APPENDIX B

Financial Statements

For the Year ended March 31, 2014

Annual General Meeting

June 23, 2014

MUSKOKA ALGONQUIN HEALTHCARE

Financial Statements of

MUSKOKA ALGONQUIN HEALTHCARE

Year ended March 31, 2014

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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, 2014, 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 audits. We conducted our audits 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, 2014 and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

June 12, 2014
North Bay, Canada

MUSKOKA ALGONQUIN HEALTHCARE

Financial Statements Index

Year ended March 31, 2014

MUSKOKA ALGONQUIN HEALTHCARE

Statement of Financial Position

March 31, 2014, with comparative information for 2013

		2014	2013
Assets			
Current assets:			
Cash and short-term investments	$	591,388	1,418,090
Accounts receivable (note 2)		1,142,753	1,448,641
Inventories		1,227,632	1,175,744
Due from related parties (note 3)		24,822	408,647
Prepaid expenses		650,493	629,186
		3,637,088	5,080,308
Capital assets (note 4)		40,661,177	41,532,254
	$	44,298,265	46,612,562
Liabilities, Deferred Contributions and Deficiency in Net Assets			
Current liabilities:			
Accounts payable and accued liabilities (note 6)	$	12,736,395	12,629,631
Deferred operating contributions (note 9)		384,457	500,000
Current portion of long-term debt (note 7)		588,889	1,155,555
		13,709,741	14,285,186
Long-term debt (note 7)		2,393,666	1,450,000
Deferred contributions related to capital assets (note 8)		36,729,788	39,470,646
Post-retirement benefit obligation (note 10)		2,069,665	1,972,900
		54,902,860	57,178,732
Deficiency in net assets		(10,604,595)	(10,566,170)
Contingencies (note 13)			
Commitment (note 16)			
	$	44,298,265	46,612,562

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

MUSKOKA ALGONQUIN HEALTHCARE

Statement of Operations

Year ended March 31, 2014, with comparative information for 2013

		2014	2013
Revenue:			
Ministry of Health and Long-Term Care	$	61,673,896	61,713,561
Patient charges		7,693,658	8,181,111
Other (note 12)		4,219,077	3,522,512
Amortization of deferred equipment contributions		2,647,920	1,791,187
		76,234,551	75,208,371
Expenses:			
Salaries and wages		37,262,723	37,522,774
Employee benefits		11,662,406	11,056,909
Supplies and other expenses		11,047,285	10,676,863
Medical staff remuneration		6,823,656	6,932,855
Drugs		3,679,607	3,420,480
Medical and surgical supplies		3,236,782	3,278,346
Amortization of equipment		2,235,683	2,224,896
		75,948,142	75,113,123
Excess of revenue over expenses before the undernoted		286,409	95,248
Other programs (note 15):			
Revenue		13,950	590,683
Expenses		(16,923)	(592,988)
		(2,973)	(2,305)
Excess of revenue over expenses from Hospital operations		283,436	92,943
Working capital relief funding		-	1,016,900
Excess of revenue over expenses before the undernoted items		283,436	1,109,843
Amortization of deferred capital contributions		1,014,927	968,568
Amortization of buildings and building service equipment		(1,336,788)	(1,238,132)
Excess (deficiency) of revenues over expenses	$	(38,425)	840,279

See accompanying notes to financial statements.

MUSKOKA ALONGQUIN HEALTHCARE

Statement of Changes in Net Assets (Deficiency)

Year ended March 31, 2014, with comparative information for 2013

		2014	2013
Deficiency in net assets, beginning of year	$	(10,566,170)	(11,406,449)
Excess (deficiency) of revenue over expenses		(38,425)	840,279
Deficiency in net assets, end of year	$	(10,604,595)	(10,566,170)

See accompanying notes to financial statements.

MUSKOKA ALGONQUIN HEALTHCARE

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

		2014	2013
Cash flows from operating activities:			
Excess (deficiency) of revenue over expenses	$	(38,425)	840,279
Adjustments for:			
Amortization of capital assets		3,572,471	3,463,028
Amortization of deferred contributions related to capital assets		(3,662,848)	(2,759,754)
Loss on disposal of CT equipment		58,378	-
Increase in post retirement benefit obligations		96,765	47,400
		26,341	1,590,953
Change in non-cash working capital:			
Accounts receivable		305,888	170,851
Inventories		(51,888)	(138,954)
Due from related parties		383,825	(310,273)
Prepaid expenses		(21,307)	(167,791)
Accounts payable and accrued liabilities		106,764	1,186,859
Deferred operating contributions		(115,543)	-
		634,080	2,331,645
Cash flows from financing activities:			
Principal repayment on long-term debt		(588,889)	(588,889)
Proceeds received on long-term debt		965,889	-
		377,000	(588,889)
Cash flows from capital activities:			
Purchase of capital assets		(3,621,394)	(3,818,677)
Deferred contributions related to capital assets		1,783,612	2,829,803
		(1,837,782)	(988,874)
Net increase (decrease) in cash		(826,702)	753,882
Cash, beginning of year		1,418,090	664,208
Cash, end of year	$	591,388	1,418,090

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) 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 assts 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%

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, 2011, and the next required valuation will be as of April 1, 2014.

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 (2013 - 12 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 12 years (2013 - 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:

	2014	2013
Insurers and patients	$ 843,506	1,021,072
Other	396,021	532,905
	1,239,527	1,553,977
Allowance for doubtful accounts	(96,774)	(105,336)
	$ 1,142,753	1,448,641

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 $708,324 (2013 - $1,495,503) 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 $529,807 (2013 - $900,374) to fund capital costs.

(c) Due from related parties

	2014	2013
Huntsville District Memorial \Hospital Foundation	$ 24,552	406,113
South Muskoka Hospital Foundation	270	2,534
	$ 24,822	408,647

4. Capital assets:

March 31, 2014		Cost	Accumulated Amortization	Net book Value
Land	$	669,783	–	669,783
Land improvements		377,869	329,499	48,370
Building		54,770,587	20,971,464	33,799,123
Equipment		41,074,721	34,930,820	6,143,901
	$	96,892,960	56,231,783	40,661,177

March 31, 2013		Cost	Accumulated Amortization	Net book Value
Land	$	669,783	–	669,783
Land improvements		377,869	326,476	51,393
Buildings		52,535,422	19,625,927	32,909,495
Equipment		41,784,824	33,883,241	7,901,583
	$	95,367,898	53,835,644	41,532,254

5. Short-term demand loans:

The Hospital has an unused operating line of credit amounting to $6,500,000 at March 31, 2014 (2013 - $6,500,000).

6. Accounts payable and accrued liabilities:

		2014	2013
Ministry of Health and Long-Term Care	$	1,557,100	1,386,914
Trade payables		4,104,790	4,297,805
Accrued wages and benefits		7,074,505	6,944,912
	$	12,736,395	12,629,631

7. Long-term debt:

	2014	2013
Non-revolving line (for PACS equipment), Scotiabank interest payable monthly at prime minus 0.25%. principal repayable $300,000 annually, balance due August 2018	$ 1,450,000	1,750,000
Non-revolving loan payable (CT Scanner-HDMH), Scotiabank interest payable monthly at prime minus 0.25%, principal repayable $288,889 annually, balance due January 2016	566,666	855,555
Non-revolving loan payable	965,889	–
	2,982,555	2,605,555
Less current portion	(588,889)	(1,155,555)
	$ 2,393,666	1,450,000

The Hospital has entered into a non-revolving term loan agreement to finance energy improvements to a total amount of $2,720,000. As at March 31, 2014, a total of $965,889 was borrowed under the agreement.

The loan bears interest at a rate of prime less 0.5%. Payments for interest only are required until the loan is fully advanced, at which time it will be repayable in monthly installments of $28,333 plus interest.

Total interest paid on long-term debt during the year was $70,476 (2013 - $82,171).

Principal payments to maturity are as follows:

2015	$ 588,889
2016	917,773
2017	639,996
2018	585,897
2019	250,000
	$ 2,982,555

8. 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.

	2014	2013
Balance, beginning of year	$ 39,470,646	39,400,598
Less amount amortized to revenue	(3,662,848)	(2,759,755)
Add contributions received:		
Foundations	1,239,131	2,395,877
Ministry of Health and Long-term Care	488,366	228,890
Hospital Auxiliary and other	56,116	205,036
	1,783,613	2,829,803
Less disposal of equipment	(861,623)	–
Balance, end of year	$ 36,729,788	39,470,646

9. 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.

	2014	2013
Balance, beginning of year	$ 500,000	500,000
Less amount recognized to revenue	(115,543)	–
Balance, end of year	$ 384,457	500,000

10. Employee future benefits:

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, 2011. The next full valuation of the plan will be as of April 1, 2014.

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

	2014	2013
Balance, beginning of year	$ 1,972,900	1,925,500
Add: benefit costs	243,773	198,276
	2,216,673	2,123,776
Less: benefit contributions	(147,008)	(150,876)
Balance, end of year	$ 2,069,665	1,972,900

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

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

	2014	2013
Discount rate	3.94%	4.69%
Initial health care cost trend rate	7.0%	7.0%
Dental care cost trend rate	4.0%	4.0%
Health Care cost trend rate declines to	5.0%	5.0%
Year ultimate rate reached	2017	2017

11. 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 $3,027,924 (2013 - $3,051,221).

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

12. Other revenue:

		2014	2013
Differential and co-payment fees	$	817,326	757,125
Parking fees		543,727	543,323
Wages and material recoveries		1,356,762	900,572
Laundry recoveries		538,876	581,981
Rental income		102,913	78,829
Interest income		67,291	83,580
Other		792,182	577,102
	$	4,219,077	3,522,512

13. 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, 2014, 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, 2014, 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.

14. 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 and cash.

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, 2014 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 2013.

(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 2013.

15. Other programs:

March 31, 2014		Revenue	Expenses	Deficiency
Diabetic Education Network:				
South Muskoka Site	$	–	–	–
Huntsville Site		–	–	–
Payments in lieu of taxes		13,950	16,923	(2,973)
	$	13,950	16,923	(2,973)

March 31, 2013		Revenue	Expenses	Deficiency
Diabetic Education Network:				
South Muskoka Site	$	270,746	270,746	–
Huntsville Site		305,987	305,987	–
Payments in lieu of taxes		13,950	16,255	(2,305)
	$	590,683	592,988	(2,305)

16. Commitment:

At March 31, 2014 the Hospital has incurred capital costs in the amount of $1,853,597 related to an energy initiatives project with a total contract value of $2,818,384.

17. Comparative information:

Certain 2013 comparative information has been reclassified to conform to the financial statement presentation adopted for the current year.