Consolidated Financial Statements of

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

And Independent Auditors' Report thereon

Year ended March 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Sault Ste. Marie and District Group Health Association

Opinion

We have audited the consolidated financial statements of Sault Ste. Marie and District Group Health Association (the Entity), which comprise:

- the consolidated statement of financial position as at March 31, 2021
- the consolidated statements of operations for the year then ended
- the consolidated changes in net assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2021 and its consolidated results of operations, its consolidated changes in net assets and its consolidated cash flows for the year then ended in accordance with Canadian Accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Consolidated Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian Accounting standards for not-for-profit organizations, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Sault Ste. Marie, Canada
June 28, 2021

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Consolidated Statement of Financial Position

March 31, 2021, with comparative information for 2020

		2021		2020
Assets				
Current assets:				
Cash	$	284,340	$	421,216
Investments (note 2)		2,712,489		1,263,480
Inventories		25,260		-
Prepaid expenses		458,178		495,625
Accounts receivable		2,377,485		512,885
Receivable from Stewart Medicine Professional Corporation (note 3)		1,067,712		1,520,043
		6,925,464		4,213,249
Capital assets (note 4)		21,261,567		22,367,132
	$	28,187,031	$	26,580,381
Liabilities, Deferred Contributions and Net Assets				
Current liabilities:				
Operating line of credit (note 5)	$	400,000	$	1,900,000
Accounts payable and accrued liabilities (note 6)		1,160,950		976,476
Salaries and benefits payable		2,374,769		2,689,305
Deferred revenue		-		1,267
Current portion of long-term debt (note 8)		752,096		3,134,807
		4,687,815		8,701,855
Deferred capital contributions (note 7)		3,043,079		3,458,417
Long-term liabilities:				
Long-term debt (note 8)		5,393,771		4,032,010
Employee future benefits (note 11)		3,097,500		2,931,300
Sick leave benefits		1,058,890		1,129,219
		9,550,161		8,092,529
		17,281,055		20,252,801
Net assets:				
Unrestricted net assets (note 9)		9,774,293		5,228,462
Non-controlling interest		1,131,683		1,099,118
		10,905,976		6,327,580
Commitments and contingencies (note 13)				
	$	28,187,031	$	26,580,381

See accompanying notes to financial statements.

On behalf of the Board:

________________________________ Director

________________________________ Director

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Consolidated Statement of Operations

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Revenue:		
Physician support	$ 11,382,431	$ 11,017,021
Other (note 12)	12,322,930	8,923,912
Ministry of Health: alternative funding	8,830,345	8,564,345
Amortization of deferred capital contributions (note 7)	485,338	506,352
	33,021,044	29,011,630
Expenses:		
Salaries and benefits	20,046,691	19,936,473
Other operating costs	2,968,366	2,909,572
Amortization of capital assets	1,806,606	1,766,181
Plant	1,428,302	1,390,412
Administrative	749,133	760,017
Medical and other supplies	724,674	668,728
Purchased services	471,458	476,175
Interest on long-term debt	247,284	327,740
	28,442,514	28,235,298
Excess of revenue over expenses before the undernoted item	4,578,530	776,332
Other expense:		
Unrealized loss on investments	(134)	(31,331)
Excess of revenue over expenses	$ 4,578,396	$ 745,001
Attributable to:		
Group Health Association	$ 4,545,831	$ 709,553
Non-controlling interests	32,565	35,448
	$ 4,578,396	$ 745,001

See accompanying notes to financial statements.

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2021, with comparative information for 2020

	Unrestricted net assets	Non-controlling interest	2021
Balance, beginning of year	$ 5,228,462	1,099,118	$ 6,327,580
Excess of revenue over expenses	4,545,831	32,565	4,578,396
Balance, end of year	$ 9,774,293	1,131,683	$ 10,905,976

	Unrestricted net assets	Non-controlling interest	2020
Balance, beginning of year	$ 4,518,909	1,063,670	$ 5,582,579
Excess of revenue over expenses	709,553	35,448	745,001
Balance, end of year	$ 5,228,462	1,099,118	$ 6,327,580

See accompanying notes to financial statements.

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Consolidated Statement of Cash Flows

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	$ 4,578,396	$ 745,001
Items not involving cash:		
Amortization of capital assets	1,806,606	1,766,181
Amortization of deferred capital contributions	(485,338)	(506,352)
Employee future benefits	166,200	102,600
Unrealized loss on investments	134	31,331
	6,065,998	2,138,761
Changes in non-cash operating working capital:		
(Increase) decrease in inventories	(25,260)	47,612
Decrease in prepaid expenses	37,447	130,030
(Increase) decrease in accounts receivable	(1,864,600)	787,645
Increase (decrease) in accounts payable and accrued liabilities	184,474	(277,234)
Increase (decrease) in salaries and benefits payable	(314,536)	72,549
Decrease in deferred revenue	(1,267)	(4,890)
Decrease in sick leave benefits	(70,329)	(143,627)
	4,011,927	2,750,846
Financing:		
Repayment of operating line of credit	(1,500,000)	(1,100,000)
Receipt of deferred capital contributions	70,000	-
Repayment of long-term debt	(1,020,950)	(809,554)
Decrease (increase) in receivable from Stewart Medicine Professional Corporation	452,331	(99,709)
	(1,998,619)	(2,009,263)
Investing:		
Purchase of capital assets	(701,041)	(1,245,150)
Purchases of investments	(1,449,143)	(25,273)
	(2,150,184)	(1,270,423)
Decrease in cash	(136,876)	(528,840)
Cash, beginning of year	421,216	950,056
Cash, end of year	$ 284,340	$ 421,216

See accompanying notes to financial statements.

Nature of operations:

Sault Ste. Marie and District Group Health Association (the "Association") is incorporated under the Ontario Business Corporations Act without share capital and is a registered charity under the Income Tax Act and, accordingly, is exempt from income taxes provided certain requirements of the Income Tax Act are met. The Association offers health services to the Sault Ste. Marie and Algoma District under an agreement with the Ministry of Health ("MOH") and Stewart Medicine Professional Corporation.

1. Significant accounting policies:

These consolidated financial statements are prepared in accordance with Canadian accounting standards for non-for-profit organizations. The Association's significant accounting policies are as follows:

(a) Reporting entities:

The consolidated financial statements reflect the assets, liabilities, revenues, expenses and net asset balances of entities or organizations which are owned or controlled by the Association. These entities and organizations include:

- 2351132 Ontario Inc (100% owned, operates 170 East Street)
- 2329799 Ontario Inc (52.5% owned, operates 773 Great Northern Road)
- Group Health Scholarship Endowment Fund (100% common board members)
- Group Health Centre Trust Fund (100% common board members)

Inter-organizational transactions and balances between these organizations have been eliminated.

(b) Revenue recognition:

Under an agreement with the MOH and the Stewart Medicine Professional Corporation, the Association receives payment for services through an alternative funding arrangement, which is recognized in the period to which it relates. Health service revenues, government grants and rent are recorded in the period to which they relate or when the services are rendered. Where a portion of a grant relates to a future period, it is deferred and recognized in that subsequent period.

The Association follows the deferral method of accounting for contributions. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate for the related capital assets. Contributions for operating expenses are recognized as revenue in the year in which the related expenses are recognized.

(c) Inventories:

Inventory of supplies is recorded at the lower of cost and replacement cost on a first-in, first-out basis.

1. Significant accounting policies (continued):

(d) Capital assets:

Capital assets are stated at cost, less accumulated amortization. Amortization is provided using the straight-line method at the following annual rates:

	Rate
Buildings	2.5%
Roads and parking lots	5%
Software	7%
Technical equipment	5% - 12.5%
Office equipment	20%
Computers	20%
Other equipment	12.5% - 20%
Leasehold improvements	40%

Building physical constraints result in on-going relocation of programs to meet patient needs. The relocation necessitates alterations and renovations by building services' staff and outside contractors. These expenditures are charged to operations as incurred.

(e) Pension plan and employee benefits:

The Association is an employer member of the Health Care of Ontario Pension Plan (the “Plan”), which is a multi-employer, defined benefit pension plan. The Association has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. The Association 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.

The Association provides certain extended health and dental benefits for eligible employees the costs of which are actuarially determined using management’s best estimate of salary escalation, insurance and health care cost trends, long-term inflation rates and discount rates.

(f) Sick leave benefits:

Under the terms of employment agreements, the Association is required to compensate employees while on sick leave up to established limits. The Association recognizes the liability as sick-leave benefits accrued to the employees.

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. The Association has elected to carry all other financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method.

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator or impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial assets is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(h) Use of estimates:

The preparation of the financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets; valuation allowances for receivables; and valuation of 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.

2. Investments:

The following investments are controlled by the Group Health Scholarship Endowment Fund and the Group Health Centre Trust Fund:

	2021	2020
Fixed Income	$ 739,513	$ 840,950
Managed asset fund	1,972,976	422,530
	$ 2,712,489	$ 1,263,480

Fixed income investments have interest rates of 2.16% to 6.55% with maturity dates between June 2, 2021 and February 2, 2029.

3. Related party transactions:

The receivable from Stewart Medicine Professional Corporation is a corporation controlled by a board member, and acts as a paymaster for funding of the Association. The amount receivable is unsecured, non-interest bearing and has no fixed terms of repayment. Transactions are recorded at the exchange amount.

4. Capital assets:

			2021
	Cost	Accumulated amortization	Net book value
Land	$ 2,822,849	$ -	$ 2,822,849
Buildings	18,144,690	9,297,146	8,847,544
Roads and parking lots	1,063,328	910,632	152,696
Technical equipment	7,888,075	5,631,015	2,257,060
Office equipment	1,452,220	1,305,169	147,051
Computers	2,269,616	1,700,766	568,850
Other equipment	1,865,139	1,426,707	438,432
Software	11,438,862	5,762,789	5,676,073
Leasehold Improvements	372,754	21,742	351,012
	$ 47,317,533	$ 26,055,966	$ 21,261,567

			2020
	Cost	Accumulated amortization	Net book value
Land	$ 2,822,848	$ -	$ 2,822,848
Buildings	18,118,190	8,818,102	9,300,088
Roads and parking lots	1,063,328	885,033	178,295
Technical equipment	7,758,862	5,384,502	2,374,360
Office equipment	1,452,220	1,278,013	174,207
Computers	2,182,599	1,600,953	581,646
Other equipment	1,865,139	1,365,781	499,358
Software	11,429,600	4,993,270	6,436,330
	$ 46,692,786	$ 24,325,654	$ 22,367,132

5. Operating line of credit:

The Association has Canadian dollar operating credit facilities which are secured by a general assignment of book debts, general security agreement over related assets and an assignment of insurance proceeds. The total authorized amount on the credit facilities is $5,095,000, at interest rates ranging from prime + 0.0% to prime + 0.5%. The amount advanced and outstanding at March 31, 2021 was $400,000 (2020 - $1,900,000).

6. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $160,854 (2020 - $143,423), which includes amounts payable for HST and payroll related taxes.

7. Deferred capital contributions:

The balance of deferred capital contributions is detailed as follows:

	2021	2020
Balance, beginning of year	$ 3,458,417	$ 3,964,769
Additional contributions received	70,000	-
Less amounts amortized to revenue	(485,338)	(506,352)
Balance, end of year	$ 3,043,079	$ 3,458,417

8. Long-term debt:

	2021	2020
Loan payable in monthly principal and interest payments of $16,982 at 1.82%, maturing December 2022	$ 1,486,957	$ -
Loan payable in monthly principal and interest payments of $8,556 at 1.82%, maturing December 2022	674,361	-
Loan payable in monthly principal and interest payments of $14,279 at 1.90%, maturing June 2023	2,125,917	-
Loan payable in monthly principal and interest payments of $26,013 at 1.90%, maturing June 2023	1,858,632	-
Non-revolving loan, payable $6,653 monthly at 2.85%, maturing December 2020	-	1,042,777
First mortgage, monthly principal and interest payments of $8,333 at 2.85%, maturing December 20	-	416,667
Non-revolving loan, payable $3,125 monthly at 2.85%, maturing December 2020	-	215,625
Non-revolving construction loan, payable $1,588 monthly at 2.85%, maturing December 2020	-	180,405
Mortgage payable in monthly principal and interest payments of $7,224 at 2.85%, maturing February 2021	-	579,209
Loan payable in monthly principal and interest payments of $5,224 at 2.92%, maturing April 2021	-	136,762
Non-revolving mortgage, payable $8,333 monthly principal payments at 2.96%, maturing May 2021	-	1,416,667
Loan payable in monthly principal and interest payments of $15,356 at 2.76%, maturing June 2021	-	678,717
Loan payable in monthly principal and interest payments of $15,525 at 2.76%, maturing June 2021	-	670,728
Loan payable in monthly principal and interest payments of $15,585 at 2.97%, maturing June 2021	-	669,826
Loan payable in monthly principal and interest payments of $4,811 at 2.68%, maturing June 2021	-	395,055
	6,145,867	6,402,438

8. Long-term debt (continued):

	2021	2020
Balance forward	$ 6,145,867	$ 6,402,438
Loan payable in monthly principal and interest payments of $4,512 at 2.96%, maturing July 2021	-	764,379
	6,145,867	7,166,817
Less: current portion of long-term debt	(752,096)	(3,134,807)
	$ 5,393,771	$ 4,032,010

The loans payable are secured by a general assignment of book debts, general security agreement over related assets and an assignment of insurance proceeds.

Principal repayments are due as follows:

2022	$ 752,096
2023	2,314,167
2024	3,079,604
	$ 6,145,867

9. Net financial assets:

	2021	2020
Unrestricted	$ 9,774,293	$ 4,328,462
Internally restricted for endowment purposes	-	900,000
	$ 9,774,293	$ 5,228,462

10. Pension plan:

Eligible employees of the Association are members of the Hospitals of Ontario Pension Plan which is a multi-employer, final-average pay, contributory pension plan. Contributions made to the Plan during the year by the Association amounted to $1,449,423 (2020 - $1,427,077).

11. Employee future benefits:

The Association provides extended health care and dental benefits to eligible employees. The most recent valuation of the employee retirement benefits was completed as at January 1, 2019, being the measurement date. The significant actuarial assumptions adopted in estimating the Association's accrued benefit obligation are as follows:

Discount rate	3%
Drug benefits costs escalation	5%
Dental benefits costs escalation	5%

Employee future benefit expense is included in salaries and benefits, on the statement of operations.

The continuity of the accrued benefit liability is as follows:

	2021	2020
Balance, beginning of year	$ 2,931,300	$ 2,828,700
Employee future benefit expense for the year	340,300	270,600
Benefit payouts made by the Association during the year	(174,100)	(168,000)
Balance, end of year	$ 3,097,500	$ 2,931,300

12. Other revenues:

	2021	2020
Other funded programs	$ 5,730,944	$ 6,783,668
Canada Emergency Wage Subsidy	4,438,811	-
Donations and fundraising	449,215	554,578
Rent and parking	1,080,218	1,314,223
Other	535,797	233,273
Interest and investment income	87,945	38,170
	$12,322,930	$ 8,923,912

13. Commitments and contingencies:

The Association is named in lawsuits from time to time. In management's view, the Association carries an appropriate level of liability insurance in this regard and accordingly, provision for losses, if any, have not been made in these consolidated financial statements.

The Association is committed to annual payments under operating leases for office space through 2024 in the amount of approximately $257,000.

14. Financial risks and concentration of risk:

(a) Liquidity risk:

Liquidity risk is the risk that the Association will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Association manages its liquidity risk by monitoring its operating requirements. The Association prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2020.

(b) Interest rate risk:

The Association's line of credit has a variable interest rate based on prime plus a margin.

As a result, the Association would be exposed to interest rate risk due to fluctuations in the prime rate if they were to utilize the line of credit.

(c) Other risk:

The Association's main sources of revenue are from government funding and patient related activities. In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This resulted in the Canadian and Provincial governments enacting emergency measures to combat the spread of the virus. The Association halted non-essential in-person activity and closed its facilities to patients and staff for a period of time and moved to delivery of medical care to a virtual environment where possible while continuing required in-person patient care based on recommendations from Public Health Ontario.

In response to the adverse impact the pandemic has had on patient revenues, the Association has undertaken certain cost saving measures.

The impact of COVID-19 is expected to negatively impact operations for a duration that cannot be reasonably predicted. The further overall operational and financial impact is highly dependent on the duration of COVID-19, including the potential occurrence of additional waves of the pandemic, and could be affected by other factors that are currently not known at this time. Management is actively monitoring the effect of the pandemic on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the pandemic and the global responses to curb its spread, the Association is not able to fully estimate the effects of the pandemic on its results of operations, financial condition, or liquidity at this time.