Financial Statements of

ST. JOSEPH'S HEALTH CARE, LONDON

Year ended March 31, 2006

ST JOSEPH's HEALTH CARE LONDON

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 29, 2006.

Management works with the Board of Directors to carry out its responsibility for the financial statements principally through its Audit Committee. Voting membership of this Committee is comprised solely of independent volunteers possessing a high degree of financial literacy. The Audit Committee meets with management and the internal and external auditors to review audit plans, and any significant accounting and auditing matters and discuss the results of audit examinations. The Audit Committee also reviews the financial statements and the external auditors' report and submits its findings 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.

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

Cliff Nordal

Mr. Cliff Nordal, FCCHSE
President and CEO

J Flett

Mr. Jim Flett, CA, MBA
Integrated Executive Vice President, Corporate Affairs

John Mockler

Mr. John Mockler, CMA, MBA
Director Finance

May 11, 2006

KPMG LLP
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AUDITORS' REPORT

To the Board of Directors

We have audited the statement of financial position of St. Joseph's Health Care, London as at March 31, 2006 and the statements of operations, changes in net assets and cash flows 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, 2006 and the results of operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

London, Canada

May 11, 2006

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Financial Position

March 31, 2006, with comparative figures for March 31, 2005
(In thousands of dollars)

		2006	2005
Assets			(restated)
Current assets:			
Cash and short-term investments	$	51,753	51,536
Accounts receivable (note 3)		23,601	28,228
Inventories and prepaid expenses		3,397	3,804
		78,751	83,568
Restricted investments (note 4)		128,423	135,725
Investment in joint ventures (note 16 (c)(d))		646	778
Capital assets (note 5)		228,871	203,536
		436,691	423,607
Liabilities, Deferred Contributions and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities		63,662	72,851
Current portion of long-term liabilities (note 7)		2,722	3,040
Current portion of obligation under capital lease (note 13)		2,512	1,131
		68,896	77,022
Long-term liabilities:			
Long-term liabilities (note 7)		4,513	3,246
Provision for demolition (note 12)		1,600	1,600
Obligation under capital lease (note 13)		3,162	1,777
		9,275	6,623
Deferred contributions (note 8):			
Unamortized capital contributions used to purchase assets		100,982	96,153
Unspent capital contributions		56,576	51,034
Expenses of future periods		594	439
		158,152	147,626
Net assets:			
Invested in capital assets (note 9)		119,743	101,817
Restricted (note 10)		71,253	84,252
Unrestricted		9,372	6,267
		200,368	192,336
Commitments and contingencies (note 11)			
	$	436,691	423,607

See accompanying notes to financial statements

Paul Caplan, Chair, Board of Directors

Dawn Butler, Chair, Audit Committee

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Changes in Net Assets

Year ended March 31, 2006, with comparative figures for March 31, 2005
(In thousands of dollars)

	Invested in Capital Assets	Restricted	Unrestricted	2006 total	2005 total
					(restated)
	(note 9)	(note 10)			
Balance, beginning of year	$ 101,817	84,252	6,267	192,336	191,551
Excess of revenues over expenses	(11,445)	6,252	13,225	8,032	785
Net change in investment in capital assets	29,371	(32,169)	2,798	-	-
Transfers to restricted	-	12,918	(12,918)	-	-
Balance, end of year	$ 119,743	71,253	9,372	200,368	192,336

See accompanying notes to financial statements

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Operations

Year ended March 31, 2006, with comparative figures for March 31, 2005
(In thousands of dollars)

		2006	2005 (restated)
Revenues:			
Ministry of Health and Long-Term Care:			
Base funding	$	296,515	314,902
Special funding		7,239	1,416
Veterans Affairs Canada		24,746	24,873
Patient services		36,933	37,156
Other revenue		16,328	19,156
Amortization of deferred contributions		10,206	9,201
		391,967	406,704
Expenses:			
Salaries and benefits		281,771	299,818
Supplies		86,755	90,327
Amortization of capital assets		21,651	18,802
		390,177	408,947
Excess (shortfall) of revenues over expenses from operations		1,790	(2,243)
Health Services Restructuring:			
Current expenditures		(7,995)	(5,801)
Ministry of Health and Long-Term Care special funding		7,995	4,980
Investment income		6,242	3,849
Excess of revenues over expenses	$	8,032	785

See accompanying notes to financial statements

ST. JOSEPH'S HEALTH CARE, LONDON

Statement of Cash Flows

Year ended March 31, 2006, with comparative figures for March 31, 2005
(In thousands of dollars)

		2006	2005 (restated)
Cash provided by (used for):			
Operating activities:			
Excess of revenues over expenses	$	8,032	785
Items not involving cash:			
Amortization of capital assets		21,651	18,802
Amortization of deferred contributions related to capital assets		(10,206)	(9,201)
Change in non-cash operating working capital (note 17)		(3,092)	9,992
Net increase (decrease) in deferred contributions related to expenses of future periods		155	(313)
		16,540	20,065
Financing activities:			
Increase in long-term liabilities		1,267	334
Increase in obligation under capital lease		1,385	571
Deferred contributions related to capital assets		20,577	12,911
		23,229	13,816
Investing activities:			
Purchase of capital assets		(47,336)	(38,512)
Proceeds on sale of capital assets		350	37
Net change in restricted investments		7,302	13,255
Net change in investment in joint ventures		132	(176)
		(39,552)	(25,396)
Net increase in cash		217	8,485
Cash and short term investments, beginning of year		51,536	43,051
Cash and short term investments, end of year	$	51,753	51,536

See accompanying notes to financial statements

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements

Year ended March 31, 2006
(In thousands of dollars)

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; St. Joseph's Health Centre Auxiliary; and various joint ventures as described in the notes to the financial statements.

St. Joseph's Health Care, London (the "Hospital") is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care ("Ministry"). Any excess of revenue over expenses earned during a fiscal year may be retained by the Hospital. The Ministry's stated policy is that deficits incurred by the Hospital will not be funded, and this policy has been consistently followed. Therefore, to the extent that deficits are incurred and not funded, future operations may be affected. The Ministry provides operating funding including base funding which is expected to be received on an annual basis, and special funding, which is non-recurring in nature, and consequently is unconfirmed for future years.

1. Accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted by St. Joseph's Health Care, London are summarized as follows:

(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 incurred.

(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.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements - continued

Year ended March 31, 2006
(In thousands of dollars)

1. Accounting policies continued:

(c) Capital assets:

Capital assets are recorded at amortized 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 – 10.0%
Buildings and building service equipment	2 – 12.5%
Equipment	5 – 33.0%

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) Impairment of long-lived assets:

Long-lived assets, including capital assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flow, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

(e) Interest rate swap:

St. Joseph's Health Care, London entered into an interest rate swap agreement as at March 31, 2006 terminating December 15, 2011, to convert variable interest rates on unsecured banker's acceptances to a fixed interest rate. Effective April 1, 2004, the Hospital assessed its hedging policy and documentation process according to Accounting Guideline 13, *Hedging Relationships*, and determined that it did not meet the standard to apply hedge accounting.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements - continued

Year ended March 31, 2006
(In thousands of dollars)

1. Accounting policies continued:

(e) Interest rate swap continued:

Accordingly, the interest rate swap contract is marked to market with the gain or loss recorded in the income statement.

(f) Use of estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Change in accounting policy:

Effective April 1, 2005, the Hospital has changed its accounting policy with respect to the consolidation of the Lawson Research Institute. The Hospital has chosen to discontinue consolidating the Lawson Research Institute and has instead opted for disclosure in accordance with CICA Handbook Section 4450, *Reporting Controlled and Related Entities by Not-for-profit Organizations.*

The Hospital has adopted the policy on a retroactive basis with restatement of prior periods. The effect on the opening balance as at April 1, 2004 was a decrease to assets of $10,058, a decrease to total liabilities and deferred contributions of $9,933 and a reduction of opening net assets in the amount of $125. Comparative amounts as at and for the year ended March 31, 2005 have also been restated. The effect on the comparative amounts was a decrease to assets of $11,991 a decrease to liabilities and deferred contributions of $11,805 and a reduction of excess of revenues over expense of $186.

3. Accounts receivable:

		2006	2005
Ministry of Health and Long-Term Care	$	7,323	13,035
Veterans Affairs Canada		5,015	4,952
Patient and other		11,263	10,241
	$	23,601	28,228

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

4. Restricted investments:

		2006		2005	
		Cost	Market Value	Cost	Market value
Cash and cash equivalents	$	20,455	20,455	25,508	25,508
Government bonds		87,283	85,801	57,334	57,195
Debentures and other fixed income securities		4,864	4,779	43,409	43,824
Equities		15,821	18,548	9,474	11,049
	$	128,423	129,583	135,725	137,576

Restricted investments represent the investment of unspent deferred contributions for expenses of future periods and capital assets, including the Unconditional Grant Initiative (note 11(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, and investments in joint ventures.

5. Capital assets:

		Cost	Accumulated amortization	2006 Net book value	2005 Net book value
Land	$	8,028	-	8,028	8,028
Land improvements		3,554	2,058	1,496	1,605
Buildings and building service equipment		286,319	111,197	175,122	157,409
Equipment		170,705	126,480	44,225	36,494
	$	468,606	239,735	228,871	203,536

6. Credit facilities:

The credit facilities established for St. Joseph's Health Care, London consist of an operating line of $20,000, non-revolving demand installment loans of $2,522, and revolving capital expenditure credit of $10,000. Amounts were drawn on these facilities as described in note 7.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

7. Long-term liabilities:

(a)

		2006	2005
Mortgage bearing interest at bank prime rate less .75%, principal to be reduced by $2 per month with the balance becoming due March 1, 2007	$	28	56
Unsecured banker's acceptances payable on demand, and subject to an interest rate swap agreement (d); the principal outstanding is renewable monthly and is to be reduced by $24 per month through to December 15, 2011		2,494	2,784
		2,522	2,840
Employee future benefits (note 14(b))		3,346	2,538
Employee benefit continuance (note 14(c))		262	-
Accumulated sick leave entitlement		1,105	908
		7,235	6,286
Less current portion		2,722	3,040
	$	4,513	3,246

Interest on long-term liabilities was $183 (2005, $155).

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

2007	$	318
2008		290
2009		290
2010		291
2011		773
Thereafter		560
	$	2,522

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

7. Long-term liabilities continued:

(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 $2,494 as at March 31, 2006 terminating December 15, 2011. This agreement has effectively converted variable interest rates on unsecured banker's acceptances to an effective fixed interest rate of 6.315% plus stamping fee.

(e) The Canadian Institute of Chartered Accountants recommendations contained within EIC 122, *Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced* have resulted in the classification of demand installment loans where the creditor has the unilateral right to demand immediate repayment of any portion of the debt under any provision of the agreement as current liabilities.

8. Deferred contributions:

(a) Capital assets:

Deferred capital contributions related to capital assets represent both the unamortized amount of grants already spent, and the unspent amount of donations and grants received for the future purchase of capital assets.

During 2001, $33,600 was received as a restricted unconditional grant from the Ministry of Health and Long-Term Care (note 11(c)). To-date interest earned of $8,284 has been recorded as unspent contributions.

(b) Expenses of future periods:

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

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements - continued

Year ended March 31, 2006
(In thousands of dollars)

9. Invested in capital assets:

Invested in capital assets at March 31 is calculated as follows:

		2006	2005
Capital assets	$	228,871	203,536
Amounts financed by:			
Deferred contributions		(100,982)	(96,153)
Deferred contributions receivable		50	182
Mortgage, banker's acceptance and equipment financing			(2,522)
(2,840)			
Obligation under capital lease		(5,674)	(2,908)
	$	119,743	101,817

10. 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.

		2006	2005
Restricted net assets:			
Research	$	1,000	1,000
Accumulated sick leave entitlement		1,105	908
Employee future benefits		3,346	2,538
Provision for demolition		1,600	1,600
Capital lease obligation		1,474	1,777
Mental Health		21,843	22,926
Provision for future equipment and capital redevelopment		40,885	53,503
		71,253	84,252
Deferred contributions:			
Unspent contributions		56,576	51,034
Expenses of future periods		594	439
	$	128,423	135,725

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

11. 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 St. Thomas and London Psychiatric Hospitals on January 22, 2001 and February 19, 2001, respectively.

i. St. Joseph's Health Care, London has entered into a 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 Hospital site.

(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 St. Joseph's Hospital site is estimated to be $89,000. The Ministry has committed to provide related future capital funding of $40,000, St. Joseph's Health Care, London has committed to provide funding of $35,700, with the remaining funding of $13,300 to be contributed by the St. Joseph's Health Care Foundation of London.

In agreement with the Ministry of Public Infrastructure Renewal (MPIR), St. Joseph's Health Care, London, has signed a letter of commitment for the non-Ministry share of future building costs of $30,200. This share will be funded from current reserves, future investment income, and community support.

(c) Pursuant 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 St. Joseph's Hospital and Mental Health Services. The Ministry advanced a portion of the committed funds in fiscal 2001 for St. Joseph's Hospital and Mental Health Care 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, 2006, the remaining funds, including accumulated interest are $14,709 and $27,175 for St. Joseph's Hospital and Mental Health Care, respectively.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

11. Commitments and contingencies continued:

(d) 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.

12. Provision for demolition:

The former St. Mary's Hospital has been vacant since 1997 and is fully depreciated. In 2002 a provision for demolition of this property was recorded, as it was determined by the Board of Directors, that this building will no longer be used and will be torn down.

13. Obligation under capital lease:

St. Joseph's Health Care, London has entered into the following capital lease obligation for equipment, resulting from the sale/leaseback of computer hardware:

		2006	2005
Year ended March 31:			
2006	$	-	1,317
2007		2,610	1,082
2008		2,019	509
2009		1,205	157
2010			
Total minimum lease payments		5,834	3,065
Less amounts representing interest at nil to 6.62%		160	157
Present value of net minimum lease payments		5,674	2,908
Current portion of obligation under capital lease		2,512	1,131
	$	3,162	1,777

Interest expense on the capital lease obligation in 2006 was $99 (2005, $115).

14. 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.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

14. Employee future benefits continued:

(a) Pension plan continued

Employer contributions to the Plan on behalf of employees amounted to $18,707 (2005, $18,266). The most recent actuarial valuation of the Plan at December 31, 2005 indicates the Plan had a modest unfunded liability of less than 2.5% of total Plan liabilities.

(b) Other employee future benefits:

The non-pension post retirement benefit plan is a defined benefit plan funded on a cash basis by contributions from St. Joseph's Health Care, London.

The net expense for St. Joseph's Health Care, London's benefit plan, which is included in salaries and benefits expenses in the statement of operations for the year ended March 31, is as follows:

		2006	2005
Current service costs	$	613	456
Interest cost		123	115
Amortization of transitional obligation		43	43
Amortization of past service cost		140	140
Amortization of net actuarial gain		(43)	(42)
Net benefit plan expense	$	876	712

Information about St. Joseph's Health Care, London's accrued non-pension benefits liability as at March 31, is as follows:

		2006	2005
Accrued benefit obligation	$	(3,895)	(3,579)
Unamortized transitional obligation		374	431
Unamortized past service cost		1,089	1,238
Unamortized net actuarial gain		(914)	(628)
	$	(3,346)	(2,538)

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

14. Employee future benefits continued:

The current portion of employee future benefits is included in accounts payable and current liabilities.

The significant actuarial assumptions adopted in measuring the St. Joseph's Health Care, London's accrued non-pension benefit obligations as of March 31, are as follows:

	2006	2005
Discount rate	5.4%	6.00%
Health cost trends:		
Initial rate	10.0%	10.0%
Ultimate rate	5.0%	5.0%
Year ultimate rate reached	2016	2015

Other information about St. Joseph's Health Care, London's non-pension defined benefit plans for the year ended March 31 is as follows:

	2006	2005
Employer contributions	$ 68	$ 173
Employee contributions	-	-
Benefits paid	68	173

St. Joseph's Health Care, London has adopted a practice of tri-annual valuations, with extrapolation of results in the interim. The most recent actuarial valuation was completed as at March 31, 2006.

(c) Employee benefit continuance

In 2006, certain employees subject to layoff have been granted future benefits for a pre-determined period and of a pre-determined nature, subject to the provisions of the relevant collective agreements. These benefits include salary plus benefits continuance, and education support.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

15. 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, 2006. 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 7(d), being the loss that would have been realized had the agreement been terminated on March 31, 2006, is $165 (2005, $256).

The fair values of all other monetary assets and liabilities approximate their carrying values in the balance sheet due to the short-term nature of the instruments, or due to the interest rate charged being similar to year-end market rates.

16. Related entities:

(a) Foundation

St. Joseph's Health Care Foundation of London (the "Foundation") is incorporated under the laws of Ontario as a corporation without share capital. The Foundation was established on April 1, 2005 as the result of the amalgamation of the former St. Joseph's Health Care Foundation of London and Parkwood Hospital Foundation of London, Ontario. The Foundation uses its resources to support research and education initiatives, to pilot new and innovative programs, and for the purchase of specialized equipment at all sites of St. Joseph's Health Care, London. The Foundation also subsidizes the growth of community outreach programs. During the year ended March 31, 2006, the Foundation provided donations totaling $3,819 (2005, $1,722).

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

(b) Lawson Research Institute

On June 26, 2000, the Lawson Research Institute ("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 an alliance to conduct all research activities as the Lawson Health Research Institute. Each venture continues to account for their costs independently. The LRI is not consolidated in these statements.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

16. Related entities continued:

The following information is from the financial statements Lawson Research Institute at March 31:

		2006	2005
Total assets	$	13,075	11,990
Total liabilities, deferred contributions		12,885	11,804
Net assets		190	186
Revenue		11,743	10,859
Expenses		11,739	10,825
Excess of revenue over expenses		4	34
Cash flows:			
Operating		96	134
Financing and investing		(762)	(291)
Net increase (decrease)	$	(666)	(157)

Deferred contributions of $8,286 (2005, $8,043) related to expenses of future periods represent unspent externally restricted grants for research purposes.

The Institute operates in space owned and supported by St. Joseph's Health Care, London. St. Joseph's Health Care, London is responsible for maintenance and utility costs.

The Institute transfers funds to St. Joseph's Health Care, London on an annual basis to cover the reimbursement of construction costs, interest on funds advanced and the Institute's portion of purchased equipment. Transfers during 2006 were nil (2005 - $6,517).

During the year the Institute made payments of $326 (2005 - $263) to St. Joseph's Health Care, London for sharing of infrastructure support for the year ending March 31, 2006.

(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.

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

16. Related entities continued:

St. Joseph's Health Care, London's share in HMMS is as follows:

		2006	2005
Total assets	$	7,468	8,048
Total liabilities, deferred contributions		7,097	7,610
Net assets		371	438
Revenue		1,759	1,764
Expenses		1,939	1,908
Excess of expense over revenue		(180)	(144)
Cash flows:			
Operating		900	1,398
Financing and investing		98	260
Net increase	$	998	1,658

HMMS incurred a loss of $647 (2005, $513) 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 $50 towards a capital equipment investment of $187.

HMMS has activated bank credit facilities consisting of a $10,000 operating line of credit and a $467 term loan. As at March 31, 2006, HMMS had not drawn on its operating facility. St. Joseph's Health Care, London has provided a guarantee for up to $2,657 in support of these credit facilities.

The net investment in HMMS at March 31, 2006 is $380, (2005, $444).

ST. JOSEPH'S HEALTH CARE, LONDON
Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

16. Related entities continued:

(d) London Laboratory Services Group

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 under London Laboratory Services Group ("LLSG"). St. Joseph's Health Care, London accounts for its interest in the joint venture using the equity method of accounting.

St. Joseph's Health Care, London's share in LLSG is as follows:

		2006	2005
Total assets	$	553	404
Total liabilities, deferred contributions		257	33
Net assets		296	371
Revenue		9,563	9,067
Expenses		9,724	9,231
Excess of expense over revenue		(161)	(164)

The LLSG incurred a loss of $823 (2005, $838) 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 $78 towards a capital equipment investment of $443.

The net investment in LLSG at March 31, 2006 is $266 (2005, $334).

ST. JOSEPH'S HEALTH CARE, LONDON

Notes to Financial Statements – continued

Year ended March 31, 2006
(In thousands of dollars)

17. Changes in non-cash operating working capital:

The changes in non-cash operating working capital items are comprised of the following:

		2006	2005
Accounts receivable	$	4,627	(5,995)
Inventory and prepaid expenses		407	(159)
Accounts payable and accrued liabilities		(9,189)	15,990
Current portion of long-term liabilities		(318)	(318)
Current portion of obligation under capital lease		1,381	474
	$	(3,092)	9,992

18. Health services restructuring:

St. Joseph's Health Care, London incurs non-operating costs to achieve the directives of the HSRC. Special funding from the Ministry of Health and Long Term Care is received to offset these costs.

19. Comparative amounts:

Certain of the 2005 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.