APPENDIX B

Financial Statements

For the Year ended March 31, 2016

Annual General Meeting
June 20, 2016

MUSKOKA ALGONQUIN HEALTHCARE

Financial Statements of

MUSKOKA ALGONQUIN HEALTHCARE

Year ended March 31, 2016

MUSKOKA ALGONQUIN HEALTHCARE

Financial Statements Index

Year ended March 31, 2016

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INDEPENDENT AUDITORS' REPORT

To Board of Directors of Muskoka Algonquin Healthcare

We have audited the accompanying financial statements of Muskoka Algonquin Healthcare, which comprise the statement of financial position as at March 31, 2016, the statements of operations, changes in net assets (deficiency) and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Muskoka Algonquin Healthcare as at March 31, 2016 and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 9, 2016
North Bay, Canada

MUSKOKA ALGONQUIN HEALTHCARE

Statement of Operations

Year ended March 31, 2016, with comparative information for 2015

		2016	2015
Revenue:			
Ministry of Health and Long-Term Care	$	59,160,465	60,231,440
Patient charges		8,061,818	7,821,845
Other (note 11)		4,601,878	4,142,990
Amortization of deferred equipment contributions		2,762,879	1,909,566
		74,587,040	74,105,841
Expenses:			
Salaries and wages		37,296,435	36,412,439
Employee benefits		11,136,792	11,029,689
Supplies and other		12,138,663	11,180,600
Medical staff remuneration		6,696,606	6,848,797
Drugs		3,421,116	3,538,607
Medical and surgical supplies		3,361,230	3,397,337
Amortization of equipment		2,106,598	1,503,919
		76,157,440	73,911,388
Excess (deficiency) of revenue over expenses before the undernoted		(1,570,400)	194,453
Other program:			
Revenue		13,950	13,950
Expenses		(17,200)	(17,018)
		(3,250)	(3,068)
Excess (deficiency) of revenue over expenses from Hospital operations		(1,573,650)	191,385
Working capital relief funding (note 14)		-	1,016,900
Excess (deficiency) of revenue over expenses before the undernoted items		(1,573,650)	1,208,285
Amortization of deferred capital contributions		1,154,917	1,083,357
Amortization of buildings and building service equipment		(1,606,648)	(1,504,788)
Excess (deficiency) of revenue over expenses	$	(2,025,381)	786,854

See accompanying notes to financial statements.

MUSKOKA ALGONQUIN HEALTHCARE

Statement of Financial Position

March 31, 2016, with comparative information for 2015

		2016	2015
Assets			
Current assets:			
Accounts receivable (note 2)	$	2,242,310	3,483,688
Inventories		1,320,177	1,181,355
Due from related parties (note 3)		4,924,787	4,278,501
Prepaid expenses		348,975	289,161
		8,836,249	9,232,705
Capital assets (note 4)		45,002,414	45,284,400
	$	53,838,663	54,517,105

Liabilities, Deferred Contributions and Deficiency in Net Assets

		2016	2015
Current liabilities:			
Bank indebtedness	$	220,500	189,236
Short-term demand loan (note 5)		1,770,000	-
Accounts payable and accrued liabilities (note 6)		11,803,884	11,904,006
Deferred operating contributions (note 7)		236,917	310,280
Current portion of long-term obligations (note 8)		971,643	1,249,420
		15,002,944	13,652,942
Long-term obligations (note 8)		6,746,513	7,438,419
Deferred contributions related to capital assets (note 9)		43,932,328	43,243,485
		65,681,785	64,334,846
Deficiency in net assets		(11,843,122)	(9,817,741)
Contingencies (note 12)			
	$	53,838,663	54,517,105

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

MUSKOKA ALONGQUIN HEALTHCARE

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2016, with comparative information for 2015

		2016	2015
Deficiency in net assets, beginning of year	$	(9,817,741)	(10,604,595)
Excess (deficiency) of revenue over expenses		(2,025,381)	786,854
Deficiency in net assets, end of year	$	(11,843,122)	(9,817,741)

See accompanying notes to financial statements.

MUSKOKA ALGONQUIN HEALTHCARE

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

		2016	2015
Cash flows from operating activities:			
Excess (deficiency) of revenue over expenses	$	(2,025,381)	786,854
Adjustments for:			
Amortization of capital assets		3,713,246	3,008,707
Amortization of deferred contributions related to capital assets		(3,917,796)	(2,992,923)
Gain on disposal of equipment		-	(7,000)
Increase (decrease) in post-retirement benefit obligations		(65,941)	148,276
		(2,295,872)	943,914
Change in non-cash working capital:			
Accounts receivable		1,241,378	(2,340,935)
Inventories		(138,822)	46,277
Due from related parties		(646,286)	(4,253,679)
Prepaid expenses		(59,814)	361,332
Accounts payable and accrued liabilities		(100,122)	(832,389)
Other long-term liabilities		14,035	1,193,883
Deferred operating contributions		(73,363)	(74,177)
		(2,058,866)	(4,955,774)
Cash flows from financing activities:			
Short-term demand loan		1,770,000	-
Principal repayment on long-term debt		(917,777)	(588,889)
Proceeds received on long-term debt		-	2,882,349
		852,223	2,293,460
Cash flows from capital activities:			
Purchase of capital assets		(3,431,260)	(7,631,930)
Proceeds on disposition of capital assets		-	7,000
Deferred contributions related to capital assets		4,606,639	9,506,620
		1,175,379	1,881,690
Net decrease in cash		(31,264)	(780,624)
Cash (bank indebtedness), beginning of year		(189,236)	591,388
Bank indebtedness, end of year	$	(220,500)	(189,236)

See accompanying notes to financial statements.

Muskoka Algonquin Healthcare (the “Hospital”) is incorporated without share capital under the laws of the Province of Ontario. Its principal activity is the provision of health care services to the residents of Burk’s Falls, Huntsville, Bracebridge, Gravenhurst, Township of Muskoka Lakes, Township of Georgian Bay, Township of Lake of Bays and the surrounding areas. The Hospital is a registered charity and, as such, is exempt from income taxes provided certain requirements under the Income Tax Act are met.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations. A statement of remeasurement gains and losses has not been included as there are no matters to report therein.

(a) Revenue recognition:

The Hospital accounts for contributions, which include donations and government grants, under the deferral method of accounting.

Under the Health Insurance Act and Regulations thereto, the Hospital is funded primarily by the Province of Ontario in accordance with budget arrangements established by the Ministry of Health and Long-term Care (the “Ministry”) and the North Simcoe Muskoka Local Health Integration Network (“NSMLHIN”). Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant relates to a future period, it is deferred and recognized in the subsequent period.

Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the period in which the related expenses are recognized.

Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at rates corresponding to those of the related capital assets.

Revenue from patient and other services is recognized when the service is provided.

(b) Inventories:

Inventories are stated at the lower of average cost and net realizable value. Cost comprises all costs to purchase, convert and any other costs in bringing the inventories to their present location and condition.

(c) Donated assets:

Donated capital assets are recorded at fair value when received.

1. Significant accounting policies (continued):

(d) Capital assets:

Purchased capital assets are recorded at cost. The original cost does not reflect replacement cost or market value upon liquidation. Assets acquired under capital leases are amortized over the estimated life of the assets or over the lease term, as appropriate. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Hospital's ability to provide services, its carrying amount is written down to its residual value.

Construction in progress is not amortized until construction is complete and the facilities come into use.

Amortization is provided on the straight-line basis at the following range of annual rates.

	Rate
Land improvements	5%
Buildings	2.5% and 5%
Major equipment	10% - 33%
Computer software	20% - 33%

Long-lived assets, including capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Hospital uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of financial position.

1. Significant accounting policies (continued):

(e) Employee future benefits:

The Hospital sponsors a defined benefit health and dental plan for certain employees and retirees funded on a pay-as-you-go basis. The Hospital also has a defined benefit pension plan. The Hospital has adopted the following policies:

The Hospital accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension, compensated absences and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial valuation of the benefit plans for funding purposes was as of April 1, 2014, and the next required valuation will be as of April 1, 2017.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The net accumulated actuarial gains (losses) are amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 12 years (2015 - 12 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 12 years (2015 - 12 years).

Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

(f) Hospital of Ontario Pension Plan:

The Hospital is an employer member of the Hospital of Ontario Pension Plan (the “Plan”), which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. The Hospital records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the Plan for past employee service.

(g) Use of estimates:

The preparation of the financial statements 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 date of the financial statements and the reported amounts of revenue and expenses during the periods specified. Significant items subject to such estimates and assumptions include the carrying amount of capital assets; valuation allowances for receivables, and inventories; valuation of financial instruments; and assets and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

1. Significant accounting policies (continued):

(h) Funding adjustments:

The Hospital receives grants from the NSMLHIN and the Ministry for specific services. Pursuant to the related agreements, if the Hospital does not meet specified levels of activity, the Ministry or NSMLHIN may be entitled to seek recoveries. Should any amounts become recoverable, the recoveries would be charged to operations in the period in which the recovery is determined to be payable. Should programs and activities incur a deficit, the Hospital records any recoveries thereon when additional funding is received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

(i) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Given the difficulty of determining the fair market value, contributed services are not recognized in the financial statements.

(j) Financial instruments:

All financial instruments are initially recorded on the statement of financial position at fair value.

All investments, if any, held in equity instruments that trade in an active market are recorded at fair value. Management has elected to record investments at fair value as they are managed and evaluated on a fair value basis. Freestanding derivative instruments that are not equity instruments that are quoted in an active market are subsequently measured at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

All financial assets are assessed for impairment on an annual basis. Where a decline in fair value is determined to be other than temporary, the amount of the loss is recognized in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses. On sale, the statement of remeasurement gains and losses associated with that instrument are reversed and recognized in the statement of operations.

2. Accounts receivable:

	2016	2015
Insurers and patients	$ 1,371,566	892,592
Ministry of Health and Long-term Care	58,138	1,558,138
Other	887,606	1,100,847
	2,317,310	3,551,577
Allowance for doubtful accounts	(75,000)	(67,889)
	$ 2,242,310	3,483,688

3. Related party transactions:

(a) Huntsville District Memorial Hospital Foundation

The Hospital has an economic interest in the Huntsville District Memorial Hospital Foundation (“HDMHF”) in that HDMHF solicits funds on behalf of the Hospital to be used for approved capital projects. During the year, the HDMHF granted approximately $976,065 (2015 - $4,259,408) to fund capital costs.

(b) South Muskoka Hospital Foundation

The Hospital has an economic interest in the South Muskoka Hospital Foundation (“SMHF”) in that SMHF solicits funds on behalf of the Hospital and other organizations in the community with similar objectives. During the year, SMHF granted approximately $3,148,432 (2015 - $4,530,054) to fund capital costs.

(c) Due from related parties

	2016	2015
Huntsville District Memorial Hospital Foundation	$ 651,424	1,022,486
South Muskoka Hospital Foundation	4,273,363	3,256,015
	$ 4,924,787	4,278,501

4. Capital assets:

2016	Cost	Accumulated amortization	Net book value
Land	$ 669,783	–	669,783
Land improvements	538,227	415,273	122,954
Buildings	57,294,968	23,997,125	33,297,843
Equipment	49,344,671	38,432,837	10,911,834
	$ 107,847,649	62,845,235	45,002,414

2015	Cost	Accumulated amortization	Net book value
Land	$ 669,783	–	669,783
Land improvements	538,227	359,099	179,128
Buildings	56,897,119	22,446,652	34,450,467
Equipment	46,311,261	36,326,239	9,985,022
	$ 104,416,390	59,131,990	45,284,400

5. Short-term demand loans:

The Hospital has an unused operating line of credit amounting to $4,730,000 at March 31, 2016 (2015 - $6,500,000).

6. Accounts payable and accrued liabilities:

	2016	2015
Ministry of Health and Long-Term Care	$ 568,375	1,052,908
Trade payables	4,437,637	4,611,007
Accrued wages and benefits	6,797,872	6,240,091
	$ 11,803,884	11,904,006

7. Deferred contributions:

Deferred contributions represent unspent funding externally restricted for specific programs received in the current and/or prior period that are related to a subsequent period.

	2016	2015
Balance, beginning of year	$ 310,280	384,457
Less amount recognized to revenue	(73,363)	(74,177)
Balance, end of year	$ 236,917	310,280

8. Long-term obligations:

	2016	2015
Post-retirement benefit obligation (a)	$ 2,152,000	2,217,941
Long-term debt (b)	4,358,238	5,276,015
Other and pay equity	1,207,918	1,193,883
	7,718,156	8,687,839
Less current portion of long-term obligations	(971,643)	(1,249,420)
	$ 6,746,513	7,438,419

(a) Post-retirement benefit obligation:

The Hospital sponsors a post-retirement defined benefit plan for medical, life insurance and dental benefits for employees with various cost-sharing arrangements as determined by their collective agreements and conditions of employment. The most recent valuation of the employee future benefits was completed as at April 1, 2014. The next full valuation of the plan will be as of April 1, 2017.

The accrued benefit obligation is recorded in the financial statements as follows:

	2016	2015
Balance, beginning of year	$ 2,217,941	2,069,665
Add: benefit costs	118,759	247,008
	2,336,700	2,316,673
Less: benefit contributions	(184,700)	(98,732)
Balance, end of year	$ 2,152,000	2,217,941

8. Long-term obligations (continued):

(a) Post-retirement benefit obligation (continued):

Similar to most post-employment benefit plans (other than pension) in Canada, the Hospital's plan is not pre-funded, resulting in the plan deficit equal to the accrued benefit obligation.

The significant actuarial assumptions adopted in measuring the Hospital's accrued benefit obligation are as follows:

	2016	2015
Discount rate	3.31%	4.36%
Initial health care cost trend rate	7.0%	7.0%
Dental care cost trend rate	3.75%	3.75%
Health Care cost trend rate declines to	5.0%	5.0%
Year ultimate rate reached	2017	2017

(b) Long-term debt:

	2016	2015
Non-revolving line (for PACS equipment), Scotiabank interest payable monthly at prime minus 0.25%, principal repayable $300,000 annually, balance due August 2018	$ 850,000	1,150,000
Non-revolving loan payable (Energy Retrofit - MAHC), Scotiabank interest payable monthly at prime minus 0.5%, principal repayable $28,333 monthly, balance due July 2019	2,181,667	2,521,667
Non-revolving loan payable (EMR System - MAHC), Scotiabank interest payable monthly at prime minus 0.5%, principal repayable $331,643 annually, balance due April 2019	1,326,571	1,326,571
Non-revolving loan payable (CT Scanner - HDMH), Scotiabank interest payable monthly at prime minus 0.25%, principal repayable $288,889 annually, repaid January 2016	–	277,777
	4,358,238	5,276,015
Less current portion of long-term debt	(971,643)	(1,249,420)
	$ 3,386,595	4,026,595

Total interest paid on long-term debt during the year was $117,774 (2015 - $104,898).

8. Long-term obligations (continued):

(b) Long-term debt (continued):

Payments on long-term debt are due as follows:

2017	$ 971,643
2018	971,643
2019	921,643
2020	1,493,309
	$ 4,358,238

9. Deferred contributions related to capital assets:

Deferred contributions related to capital assets represent the unamortized or unspent balances of donations and grants received for capital asset acquisitions. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2016	2015
Balance, beginning of year	$ 43,243,485	36,729,788
Less amount amortized to revenue	(3,917,796)	(2,992,923)
Add contributions received:		
Foundations	4,124,497	8,789,462
Ministry of Health and Long-term Care	455,194	584,493
Hospital Auxiliary and other	26,948	132,665
	4,606,639	9,506,620
Balance, end of year	$ 43,932,328	43,243,485

10. Pension plan:

Substantially all of the employees of the Hospital are members of the Hospitals of Ontario Pension Plan (the “Plan”), which is a multi-employer defined benefit plan. Employer contributions made to the Plan during the year by the Hospital amounted to $3,116,705 (2015 - $3,013,702).

The most recent actuarial valuation indicated that the Plan is fully funded.

11. Other revenue:

		2016	2015
Differential and co-payment fees	$	630,376	684,182
Parking fees		705,139	597,036
Wages and material recoveries		1,877,682	1,466,533
Laundry recoveries		522,048	531,200
Rental income		141,565	141,328
Interest income		65,654	51,454
Other		659,414	671,257
	$	4,601,878	4,142,990

12. Contingencies:

(a) Legal matters and litigation:

The nature of the Hospital’s activities is such that there is usually litigation pending or in process at any given time. With respect to claims at March 31, 2016, management believes the Hospital has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Hospital’s financial position.

(b) HealthCare Insurance Reciprocal of Canada:

The Hospital is a member of the HealthCare Insurance Reciprocal of Canada (“HIROC”). HIROC is a pooling of the liability insurance risk of its members. All members pay annual deposit premiums which are actuarially determined and are subject to further assessment for losses, if any, experienced by the pool for the years in which they are members. As at March 31, 2016, no assessments have been received by the Hospital.

(c) Employment matters:

During the normal course of business, the Hospital is involved in certain employment related negotiations and has recorded accruals based on management’s estimate of potential settlement amounts where these amounts are reasonably determinable. Where amounts are not reasonably determinable, costs, if any, relating to these matters would be recognized when known.

13. Financial risks and concentration of credit risks:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Hospital is exposed to credit risk with respect to accounts receivable.

The Hospital assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Hospital at March 31, 2016 is the carrying value of these assets.

Management considers credit risk to be minimal as most of the accounts receivable balance is collected in a timely fashion.

There have been no significant changes to the credit risk exposure from 2015.

(b) Liquidity risk:

Liquidity risk is the risk that the Hospital will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Hospital manages its liquidity risk by monitoring its operating requirements. The Hospital prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice.

There have been no significant changes to the liquidity risk exposure from 2015.

14. Working capital relief funding:

In March 2013, the Hospital was advised that it was eligible for one-time working capital relief funding over the next three fiscal years to improve its adjusted working funds deficit position. The Hospital is eligible to receive these funds in three annual installments of $1,016,900, provided that it meets certain conditions. The funding received is restricted in use to reducing the Hospital's working capital deficit and cannot be used to fund operating or capital expenditures. For the year ended March 31, 2016, the Hospital did not meet the condition of the funding and did not receive its annual installment.