		**328**	5,161
		(18,087)	(25,011)
Net increase in cash		**15,683**	10,335
Cash and short term investments, beginning of year		**36,428**	26,093
Cash and short term investments, end of year	$	**52,111**	36,428

See accompanying notes to financial statements.

St. Joseph's Health Care, London Financial Statements

Notes to Financial Statements
($000's)

Year ended March 31, 2002

The accompanying financial statements of St. Joseph's Health Care, London include: St. Joseph's Hospital; Mount Hope Centre for Long-Term Care; Parkwood Hospital; Western Counties Wing; Regional Mental Health Care, London and St. Thomas; the Lawson Research Institute; St. Joseph's Health Centre Auxiliary; and various joint ventures as described in the notes to the financial statements.

1. Accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada.

(a) Revenue recognition:

The deferral method of accounting for contributions is followed.

Unrestricted contributions are recognized as revenue if the amount to be received can be estimated and collection is reasonably assured. Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized.

(b) Investments:

Investments in joint ventures over which St. Joseph's Health Care, London has significant influence or joint control, are accounted for using the equity method.

Investments in marketable securities are recorded at cost. If a decline in the market value of investments below cost occurs and is considered to be other than temporary, a write-down in the carrying value of investments is recorded.

Investment income on unspent deferred capital contributions, if externally restricted for future use, is deferred as a component of such contributions. All other investment income is recognized as revenue when earned.

(c) Capital assets:

Capital assets are recorded at original cost. Amortization of original cost and any corresponding deferred contributions are calculated on a straight-line basis using the following annual rates:

Asset	Rate
Land improvements	2 – 10%
Buildings	2 – 5%
Building service equipment	2 – 10%
Major equipment	10 – 33%

Construction in progress comprises construction and development costs and capitalized interest. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

(d) Measurement uncertainty:

Preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the year. The inherent uncertainty involved in making such estimates may impact the actual results reported in future periods.

St. Joseph's Health Care, London Financial Statements

2. Accounts receivable:

		2002	2001
Ministry of Health and Long-Term Care	$	**577**	4,063
Veterans Affairs Canada		**631**	4,539
Patients and other		**10,192**	8,750
	$	**11,400**	$17,352

3. Restricted investments:

		2002		2001	
		Cost	**Market Value**	Cost	Market Value
Government bonds	$	**58,490**	**57,699**	50,366	50,073
Debentures and other fixed income securities		**47,865**	**48,205**	57,648	58,980
Equities		**11,131**	**10,044**	10,082	8,591
	$	**117,486**	**115,948**	118,096	117,644

Restricted investments represent the investment of unspent deferred contributions for expenses of future periods and capital assets, including the Unconditional Grant Initiative (note 10(c)), and other grants provided by the Ministry of Health and Long-Term Care, as well as amounts designated by the Board for future costs contained in restricted net assets, including capital projects to support restructuring.

4. Capital assets:

		Cost	Accumulated Amortization	2002 Net Book Value	2001 Net Book Value
Land	$	8,028	–	**8,028**	8,028
Land improvements		2,454	1,657	**797**	306
Buildings		226,098	81,027	**145,071**	141,538
Equipment		127,778	97,922	**29,856**	27,307
	$	364,358	180,606	**183,752**	177,179

5. Credit Facilities:

The credit facilities established for St. Joseph's Health Care, London consist of an operating line of $10,000, non-revolving demand installment loans of $4,441 and a revolving capital expenditure credit of $10,000. Amounts were drawn on these facilities as described in note 6.

6. Long-term liabilities:

(a)		2002	2001
Mortgage bearing variable interest rate of 9.5% to 10.25%; payable, $275 per year through July 15, 2002, secured by the Grosvenor Street parking facility	$	**275**	550
Mortgage bearing interest at prime less .5%, principal to be reduced by $2 per month with the balance becoming due March 1, 2007, secured by the Richmond Street property		**139**	167
Unsecured banker's acceptances subject to an interest rate swap agreement (d); the principal outstanding is renewable monthly and is to be reduced by $53 per month due April 15, 2003 through September 15, 2006		**4,027**	4,660
Non-interest bearing loan from the Sisters of St. Joseph with no fixed repayment terms (e)		**–**	185
		4,441	5,562
Employee future benefits		**126**	126
Accumulated sick leave entitlement (c)		**1,047**	1,262
		5,614	6,950
Less current portion		**1,136**	1,136
	$	**4,478**	5,814

Interest on long-term liabilities was $386 (2001, $497).

(b) Principal payments due under various debt agreements are as follows:

2003	$	936
2004		347
2005		318
2006		318
2007		319
Thereafter		2,203
	$	4,441

(c) The accumulated sick leave entitlement reflects the remaining liability from a former plan, with changes during the year representing changes in wage rates and payouts to employees upon retirement or departure.

(d) St. Joseph's Health Care, London has entered into an interest rate swap agreement on a notional principal of $4,027 as at March 31, 2001 terminating February 17, 2003. This agreement has effectively converted variable interest rates on unsecured banker's acceptances to an effective fixed interest rate (including stamping fee) of 7.49%.

(e) The non-interest bearing demand loan from the Sisters of St. Joseph in the amount of $185 was forgiven in 2002 and has been accounted for as an investment in capital assets.

7. Deferred contributions:

(a) Expenses of future periods:

Deferred contributions related to future periods represent unspent restricted grants and donations for research and other purposes.

(b) Capital assets:

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets.

The balance of deferred contributions related to capital assets consists of the following:

		2002	2001
Unamortized capital contributions used to purchase assets	$	**93,953**	97,964
Unspent contributions		**46,311**	43,424
	$	**140,264**	141,388

During 2001, $33,600 was received as a restricted unconditional grant from the Ministry of Health and Long-Term Care (note 10(c)). To-date, $3,711 of this grant has been spent, $109 has been amortized, and interest earned of $3,616 has been credited to unspent contributions.

8. Invested in capital assets:

Invested in capital assets is calculated as follows:

		2002	2001
Capital assets	$	**183,752**	177,179
Amounts financed by:			
Deferred contributions		**(93,953)**	(97,964)
Loans, mortgages and accounts payable		**(4,441)**	(5,562)
	$	**85,358**	73,653

9. Restrictions on net assets:

The Board of Directors of St. Joseph's Health Care, London, have placed certain restrictions on funds to reflect the wishes of donors or to meet future needs as identified by the Board.

		2002	2001
Restrictions on net assets:			
Research	$	**1,000**	1,000
Accumulated sick leave entitlement		**1,047**	1,262
Employee future benefits		**1,282**	914
Provision for demolition		**1,600**	-
Provision for future equipment and capital redevelopment		**57,739**	64,169
		62,668	67,345
Deferred contributions:			
Expenses of future periods		**8,507**	7,327
Unspent contributions		**46,311**	43,424
	$	**117,486**	118,096

St. Joseph's Health Care, London Financial Statements

10. Commitments and contingencies:

(a) Pursuant to the directives of the Ontario Health Services Restructuring Commission (HSRC), St. Joseph's Health Care, London assumed management of the mental health programs and services being provided by the London and St. Thomas Psychiatric Hospitals on January 22, 2001 and February 19, 2001, respectively.

i. St. Joseph's Health Care, London has entered into a five-year lease with the Ontario Realty Corporation at nominal value to utilize the existing London and St. Thomas Psychiatric Hospital sites for Regional Mental Health Services until new facilities can be constructed, and services decanted to other communities as directed by the HSRC.

ii. On October 25, 1999 and October 26, 1999, the St. Joseph's Health Care, London and London Health Sciences Centre Boards of Directors respectively endorsed a land transfer to enable the relocation of specialized mental health services to the Parkwood Site.

iii. The future capital investment for mental health buildings and equipment is to be fully funded by the Ministry.

(b) The HSRC directives also call for the majority of acute in-patient services to be transferred to London Health Sciences Centre, such that St. Joseph's Health Care, London will become the focal point in London and region for certain ambulatory care, day surgery, rehabilitation, complex care, long-term and veterans care, and tertiary and specialized mental health services. This restructuring process will continue to be implemented in phases over a number of years.

Future capital investment to renovate the Grosvenor site is estimated to be $85,961. The Ministry has committed to provide related future capital funding of $37,637, St. Joseph's Health Care, London has committed to provide funding of $23,324, and the remainder is to be sourced from the community.

(c) In relationship to the HSRC directives noted in (a) and (b) above, St. Joseph's Health Care, London has participated in the Unconditional Grant Initiative offered by the Ministry of Health and Long-Term Care for the redevelopment of the Grosvenor site and Mental Health Services. The Ministry has advanced a portion of the committed funds in fiscal 2001 for the Grosvenor site and Mental Health of $11,800 and $21,800, respectively. These advances were discounted to reflect St. Joseph's Health Care, London's ability to earn investment income on the funds prior to their expenditure. As at March 31, 2002, the remaining funds, including accumulated interest are $9,770 and $24,084 for Grosvenor site and Mental Health, respectively.

(d) The Board of Directors has approved additional redevelopment projects and capital equipment, in addition to the above, for which the expected future cost will be approximately $5,984.

(e) St. Joseph's Health Care, London is subject to certain actual and potential legal claims, which have arisen in the normal course of operations. In management's opinion, insurance coverage is sufficient to offset the cost of unfavourable settlements, if any, which may result from such claims.

11. Provision for demolition:

The old St. Mary's Hospital has been vacant since 1997 and is fully depreciated. In 2002 a provision for demolition of this property has been recorded, as it has been determined this building will no longer be used and will be torn down. The estimated cost of demolition of $1,600 is recorded in the Statement of Operations as a restructuring expense.

St. Joseph's Health Care, London Financial Statements

12. Employee future benefits:

(a) Pension Plan

Substantially all full time employees of St. Joseph's Health Care, London are members of the Hospitals of Ontario Pension Plan. This Plan is a multi-employer, defined benefit pension plan.

Employer contributions to the Plan on behalf of employees amounted to $6,090 (2001, $3,410).

The most recent actuarial valuation of the Plan indicates the Plan is fully funded. A Plan surplus has resulted in contribution requirements being reduced for calendar year 2002.

(b) Other Employee Future Benefits

Accrued obligations for all post employment benefits, other than pensions, based on amounts determined by independent actuaries are $3,096 as at March 31, 2002 (2001, $1,550). The discount rate used in determining the actuarial present value of these future benefits is 6.75% at March 31, 2002 (2001, 6.75%). The transitional obligation as at March 31, 2002, of $560 (2001, $603) is being recognized over the employees' average remaining service life, along with unrecognized prior service costs of $1,221 (2001, $0). The unrecognized net loss is $33 (2001, $33).

Other post employment benefits other than pensions, expensed during the year were $393 (2001, $714). Benefits paid during the year were $25 (2001, $25). As at March 31, 2002 the recorded liability related to these costs is $1,282 (2001, $914). The Board of Directors of St. Joseph's Health Care, London has restricted assets to fund the accrued obligations represented by these accrued post employment benefits as at March 31, 2002.

13. Fair value of financial instruments:

The fair values of investments have been determined based on quoted market values at the close of business on March 31, 2002. The investments consist of equity, government and corporate bonds with a minimum investment rating of A.

The fair market value of the interest rate swap agreement disclosed in Note 6(d), being the loss that would have been realized had the agreement been terminated on March 31, 2002, is $136 (2001, $181).

The fair values of all other monetary assets and liabilities approximate their carrying values in the balance sheet.

14. Related entities:

(a) Foundations:

St. Joseph's Health Care Foundation is incorporated without share capital under the laws of Ontario. St. Joseph's Health Care, London exercises significant influence, but not control, over the Foundation by virtue of its ability to appoint certain members of the Foundation's Board of Directors. During the year ended December 31, 2001, the Foundation provided donations totaling $1,078 (2000, $1,795).

Parkwood Hospital Foundation is a related entity incorporated without share capital under the laws of Ontario. The Foundation is independent, but exists to support designated programs and services within St. Joseph's Health Care, London. During the year ended March 31, 2002, the Foundation provided donations totaling $844 (2001, $289).

The net assets and results of operations of the Foundations are not included in these financial statements.

(b) Lawson Research Institute

The Lawson Research Institute (LRI) is a wholly owned subsidiary of St. Joseph's Health Care, London. On June 26, 2000, the LRI entered into an agreement with St. Joseph's Health Care, London, London Health Sciences Centre, and the London Health Sciences Centre Research Inc., to form a transitional Board to conduct all research activities as the Lawson Health Research Institute. Each venturer continues to account for their costs independently and as such, LRI is consolidated in these statements.

(c) Healthcare Materials Management Services:

St. Joseph's Health Care, London and London Health Sciences Centre are partners in an unincorporated joint venture, Healthcare Materials Management Services ("HMMS"). HMMS consolidates purchasing, warehousing, distribution and payment processing functions and provides similar services to other healthcare institutions. St. Joseph's Health Care, London accounts for its interest in the joint venture using the equity method of accounting.

The allocation of net operating costs of the joint venture as at March 31, 2002 was as follows:

		2002	2001
St. Joseph's Health Care, London	$	**701**	885
London Health Sciences Centre		**2,064**	1,969
	$	**2,765**	2,854

HMMS incurred a loss of $247 (2001, $218) during the year, which is equal to the amortization of capital assets recorded during the year.

HMMS has activated bank credit facilities consisting of a $10,000 operating line of credit and a $1,030 term loan. As at March 31, 2002, HMMS had drawn down $0 on its operating facility. St. Joseph's Health Care, London has provided a guarantee for up to $3,341 in support of these credit facilities.

(d) Consolidated Laboratory Services

On December 1, 2000, St. Joseph's Health Care, London and London Health Sciences Centre entered into a joint venture to consolidate all Laboratory Services. St. Joseph's Health Care, London accounts for its interest in the joint venture using the equity method of accounting.

The allocation of net operating costs of the joint venture as at March 31, 2002 was as follows:

		2002	2001
St. Joseph's Health Care, London	$	**7,908**	–
London Health Sciences Centre		**26,686**	–
	$	**34,594**	–

The Consolidated Laboratory incurred a loss of $191 during the year, which is equal to the amortization of capital assets recorded during the year. During the year, St. Joseph's Health Care, London contributed $433 towards capital equipment investment of $1,715.

15. Comparative amounts:

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.