



Management's Review of Operations

APRIL 2005 - MARCH 2006

From the Office of the President and Chief Executive Officer

On behalf of the management team, I am pleased to present our second annual Management's Review of Operations. This review is a companion piece to our Annual Report that provides an overview of the last fiscal year as we advanced our service mission and our academic mission. The Management's Review of Operations is a key expression of our commitment to accountability and is aimed at readers who want a better understanding of management's performance in fulfilling its stewardship and fiduciary responsibilities.

A key measure of our stewardship over the past year is reflected in our attainment of the performance standards contained in the accountability agreement with the Ontario Ministry of Health and Long-Term Care. The accountability agreement represents a fundamental and important change in the relationship between government as funder and hospitals as provider. The relationship is now explicit and is based upon agreed expectations. As a result, the focus is now on managing for performance and being held accountable for that performance.


Over the past year management addressed a number of core business fundamentals:

1. Increased corporate and operational alignment by establishing four strategic goals that drive our annual operating objectives and realigned the management team and structure to support the strategic goals.
2. Promoted a culture based on mission, values, and accountability; and strengthened management and operational processes.
3. Maintained a strong balance sheet ending fiscal 2006 with a current ratio of 1.3 and an unrestricted

cash balance of \$34 million, managed cost structure and recorded a positive operating margin of 5.8% in fiscal 2006.

4. Strengthened management and internal controls and addressed quality, safety and risk management.
5. Increased our capital investment by 72% and invested in core services such as mental health and addictions, dialysis and the emergency department.
6. Focused on recruitment and retention resulting in a reduction in the total number of staff vacancies from 146 to 100 that included a reduction in the number of nursing vacancies from 46 to 30.
7. Maintained a strong focus on occupational health and safety and recorded lost time and lost work hour rates that were better than the industry average.
8. Complied with all legislative and regulatory requirements as detailed in management's compliance declaration to the Board of Directors.

In addition to fulfilling our stewardship and our fiduciary responsibilities it is also important to comment on our commitment to the disenfranchised and the disadvantaged in our community. For example, we have the highest percentage of inpatients and the second highest percentage of emergency department patients in Toronto who do not have government health insurance. Last year St. Joseph's Health Centre provided \$700,000 in financial compassionate care.



J. Kenneth Deane
President and Chief Executive Officer

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St Joseph's Health Centre

2005/2006 Operations

At a Glance

EMERGENCY DEPARTMENT VISITS 75,052

PATIENTS BROUGHT BY AMBULANCE 11,511

% OF EMERGENCY DEPARTMENT PATIENTS ADMITTED 11.5%

AMBULATORY CARE VISITS 205,811

BIRTHS 3,334

DIAGNOSTIC IMAGING PROCEDURES 150,167

SURGICAL AND PROCEDURAL CASES 24,768

BEDS 371

ADMISSIONS 20,223

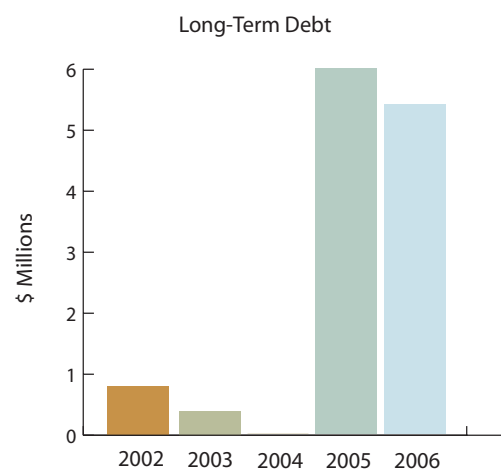
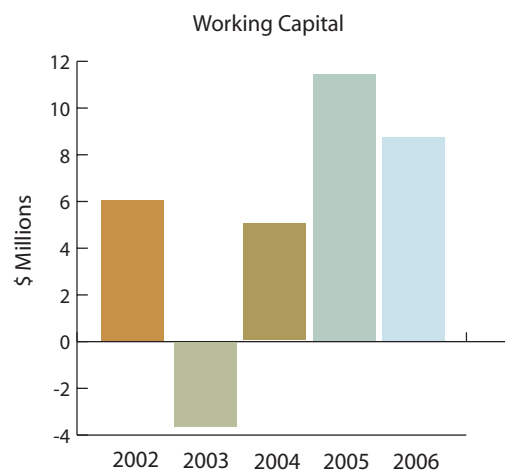
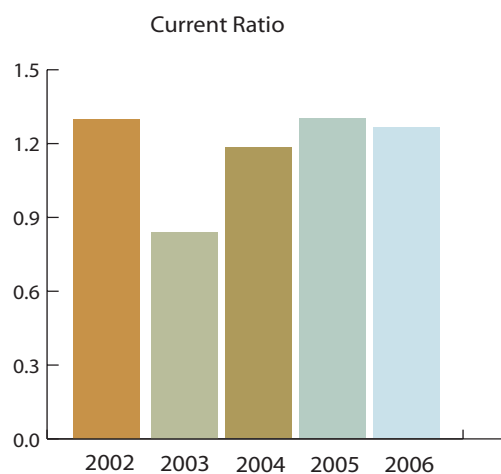
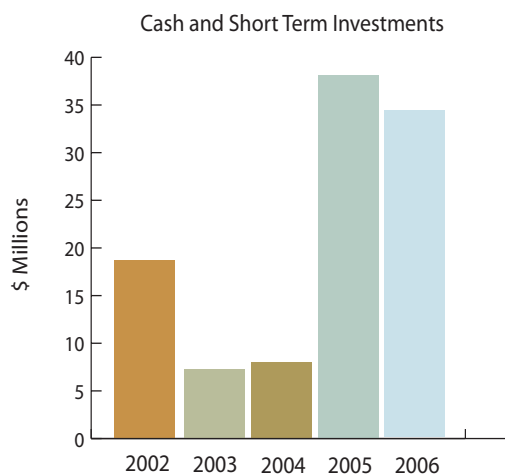
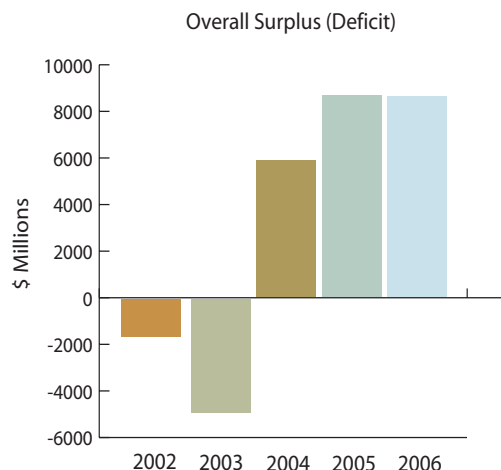
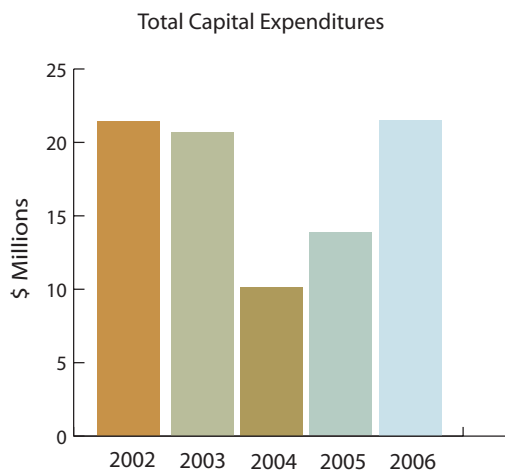
AVERAGE LENGTH OF STAY 5.8 DAYS

OCCUPANCY RATE 88.0%

TEACHING DAYS * 18,000

**= 2006 is an estimate subject to confirmation by the Ministry of Health and Long-Term Care*

Financial Trends



Our Mission and Values

Our Mission

St. Joseph's Health Centre is a Catholic community teaching hospital providing health care services that reflect the Gospel values of respect, dignity and compassion.

We are committed to fostering a healthy community for all. Working in partnership with our community, we reach out with the healing ministry of Christ to the sick, the disenfranchised and the disadvantaged.

Our Values

As a Catholic hospital, we believe that life is sacred, from the moment of conception until death, because it has been given to us in trust by God. Recognition of the gifted nature of human life has implications for how we treat each other and how we care for every patient, while having the integrity and courage to remain faithful to who we are.

For those who are not part of the Catholic religion or do not believe in God, this belief translates into universally accepted human values that can be practiced by all regardless of religion.

Human Dignity: We believe that each person is valued as a unique individual with a right to respect and acceptance.

Excellence: We are committed to strive for the best in care, education, research and the quality of work life.

Compassion: We believe in a quality of presence and caring that fosters healing and wholeness.

Social Responsibility: We act to promote the just use of resources entrusted to us for the enhancement of human life.

Community Service: We believe that a community of people working together in a climate of mutual support enables both healing and the fulfillment of human potential.

Governance

As per the Public Hospitals Act (PHA), the affairs of a hospital corporation are governed by its Board of Directors whose key roles are to formulate policy, make decisions and monitor and assess organizational processes and outcomes.

The Board is comprised of volunteers and includes 12 elected by the Catholic Health Corporation of Ontario, with the balance of the Board being appointed, including the Health Centre President and CEO, the Chief of Staff, the President of the Medical Staff Association, the Vice President of the Medical Staff Association, two representatives of the Catholic Health Corporation of Ontario, the President of the Catholic Health Corporation of Ontario, the Dean of the Faculty of Medicine at the University of Toronto or his/her delegate, and the Archbishop of Toronto or his nominee.

The Board is accountable to the Catholic Health Corporation of Ontario and discharges its responsibilities within corporate values directly and through its committees.

In certain situations, such as the disposition of the proponent, the Catholic Health Corporation of Ontario has the final approval.

Audit Committee

This committee assists the Board in fulfilling oversight responsibilities with respect to 1) the quality, integrity and appropriateness of financial reporting; 2) the quality, integrity and performance of internal controls regarding finance and accounting; 3) the quality, per-

formance and independence of external auditors; 4) compliance with regulatory requirements; and 5) in conjunction with the Quality Committee, reviews management's assessment of the principal financial risks of the Health Centre.

Governance Committee

This committee plays a leadership role in shaping the Health Centre's governance policies and overseeing the composition, structure, operation and evaluation of the Board and its committees. The committee ensures directors meet appropriate standards of independence; develops and recommends to the Board a set of governance principles; and identifies, evaluates and recommends director candidates to the Board. It also creates and maintains a Board-approved process for evaluating the independence, contribution and effectiveness of incumbent directors. The committee reviews the charters and work plans of other Board committees and recommends approval to/by the Board.

Quality Committee

This committee monitors the performance of the Health Centre against pre-selected quality indicators regarding patient care, patient satisfaction, service levels and other criteria; ensures that processes are in place for identifying, monitoring and managing risks and that they are properly communicated and effectively used; ensures that contingency plans are in place to prevent shortages of professional/technical staff that can jeopardize patient care and quality of service as determined by the Health Centre's Mission and Values; and reviews quality and human resource benchmarks.

Governance continued ...

Performance Committee

This committee monitors the performance of the Health Centre against strategic and operating objectives and goals, evaluates the performance of the President and CEO and Chief of Staff, recommends to the Board the appointment of the CEO and Chief of Staff, establishes measurable annual performance objectives, appraises their performance annually, terminates their mandates if necessary and provides for succession of these two positions.

Program Highlights

The Clinical and Professional Programs and Services Portfolio is organized around five Clinical Programs, five Clinical Support Services and the Professional Services group.

Each of our Clinical Programs are led by an Administrative Program Director and a Medical Program Director who work with their program leadership team to ensure the provision of high quality programs and services.

Women's, Children's and Family Health

This new program was created to better meet the needs of the communities we serve. Over the past year, we opened the Child Development Clinic – a partnership with Bloorview Kids Rehab serving the needs of families whose children are experiencing developmental concerns; received approval for the first academic Family Health Team in Toronto; opened new Paediatric Specialty consultation clinics; and provided care to 20% more families in our Family Birthing Service.

Emergency, Ambulatory and Access Services

Last year, our Emergency Service continued to grow, handling 75,000 visits. We continue to be a leader in the delivery of innovative emergency care. We are one of the two best hospital performers in ambulance off

load times within the Greater Toronto Area, ensuring that ambulance crews are able to return to service in a timely way. We opened four new dialysis stations to provide service to our growing population of people with kidney disease, partnered with community agencies to provide free oral health care services to those in need; and created a new “Access Service” to ensure that we are able to move patients through the hospital efficiently and effectively.

Medicine and Seniors Health

The Medicine and Seniors Health Program welcomed Dr. Ted Rogovein as the new Medical Director in July 2005. The creation of the Seniors Health Portfolio will help us deliver more integrated and innovative programs to meet the needs of our increasing population of elders. Working with Cancer Care Ontario, the Program increased services to patients receiving chemotherapy treatment for various kinds of cancer. The Program received funding to support the development of a Critical Care Response Team, and opened four high dependency care beds to serve patients with increased nursing care needs.

Mental Health and Addictions

The Mental Health and Addictions Program provides comprehensive care across a continuum of services for persons living with serious mental illness. Last year, we

worked with a consortium of providers to develop a new model of care for those requiring Withdrawal Management Services. We established our Mobile Crisis Team in partnership with the police; we added a new 6-bed Short Stay Unit and developed our Psychiatric ICU; and we relocated 34 inpatient beds to a newly renovated state-of-the-art unit.

Surgery and Oncology Services

St. Joseph's was one of five hospitals that developed the Toronto Vascular Surgical Program. This involved the transfer of vascular surgical volume to the University Health Network. The Surgery and Oncology Services Program also worked with the Ministry and Cancer Care Ontario to reduce waiting lists for persons requiring cataract surgery, hip and knee replacements and surgery for various kinds of cancers.

Clinical Support Service Groups

The Clinical Support Services include Diagnostic Imaging, Laboratory Services, Cardio-Respiratory Services, Diagnostic Services and Pharmacy. We installed two new 64-slice CT scanners and have reduced wait lists significantly for patients requiring these diagnostic tests. The Laboratory received new capital equipment that allows us to provide state-of-the-art services. The Pharmacy Department worked with our Patient Safety Initiative to ensure that we continue to provide a safe and effective medication administration system.

Professional Service Group

The Professional Service group, through the Professional Advisory Committee and various discipline specific practice councils, provides Professional Practice leadership to the programs and services.

HOSPITAL OPERATIONS:

This chart includes selected metrics and the percentage increase/decrease from fiscal 2005

	2006	2005	% Change
Emergency Department Visits	75,052	71,170	5.5%
Patients Brought by Ambulance	11,511	10,625	8.3
% of Emergency Department Patients Admitted	11.5	11.9	-3.4
Ambulatory Care Visits	205,811	201,084	2.4
Births	3,334	3,119	6.9
Diagnostic Imaging Procedures	150,167	142,020	5.7
Surgical and Procedural Cases	24,768	23,824	4.0
Beds	371	372	-0.3
Admissions	20,223	19,376	4.4
Average Length of Stay (Days)	5.8	6.1	-4.9
Occupancy Rate	88.0%	91.0	-3.3
Teaching Days *	18,000	13,389	34.4

*= 2006 is an estimate subject to confirmation by the Ministry of Health and Long-Term Care

Volumes increased from the prior year due to our Post Construction Operating Plan as well as increased community demand on emergency, obstetrical and diagnostic services. A Post Construction Operating Plan is a hospital's plan for operation upon completion of a capital project. It outlines the hospital's plan to expand existing services or implement new programs that will be delivered by the new or redeveloped facility. Funding through the Post Construction Operating Plan provides operating dollars to cover the costs of the new or expanded programs and services as well as the additional space and equipment amortization. Most of this funding is tied to specific volumes; therefore, if the volume targets are not met the Ministry of Health and Long-Term Care (hereafter referred to as the Ministry) can recover the funding.

Financial Performance

OVERVIEW

The review of financial performance should be read in conjunction with the Audited Financial Statements that begin on page 22 in this report.

Two key measures of a hospital's financial performance are current ratio and operating margin. In fiscal 2006, St. Joseph's Health Centre performed well in both areas with a current ratio of 1.3 and an operating margin of 5.8%. The hospital's performance over the past 5 years in these key measurements is as follows:

CURRENT RATIO AND OPERATING MARGIN 2002-2006					
	2006	2005	2004	2003	2002
Current Ratio	1.3	1.3	1.2	0.8	1.3
Operating Margin	5.8%	6.2%	4.6%	-1.8%	-0.7%

ANALYSIS OF WORKING CAPITAL

St. Joseph's Health Centre ended fiscal 2006 with working capital of \$8.7 million, a decrease of \$2.7 million from the prior year. The current ratio remained at 1.3.

WORKING CAPITAL (\$ THOUSANDS)			
	2006	2005	Change
Current Assets	\$41,949	\$49,760	\$(7,811)
Current Liabilities	33,211	38,365	(5,154)
Working Capital	\$8,738	\$11,395	\$(2,657)
Current Ratio	1.3	1.3	

Working capital refers to the cash the organization requires for day-to-day operations. Changes in working capital affect our ability to fund operations, reinvest, and meet capital requirements and payments. The major changes between fiscal 2005 and 2006 were in cash, receivables, payables and deferred revenue. By analyzing the changes in these areas, it provides a picture of how well working capital is being managed.

CHANGES IN WORKING CAPITAL (\$ THOUSANDS)

	Change
Cash and Short-Term Investments	\$(3,745)
Accounts Receivable	(4,292)
Inventories	139
Prepaid Expenses and Other Assets	87
Accounts Payable and Accrued Liabilities	1,401
Accrued Salaries, Deductions and Benefits	(263)
Current Portion of Bank Loans	(28)
Due to the Ontario Ministry of Health and Long-Term Care	6,571
Deferred Revenue	(2,527)
Total	\$(2,657)

Cash and Short-Term Investments

Decreased by \$3.7 million due primarily to the fixed asset additions during the year, including expenditures on the redevelopment plan.

Accounts Receivable

Decreased by \$4.3 million from the prior year. The receivable at March 31, 2005 included \$4.8 million of capital grants from the Ministry, not received until April. Similar grants in 2006 totalled \$0.3 million.

Accounts Payable and Accrued Liabilities

Decreased by \$1.4 million due to lower construction liabilities than in the prior year.

Due to the Ontario Ministry

Decreased by \$6.6 million due primarily to recognition in 2006 of amounts previously expected to be recovered by the Ministry for not reaching Post Construction Operating Plan targets in 2005 and 2004.

Deferred Revenue

Increased by \$2.5 million due primarily to the deferral of 2006 Post Construction Operating Plan revenue not yet earned through volumes.

ANALYSIS OF OPERATING RESULTS

St. Joseph's Health Centre recorded an operating surplus of \$8.6 million in fiscal 2006 compared to an operating surplus of \$8.7 million in fiscal 2005. It should be noted that operating results in fiscal 2006 included a one time funding adjustment of \$8.7 million. This amount relates to funds received in prior years (2003/04 and 2004/06) through the Post Construction Operating Plan and recorded as deferred revenue because the volume targets were not met. It was expected that the Ministry would recover these funds. However, the Ministry announced in fiscal 2006 that these funds would not be recovered.

As a public hospital in Ontario, St. Joseph's operates under the Public Hospitals Act and has an accountability relationship with the Government of Ontario through the Ministry.

The guidelines developed by the Canadian Institute of Chartered Accountants relating to not-for-profit organizations form the basis of reporting financial information and the preparation of our financial statements. As a public hospital in Ontario we operate under the Public Hospital Act and we submit quarterly and annual reports to the Ministry. Certain classes of revenues and expenses are included when calculating an operating surplus or deficit for external reporting purposes that are not included when reporting an operating surplus or deficit to the Ministry. This is simply due to the different inclusion criteria for financial reporting to the Ministry. The following table provides a high level reconciliation between the consolidated operating results for external reporting and the operating results for reporting to the Ministry.

EXCESS (DEFICIT) PER AUDITED STATEMENTS (\$ MILLIONS)		
	2006	2005
Excess of Revenue Over Expenditures per Audited Financial Statements	\$8.6	\$8.7
Amortization of Building	5.5	4.5
Amortization of Deferred Capital Contributions:		
- Building	-2.1	-1.4
Interest on Long-Term Debt	0.3	0.3
Excess of Revenue Over Expenditures for Ministry Purposes	\$12.3	\$12.1

REVENUE ANALYSIS BY SOURCE

Total revenue increased from \$195.4 million in fiscal 2005 to \$215.5 million in fiscal 2006. The changes in revenue were as follows:

REVENUE (\$ MILLIONS)				
	2006	2005	\$ Change	% Change
Ministry:				
- Operating Grants	\$176.9	\$162.3	\$14.6	9.0
- Other Votes	4.5	3.6	0.9	25.0
Patient Revenue	13.0	12.0	1.0	8.3
Preferred Accommodation	2.4	2.5	(0.1)	-4.0
Other Income	14.1	11.6	2.5	21.5
Amortization of Deferred Contributions:				
- Equipment	2.5	2.0	0.5	25.0
- Building	2.1	1.4	0.7	50.0
Total Revenue	\$215.5	\$195.4	\$20.1	10.3

The preparation of our financial statements reflects the guidelines developed by the Canadian Institute of Chartered Accountants relating to not-for-profit organizations. The following table reorganizes the categories in the financial statements to allow for an analysis of the sources of revenue:

REVENUE BY SOURCE (\$ MILLIONS)				
	Ministry	Individuals and Third Party Payers	Foundation	Total Per Audited Financial Statements
Ministry:				
- Operating Grants	\$176.9			\$176.9
- Other Votes	4.5			4.5
Patient Revenue	9.8	3.2		13.0
Preferred Accommodation		2.4		2.4
Other Income	1.9	12.2		14.1
Amortization of Deferred Contributions:				
- Equipment	2.1		0.4	2.5
- Building	1.6		0.5	2.1
Total Revenue	\$196.8	\$17.8	\$0.9	\$215.5

REVENUE ANALYSIS BY SOURCE - Ministry of Health and Long-Term Care

The Ministry is the major source of funding and in fiscal 2006 provided 91.3% of total revenue. Ministry funding consists of: Operating Grants, Other Votes, Patient Revenue (fee for service to Ontario Health Insurance Plan), funding for family practice physicians, and funding for capital acquisitions recognized as amortization of deferred contributions.

MINISTRY OF HEALTH FUNDING (\$ MILLIONS)				
	2006	2005	\$ Change	% Change
Operating Grants				
Recurring:				
- Unrestricted	\$146.7	\$141.1	\$5.6	4.0
- Volume-Based	19.8	19.5	0.3	1.5
- Physician on-call	1.2	1.2	0.0	0.0
One-Time:				
- Post Construction Operating Plan				
- Plan	8.7	0.0	8.7	
- Other	0.5	0.5	0.0	0.0
Total Operating Grants	\$176.9	\$162.3	\$14.6	9.0
Other Votes	4.5	3.6	0.9	25.0
Patient Revenue	9.8	9.0	0.8	8.9
Other Ministry Revenue	1.9	1.0	0.9	90.0
Amortization of Deferred Contributions:				
- Equipment	2.1	1.6	0.5	31
- Building	1.6	1.0	0.6	60.0
Total Ministry Funding	\$196.8	\$178.5	\$18.3	10.3

Operating Grants

The \$176.9 million in operating grants is made up of recurring funding and one-time funding.

Recurring Funding:

- Unrestricted Funding:

Accounted for 75% of the Ministry funding received in fiscal 2006. This funding is classified as unrestricted or base funding. It is not tied to volumes or specific areas, and is usually adjusted annually for inflation.

scans, as well as funding for enhanced services under the Health Centre's Post Construction Operating Plan. The increase in volume based funding from the prior year relates primarily to Post Construction Operating Plan volumes.

- Volume-Based:

Includes funding for priority programs such as dialysis, hip and knee implants, cataract surgeries and MRI

- Physician On-Call:

The Health Centre serves as paymaster for compensation to physicians who provide certain on-call services.

Operating Grants continued ...

One-Time Funding

- Post Construction Operating Plan:

As noted previously, the \$8.7 million in Post Construction Operating Plan funding was recognized in fiscal 2006. This funding related to funding received in prior years and deferred, as the volume targets were not achieved. The Ministry decided in fiscal 2006 not to recover these funds.

- Other:

Consisted primarily of funds for certain specific salary adjustments in fiscal 2006. The amount received in fiscal 2005 was based on the Ministry designating St. Joseph's Health Centre as an efficient hospital. This funding was not available in fiscal 2006. Although the amounts for both years are the same, the bottom line impact in fiscal 2005 was greater because there were no offsetting expenses.

In addition to the operating grants, the Ministry provides funding through other streams such as other votes, patient revenue, other Ministry revenue, and capital contributions that are recognized as revenue based on an amortization schedule tied to the life of the asset.

Other Votes

Total revenue from other votes was \$4.5 million in 2006, a \$0.9 million increase from the prior year. The increase related to increased funding for withdrawal management and community mental health programs. Other votes are special programs (primarily mental health related) that are separately funded on a cost reimbursement basis up to the approved annual budget by the Ministry. They are distinct from other hospital operations in that any funds provided for these programs are recovered by the Ministry if unspent during the year. The programs, therefore, operate on a break-even basis. These programs funded under Other

Votes include:

- Recovery Support
- Shared Care
- Assertive Community Treatment
- Psychiatric Day Hospital
- Withdrawal Management
- Emergency Crisis Intervention
- Psychiatric Sessional Fees

Patient Revenue

Patient revenue from Ontario Health Insurance Plan during fiscal 2006 was \$9.8 million, an increase of \$0.8 million from the prior year. Ontario Health Insurance Plan revenue is derived from billings to the Ontario Health Insurance Plan for diagnostic procedures (e.g. X-Rays) rendered to outpatients (and certain inpatients). Approximately 50% of the revenue is paid to physicians as professional fees, with the Health Centre retaining the technical fee component. The increase in revenue from the prior year relates primarily to the operation of two state-of-the-art Computed Tomography scanners in 2006, replacing one old scanner operated previously.

Other Ministry Revenue

This consists of Ministry funding for compensation to family physicians. \$1.9 million was received in 2006, an increase of \$0.9 million from the prior year, as the Ministry included retroactive amounts in 2006 to be paid to physicians.

Amortization of Deferred Contributions

Contributions received from the Ministry are deferred for capital additions to building and equipment and amortized to income on a similar basis to the amortization of the related assets. Amortization of grants increased by approximately \$1.1 million from the prior year due to amortization of grants received at the end of the prior year for diagnostic equipment as well as increased amortization of superbuilt funds related to the redevelopment project.

REVENUE ANALYSIS BY SOURCE - Individuals and Third Party Payers

Revenue from individuals and third parties account for the second major source of funding. The revenue of \$17.8 million can be broken down as follows:

REVENUE - INDIVIDUAL AND THIRD PARTY (\$ MILLIONS)				
	2006	2005	\$ Change	% Change
Other Income	\$12.2	\$10.6	\$1.6	15
Patient Revenue	3.2	3.0	0.2	7
Preferred Accommodation and Co-payment	2.4	2.5	-0.1	-4
Total Revenue	\$17.8	\$16.1	\$1.7	11

Other Income

Other income increased by \$1.6 million (15%) from the prior year to \$12.2 million due primarily to interest income, related to substantial increase in available cash, increased revenue from Cancer Care Ontario for partial reimbursement for oncology drugs, and increased recognition of fund revenue. Other income includes:

- Commercial operations
- Recoveries from Cancer Care Ontario for chemotherapy drugs
- Cafeteria revenue
- Interest income
- Supplier rebates and discounts
- Compensation recoveries
- Office rentals
- Patient telephone revenue
- Worker's compensation rebates

Patient Revenue

This revenue includes billings to the Workplace Safety and Insurance Board for hospital treatment related to workplace injuries, billings to other provincial health ministries for out-of-province patients, revenue from the federal government for qualifying refugees, and billings to patients or insurance companies for non-residents of the country. This revenue increased by \$0.2 million from the prior year.

Preferred Accommodation and Co-Payment

This revenue relates to billings to patients or insurance companies for requested semi-private or private rooms. Revenue decreased by \$0.1 million from the prior year.

REVENUE ANALYSIS BY SOURCE - Foundation

The third major source of revenue is from the St. Joseph's Health Centre Foundation. During fiscal 2006, the Foundation provided grants of \$2.3 million to support building improvements. The funds granted assisted in the creation of the Health Centre's new Main Entrance, renovations to the 7th floor of the Morrow Wing, which now houses the new Mental Health Unit, as well as improvements to Glendale House. In the current fiscal year, the Foundation has concentrated its attention on building long-term relationships with donors that will secure ongoing philanthropic support for key Health Centre improvements and projects.

The following table presents the grants received from the Foundation for equipment acquisitions and building improvements. Grants received are recognized as revenue based on an amortization schedule tied to the life of the asset. The table also shows the grants received and the revenue recognized relating to the amortization of the related assets:

REVENUE - FOUNDATION (\$ MILLIONS)				
	2006	2005	\$ Change	% Change
Grants Received - Building	\$2.3	\$0.5	\$1.8	360
Grants Received - Equipment	-	0.4	-0.4	-100
Total Grants Received in Fiscal 2006	\$2.3	\$0.9	\$1.4	156
Amortization - Building Grants	0.5	0.4	0.1	25
Amortization - Equipment Grants	0.4	0.4	-	-
Total Amortization in Fiscal 2006	\$0.9	\$0.8	\$0.1	12.5

EXPENSE ANALYSIS

Total expenses increased from \$186.7 million in fiscal 2005 to \$206.8 million in fiscal 2006 as shown in the table below:

EXPENSES (\$ MILLIONS)				
	2006	2005	\$ Change	% Change
Salaries, Wages and Benefits	\$139.4	\$127.5	\$11.8	8.5
Medical and Surgical Supplies	12.7	11.2	1.5	13.4
Drugs and Medicines	9.4	8.5	0.9	11.8
Other Supplies and Expenses	27.4	24.8	2.6	10.5
Amortization of Equipment	7.8	6.3	1.5	19.2
Amortization of Building	5.5	4.5	1.0	22.2
Interest on Long-Term Debt	0.3	0.3	-	0.0
Other Votes	4.5	3.6	0.9	25.0
Total Expenses	\$206.9	\$186.7	\$20.2	10.8

EXPENSE ANALYSIS - Compensation

The Health Centre employs 2,360 staff of which 69% are unionized and covered by collective agreements with 3 unions: Canadian Union of Public Employees, Ontario Nurses Association, and Brewery General and Professional Workers' Union. These unions are organized into 7 bargaining units. The changes in compensation are shown below:

COMPENSATION (\$ MILLIONS)				
	2006	2005	\$ Change	% Change
Salaries and Wages	\$101.6	\$94.4	\$7.2	7.6
Benefits	23.2	20.7	2.5	12.1
Medical Remuneration	14.0	12.1	1.9	15.7
Restructuring	0.6	0.3	0.3	100.0
Total Compensation	\$139.4	\$127.5	\$11.8	9.2

Salaries and Wages

Accounted for 52% of total hospital expenses and increased by 7.6% from the prior year. Factors involved in this increase are as follows:

- Increases as per union settlements and non-union salary adjustments, including increases in certain job classes due to market pressures. Overall increases approximated 3%.
- Overall full-time equivalent staff increased by approximately 80 (4.9%), due to investments in mental health and obstetrics, the filling of vacant positions and Post Construction Operating Plan expansion initiatives.

Benefits

Accounted for 12% of total expenses. Costs increased by 12.1% from the prior year due to the increase in salary costs as well as an increase of approximately \$1 million in actuarially determined pension costs.

Medical Remuneration

Costs increased by \$1.9 million (15.7%) from the prior year. The increase included approximately \$0.9 million due to Ministry funded retroactive payments to family physicians, Ministry funded adjustments to pathologists of \$0.3 million, and increased Ontario Health Insurance Plan professional fees primarily related to the two new Computed Tomography scanners.

Restructuring Costs

Costs related to severance costs incurred during the year increased by \$0.3 million from the prior year.

EXPENSE ANALYSIS - Other Expenses

OTHER EXPENSES (\$ MILLIONS)				
	2006	2005	\$ Change	% Change
Medical and Surgical Supplies	\$12.7	\$11.2	\$1.5	11.8
Drugs and Medicines	9.4	8.5	0.9	9.6
Other Supplies and Expenses	27.9	24.8	2.6	10.5
Amortization of Equipment	7.8	6.3	1.5	19.2
Amortization of Building	5.5	4.5	1.0	18.2
Interest on Long-Term Debt	0.3	0.3	-	-
Other Votes	4.5	3.6	0.9	25.0
Total Expenses	\$67.6	\$59.2	\$8.4	14.2

Medical and Surgical Supplies

Costs increased from the prior year by \$1.5 million (11.8%). The increase was due to an investment in instrumentation as well as increased prosthesis costs for Post Construction Operating Plan/Wait time initiatives.

Drugs and Medicines

Costs increased by \$0.8 million due to inflationary pressure as well as continued additional expenditure on oncology drugs.

Other Supplies and Expenses

Expenses increased by \$2.4 million (10%) due to laundry and linen including member surcharges (\$0.5 million), membership fees to Hospital Business Services (\$0.3 million), insurance (\$0.3 million) and minor equipment purchases such as wheelchairs and IV poles (\$0.5 million). Costs in this category included:

- Laundry services
- Utilities
- Insurance
- Equipment and software maintenance
- Food (patient and non-patient)
- Laboratory supplies
- Equipment facility rental
- Renovations
- Professional fees
- Memberships
- Forms and supplies

Amortization of Equipment

Costs increased by \$1.5 million (24%) from the prior year, as the Health Centre commenced depreciation on equipment on Ministry funded medical equipment (Diagnostic Medical Equipment fund and Computed Tomography grants) as well as completed elements of the redevelopment plan.

Building Amortization and Interest on Long-Term Debt

Costs increased by \$1 million (22%) from the prior year due to amortization of completed components of the redevelopment project.

Other Votes

In 2006, other votes consisted of 89% staff compensation. Costs increased from the prior year by \$0.9 million (25%), as the Ministry provided new funding to enhance services in both Community Mental Health and Withdrawal Management.

EXPENSE ANALYSIS - Value for Money

St. Joseph's Health Centre participated in a number of initiatives aimed at delivering efficient, effective and economical services. These initiatives included **shared laundry services**, **group purchasing** and **integrated back office services**.

Shared laundry services are provided by Booth Centennial Healthcare Linen Services, a not-for-profit entity owned and operated by 23 hospitals. Employing 500 staff and processing 22 million kilograms of laundry annually, this shared service was expanded and merged in 1995. Shared laundry services was one of the first horizontal integration efforts in Ontario and there are now four shared laundries serving Ontario hospitals.

Group purchasing is through membership in HealthPRO Procurement Services, which is a national group purchasing organization with purchasing volumes of \$600 million dollars annually. Participation in HealthPRO contracts allows its members the benefits of the lowest commodity pricing for the highest

quality products, the ability for clinical input and for annual dividend returns.

Integrated back office services involve 11 hospitals who have formed Hospital Business Services. Through this organization the goal is to transform the non-clinical, business office functions in member hospitals in two phases. Phase 1 of this transformation began on April 1, 2006 and involves the integration of supply chain operations (contract management, warehousing, logistics, etc.). The second phase will focus on providing transactional financial and human resource services to member hospitals and will involve a significant investment in information technology to benefit all members. Funding for this initiative includes an investment by the participating hospitals of \$7.0 million and an investment of \$22.0 million by the government of Ontario.

Capital Expenditures

Capital expenditures are financed through cash from operations, Ministry and St. Joseph's Health Centre Foundation grants. Total capital additions in fiscal 2006 were \$21.5 million, including \$11.6 million on the redevelopment project related primarily to

construction costs for the Main Entrance and 7th floor mental health project and \$9.9 million on equipment acquired as part of the annual equipment plan. The following table presents the major categories of equipment expense for fiscal 2006 and fiscal 2005:

TOTAL CAPITAL EXPENDITURES - EXCLUDING REDEVELOPMENT (\$ THOUSANDS)

	2006	2005
Medical and Other Equipment	\$1,247	\$2,257
Diagnostic and Therapeutic Equipment	5,959	1,385
Information Technology	1,837	1,531
Facilities	891	588
Total	\$9,934	\$5,761

Managing For Performance

Management identified four key result areas in which we needed to be successful in achieving our mission:

1. Outstanding quality and service - a superior patient care experience
2. Dynamic environment - a great place to work
3. Effective linkages - a valued partner
4. Excellent performance - a highly efficient and effective hospital

Based on these key result areas we identified the following strategic goals:

- To be known as a leader in patient experience of care (access, patient flow, and service) for community teaching hospitals
- To be the “workplace of choice” and known for personal and professional growth, team excellence, academic achievements and state-of-the-art facilities
- To be known as a leader in effective linkages and partnerships that foster a healthier community
- To be known for the innovative use of resources while maintaining responsible fiscal management

The preceding goals drive our annual operating objectives and are the basis on which we monitor organizational and operational performance. For each strategic goal performance indicators/measures have been identified for tracking at a corporate and operating level.

The second dimension of managing for performance relates to the accountability agreement we signed with the Ministry for the fiscal periods 2006 and 2007.

The Board and management of St. Joseph's Health Centre has agreed to fulfill all of the terms of the agreement to ensure that we operate in the most effective and efficient manner. We have also committed to continuously improve our performance in order to deliver high-quality and timely service to our patients. Under the terms of the agreement the hospital agrees to operate at the performance standard or within the performance standard range for each indicator, to use the funding in accordance with the terms of the agreement, and to report quarterly and annually.

PERFORMANCE STANDARDS

Indicator	Performance Standard
Total Margin	0
Current Ratio	0.9 - 1.1
% of Full-Time Nurses	70.0%
Relative Acute LOS	0.9 - 1.1
Relative Total LOS	0.9 - 1.1
Relative Risk of Readmission	< 1.1

Looking Ahead

Going forward, our strategy is to support government's transformation agenda and to continue advancing our service and academic mission.

The provincial transformation agenda involves the establishment of Local Health Integration Networks to plan, coordinate and fund the delivery of health care; the establishment of Family Health Teams that focus on chronic disease management, health promotion, and disease prevention; the reduction of wait times to provide timely and appropriate access to key services; and the establishment of an information management framework to support planning, performance measurement, and evidence-based decisions.

We will continue to align our efforts with the provincial direction as we build on our integration efforts to date, such as participation in the shared laundry service through Booth Centennial Healthcare Linen Services with 23 other hospitals, the consolidation of back office functions through Hospital Business Services with 11 other hospitals, and participation in the West End Urban Health Alliance with 21 other healthcare providers; as we establish our Family Health Team; as we provide additional volumes through the wait list strategy; and as we participate with other Toronto hospitals in shared IT opportunities, and information integration.

Building on our 85 years of service to the southwest part of Toronto and our Mission, we identified 4 areas in which we needed to be successful in fulfilling our service and academic mission. We also identified 12 corporate objectives that will advance our service and academic role:

Success Factor 1: Outstanding Quality and Service

1. Implement a comprehensive, hospital-wide Quality Framework
2. Implement an innovative, hospital-wide approach to patient access and flow
3. Improve Operating Processes and Systems
4. Implement Patient Safety Program

Success Factor 2: Excellent Performance

5. Maintain our multi-year financial sustainability strategy that maintains a balanced operating budget while creating opportunities for investment in new directions
6. Implement a comprehensive enterprise risk management framework across the hospital
7. Provide appropriate information to support organizational decision-making

Success Factor 3: Dynamic Environment

8. Implement a strategy to recruit and retain the highest calibre managers, physicians, staff and volunteers in a supportive environment and workplace culture
9. Provide a state-of-the-art working environment, including excellent facilities, leading-edge technology and information systems
10. Create and maintain a healthy workplace

Success Factor 4: Effective Linkages

11. Support and grow our academic affiliations and relationships in order to be known as a high profile, innovative centre
12. In collaboration with our partners, implement a comprehensive linkage strategy that is responsive to the needs of our community within our capacity and Mission.

St. Joseph's Health Centre's Board of Directors

April 2005 to March 2006

Kathryn Bouey

Joseph Calderone

Chris Compeau, M.D.

J. Kenneth Deane

Betty Disero

John DeMarco

Barbara Franklin

Sister Roberta Freeman

Tom Harmantas, M.D.

Rev. Michael Hughes

Shoba Khetrapal

Paula Jourdain

Michael Lang, *Vice Chairman*

Marcelo D. Mackinlay, *Chairman*

Don McDermott

Sister Anne Purcell

Almerinda Rebelo

Richard Ross

Ivan Silver, M.D.

John Spekkens

Marica Varga, M.D.

St. Joseph's Health Centre's Senior Management

April 2005 to March 2006

Carolyn Baker

Vice President, Clinical & Professional
Programs and Services

J. Kenneth Deane

President and CEO

Robert DaCosta

Vice President, Organizational
Development and Community Linkages

Len Gamache

President

St. Joseph's Health Centre Foundation

Tom Harmantas, M.D.

Chief of Staff

Hazel Markwell

Director Clinical Ethics

Mission, Clinical Ethics and Spiritual & Religious Care

Dale McGregor

Vice President, Corporate Services
and Chief Financial Officer



Financial Statements

APRIL 2005 - MARCH 2006