

AUDIT

MUSKOKA ALGONQUIN HEALTHCARE

Audit Findings Report

For the year ended March 31, 2013

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Executive summary

Overview

The purpose¹ of this Audit Findings Report is to assist you, as a member of the audit committee, in your review of the results of our audit of the financial statements of Muskoka Algonquin Healthcare (the 'Hospital') as at and for the period ended March 31, 2013.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings and answering your questions.

Status

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- completing our discussions with the audit committee
- obtaining responses to our inquiries with the Hospital's legal counsel
- obtaining evidence of the Board's approval of the financial statements.

We will update you on significant matters, if any, arising from the completion of the audit, including completion of the above procedures. Our auditors' report will be dated upon completion of any remaining procedures.

¹ This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Significant audit, accounting and reporting matters

Included in this report are significant matters we have highlighted for discussion at the upcoming audit committee meeting. We look forward to discussing these matters and our findings with you.

Transition to Canadian Public Sector Accounting Standards

- As discussed at in our Audit Planning Report, the Hospital has been required to transition to Public Sector Accounting Standards ('PSAB').
- As a result of the transition to PSAB, the Hospital was required to change its discount rate for the calculation of the post-retirement obligation, as well as immediately recognize adjustments for past service costs (under the prior accounting standards, these were recognized over the service life of the employees). The Hospital also exercised a one-time election to recognize actuarial gains and losses at the date of transition.
- While the transition also changed the accounting standards for financial instruments, there was no impact on the Hospital's financial statements.

KPMG comments regarding effect on the audit

- The Hospital's statement of financial position includes an additional column that reflects the impact of the transition on its April 1, 2011 financial position.
- Management has consulted with KPMG and its external actuaries prior to the commencement of our audit to determine the appropriate basis for a discount rate.
- Management has retained an external expert (actuaries) to quantify the impact of the transition to PSAB.
- Management and KPMG have reviewed the actuaries' report to gain an understanding of the impact of the transitions to PSAB as well as the appropriate note disclosure.
- KPMG undertook procedures to assess the ability to rely on the Hospital's experts as well as the assumptions used in arriving at the actuaries' report.
- Management and KPMG reviewed the required disclosure in the Hospital's financial statements relating to the transition to PSAB. Please refer to Note 2 of the financial statements for additional information concerning the transition.

Changes from the Audit Plan

There have been no changes from the Audit Planning Report previously presented to you.

Matters related to management's judgment and estimates

We have highlighted below significant matters related to management's judgment and estimates that we would like to bring to your attention:

Revenue recognition for NELHIN/MOHLTC revenue
<ul style="list-style-type: none">• In connection with the preparation of its financial statements, the Hospital was required to estimate the amount of revenue earned with respect to certain NSMLHIN and MOHLTC funding programs.• Management's estimate was based on the conditions outlined in the NSMHIN and MOHLTC funding letters, including criteria for revenue recognition (procedures, expenses incurred) and the formula for calculating revenues earned (funding per procedure) as well as other information.• The Health Centre's financial statements include note disclosure relating to funding adjustments (see Note 1(f)).
KPMG comments regarding effect on the audit
<ul style="list-style-type: none">• KPMG has reviewed management's calculation of revenue recognized as well as the disposition of prior year items (receivables, payables, deferrals), including supporting documentation from the NSMHIN and MOHLTC.

Employee related accruals
<ul style="list-style-type: none">• In connection with the preparation of its financial statements, the Hospital has considered the requirement to record liabilities for certain payroll-related items, including retroactive pay for unsettled contracts, arbitrations and grievances, pay equity and termination benefits.• The Hospital's financial statements include note disclosure relating to potential adjustments for employment matters (see Note 15(d)) as well as the retroactive restatement relating to the payroll-related accrual (see Note 2(b)).
KPMG comments regarding effect on the audit
<ul style="list-style-type: none">• KPMG has reviewed management's estimate of potential liabilities for employee related accruals, including the basis of the accrual.

Matters previously discussed

We have highlighted below certain matters that we have previously discussed with you:

Closure of long-term care beds
<ul style="list-style-type: none">• Consistent with directives issued by the Ministry of Health and Long Term Care encouraging the shift of interim long term care from hospitals to community accommodation the Hospital has closed 12 interim long-term care beds at the HDMH site effective March 31, 2013. MAHC worked co-operatively with the North Simcoe Muskoka CCAC to secure suitable alternative placements in the community for affected residents and has surrendered its temporary interim care bed license to the Ministry of Health and Long Term Care.
KPMG comments regarding effect on the audit
<ul style="list-style-type: none">• KPMG considered potential accounting issues with respect to the closure of the beds, including provision of termination benefits and write-downs of capital assets.• Based on the results of these procedures, no audit differences were identified.

Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of the individual making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed below are not contrary to positions KPMG has taken.

The following are the matters we plan to discuss with you:

Significant accounting policies	Significant accounting policies or practices are disclosed in Note 1 to the financial statements.
Critical accounting estimates	Critical accounting estimates include recognition of revenues under certain Ministry funded programs and obligations relating to employment related accruals. We would like to discuss the following matters: <ul style="list-style-type: none"> • Disclosure of estimation uncertainty in the financial statements
Critical disclosures and financial statement presentation	The financial statements include disclosures and presentation requirements under the relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices. There are no critical disclosures. We would like to discuss the following matters related to critical disclosures and/or financial statement presentation: <ul style="list-style-type: none"> • Overall clarity and completeness of the financial statements • Form, arrangement, and content of the financial statements • Terminology used, amount of detail given, classification of items

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements, including disclosures
- uncorrected misstatements, including disclosures.

Corrected and uncorrected misstatements are identified in the management representation letter included as an appendix to our report.

Appendices

Management Representation Letter

Independence Letter

Our System of Audit Quality Control

Management Representation Letter

MUSKOKA ALGONQUIN HEALTHCARE
100 FRANK MILLER DRIVE
HUNTSVILLE, ON P1H 1H7

KPMG LLP
Chartered Accountants
925 Stockdale Road, Ste. 300, PO Box 990
North Bay, Ontario P1B 8K3
Canada

June 13, 2013

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audits were for the purpose of expressing an opinion on the financial statements (hereinafter referred to as “financial statements”) of Muskoka Algonquin Healthcare (“the Entity”), which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the statements of operations, remeasurement gains and losses, change in net debt and cash flows for the years ended March 31, 2013 and March 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information. These financial statements were prepared in accordance with Canadian public sector accounting standards.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated February 13, 2013, for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
 - b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information

- c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
- d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

SUBSEQUENT EVENTS:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission (“SEC”) Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

MISSTATEMENTS:

- 8) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.
- 9) We approve the corrected misstatements identified by you during the audit described in Attachment II.

Yours very truly,

MUSKOKA ALGONQUIN HEALTHCARE

By: Ms. Natalie Bubela, Chief Executive Officer

By: Mr. Tim Smith, Chief Financial Officer

cc: Audit Committee

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian accounting standards for the public sector a *related party* is defined as:

- When one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence.

In accordance with Canadian accounting standards for the public sector a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Attachment II

Summary of corrected audit misstatements

#	Account #	Account Name	Description / Identified During	Error Type	Amount	Income Effect DR (CR)	Impact on financial statement captions - DR(CR)									Statement of Comprehensive Income - Debit (Credit)	Recorded by
							Balance Sheet Effect				Cash Flow Effect						
							Equity at period end	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Operating Activities	Investing Activities	Financing Activities			
1	1-1-41555 -	FUTURE BENEFITS LIABILITY	To record opening balance adjustment to employee future benefits		\$ (367,800)		\$ -	\$ -	\$ -	\$ -	\$ (367,800)	\$ -	\$ -	\$ -	\$ -		
	1-1-612 -	UNAPPROPRIATED - OPERATING EQUIT			\$ 367,800	\$ 367,800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
2	1-1-81965 -30580	FUTURE BENEFITS-NOT ELSEWHERE CL	To adjust employee future benefit liability to actual at year end		\$ (30,424)	\$ (30,424)	\$ (30,424)					\$ -	\$ -	\$ -	\$ -		
	1-1-41555 -	FUTURE BENEFITS LIABILITY			\$ 14,824	\$ -	\$ -	\$ -	\$ 14,824	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
	1-1-415551 -	FUTURE BENEFITS HADEC			\$ 15,600	\$ -	\$ -	\$ -	\$ 15,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Total effect of corrected audit misstatements						\$ (30,424)	\$ 337,376	\$ -	\$ -	\$ -	\$ (337,376)	\$ -	\$ -	\$ -	\$ -		

Independence Letter

Ms. Natalie Bubela
Chief Executive Officer
Muskoka Algonquin Healthcare
100 Frank Miller Drive
Huntsville, ON P1H 1H7

June 13, 2013

Dear Ms. Bubela:

Professional standards specify that we communicate to you in writing all relationships between the Entity (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we are required to consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

- a) provision of services in addition to the audit engagement
- b) other relationships such as:
 - holding a financial interest, either directly or indirectly, in a client
 - holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
 - personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
 - economic dependence on a client

PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the Entity (and its related entities) from April 1, 2012 up to the date of our auditors' report:

Description of Professional Service
Audit <ul style="list-style-type: none">• Audits of the Entity's consolidated financial statements and Hospital On Call Coverage reports.• Audits of the MOHLTC long term care reports.

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding to the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Entity (and its related entities) that may reasonably be thought to bear on our independence from April 1, 2012 up to the date of our auditors' report.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Entity (and its related entities) within the relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation from April 1, 2012 up to the date of our auditors' report.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

Chartered Accountants, Licensed Public Accountants

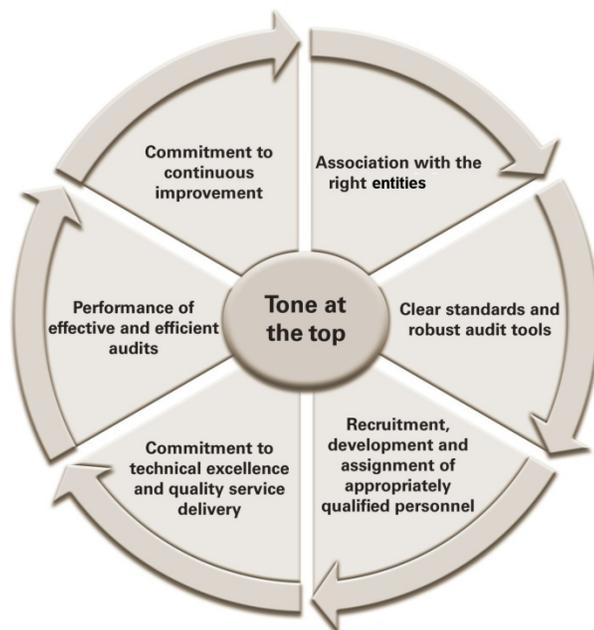
KPMG's Audit Quality Framework

Audit quality, and the respective roles of the auditor and audit committee, is fundamental to the integrity of financial reporting in our capital markets.

This is why audit quality is at the core of everything we do at KPMG. And we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To help ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

The framework comprises seven key drivers of audit quality.



The seven key drivers of audit quality

Driver	What it does	What it means to you
Tone at the top	<p>Audit quality is part of our culture and our values and therefore non-negotiable</p> <p>Allows the right behaviours to permeate across our entire organization and each of our engagements</p>	<p>Assures you that:</p> <ul style="list-style-type: none"> • Our culture supports our promise to you of excellent service and a high quality audit—consistently • You're receiving an independent, transparent, audit opinion • You're receiving an efficient and high quality audit that will help you maintain investor confidence in your financial statements. <p>Provides you with:</p> <ul style="list-style-type: none"> • An engagement team handpicked for your business needs – a team with relevant professional and industry experience • An audit engagement team whose qualifications evolve as your business grows and changes • An audit opinion that
Association with the right entities	<p>Ethics above all</p> <p>Eliminates any potential independence and conflict-of-interest issues</p>	
Clear standards and robust audit tools	<p>A solid rule book</p> <p>Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG's standards of quality</p>	
Recruitment, development and assignment of appropriately qualified personnel	<p>People who add value</p> <p>Helps us attract and retain the best people and reinforces the importance of developing their talents</p> <p>Assigns Partners' portfolios based on their specific skill sets</p>	

Driver	What it does	What it means to you
<p>Commitment to technical excellence and quality service delivery</p>	<p>The right tools for the right job</p> <p>Promotes technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes</p>	<p>continues to meet your needs as a participant in the capital markets</p> <p>Assists you with:</p> <ul style="list-style-type: none"> • Assessing the effectiveness and efficiency of the audit • Performing your governance role with confidence.
<p>Performance of effective and efficient audits</p>	<p>We understand that how an audit is conducted is as important as the final result.</p> <p>A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality</p>	
<p>Commitment to continuous improvement</p>	<p>Comprehensive and effective monitoring</p> <p>We regularly solicit feedback from the audit committees of the entities we audit. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed entities are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Company Accounting Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.</p>	

The regulatory landscape is changing

Uncertain economic forecasts and a changing regulatory environment define today's world; reliable financial information and high quality audits have never been more essential.

We believe that high quality audits contribute directly to market confidence and we share your objectives of credible and transparent financial reporting.

Our Audit Quality Framework is particularly relevant to Audit Committees, and we see our role in being transparent to you as a key mechanism to support you in the execution of your responsibilities.

Our commitment to quality

The independence, judgment and professional skepticism of your auditors add value to your financial statements, and we believe it is important to be transparent about the processes we follow to develop a KPMG auditors' report. We want you to have absolute confidence in us and in the quality of your audit.

Our own professional standards dictate technical requirements for reaching and communicating an audit opinion. And we live and abide by these requirements. We invest heavily in our quality, and the Audit Quality Framework helps ensure these investments are the right ones—that they help us continuously drive and maximize our quality improvements. But we feel it is also important that we communicate to you how we view and implement audit quality. The seven key drivers outlined here, combined with the commitment of each individual in KPMG, are meant to do just that.

KPMG member firms across the world use this audit quality framework to describe, focus on and enhance audit quality for the benefit of the entities we audit and in support of the efficacy of our capital markets.

It is our hope that sharing our vision of what audit quality means is a significant step in building confidence in the value of our audits.

Audit quality is fundamental to the way we work.

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