

Consolidated Financial Statements of

**SAULT STE. MARIE AND DISTRICT
GROUP HEALTH ASSOCIATION**

And Independent Auditor's Report thereon

Year ended March 31, 2023



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INDEPENDENT AUDITOR'S 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 of March 31, 2023
- 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 of March 31, 2023, 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.



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- 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

August 15, 2023

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Consolidated Statement of Financial Position

March 31, 2023, with comparative information for 2022

	2023	2022
Assets		
Current assets:		
Cash	\$ 246,723	\$ 1,135,415
Investments (note 2)	2,154,096	3,420,286
Inventories	60,842	25,172
Prepaid expenses	412,849	349,728
Accounts receivable	843,587	1,025,030
Receivable from Stewart Medicine Professional Corporation (note 3)	1,032,479	1,123,861
	<u>4,750,576</u>	<u>7,079,492</u>
Capital assets (note 4)	15,861,811	21,285,626
	<u>\$ 20,612,387</u>	<u>\$ 28,365,118</u>
Liabilities, Deferred Contributions and Net Assets		
Current liabilities:		
Operating line of credit (note 5)	\$ 1,200,000	\$ 400,000
Accounts payable and accrued liabilities (note 6)	2,330,522	2,924,780
Salaries and benefits payable	1,704,210	2,656,415
Deferred revenue	97,629	97,629
Current portion of long-term debt (note 8)	4,752,283	1,188,603
	<u>10,084,644</u>	<u>7,267,427</u>
Deferred capital contributions (note 7)	1,719,596	2,572,084
Long-term liabilities:		
Long-term debt (note 8)	-	4,256,167
Employee future benefits (note 10)	1,836,300	1,903,300
Sick leave benefits	722,479	859,544
	<u>2,558,779</u>	<u>7,019,011</u>
	14,363,019	16,858,522
Net assets:		
Unrestricted net assets	5,062,333	10,339,658
Non-controlling interest	1,187,035	1,166,938
	<u>6,249,368</u>	<u>11,506,596</u>
Commitments and contingencies (note 13)		
	<u>\$ 20,612,387</u>	<u>\$ 28,365,118</u>

See accompanying notes to financial statements.

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Consolidated Statement of Operations

Year ended March 31, 2023, with comparative information for 2022

	2023	2022
Revenue:		
Physician support	\$ 10,854,075	\$ 11,252,444
Other (note 11)	8,164,331	8,640,498
Ministry of Health: alternative funding	9,455,684	8,869,945
Amortization of deferred capital contributions (note 7)	471,464	470,995
	<u>28,945,554</u>	<u>29,233,882</u>
Expenses:		
Salaries and benefits	21,776,971	19,917,526
Other operating costs	3,173,223	3,192,037
Amortization of capital assets	1,902,458	1,706,450
Plant	1,537,128	1,572,893
Administrative	732,973	873,200
Medical and other supplies	736,923	833,099
Purchased services	399,223	407,093
Interest on long-term debt	193,257	130,814
	<u>30,452,156</u>	<u>28,633,112</u>
Excess (deficiency) of revenue over expenses before the undernoted item	(1,506,602)	600,770
Other expense:		
Loss on disposal of capital assets	(3,746,898)	-
Unrealized loss on investments	(3,728)	(150)
Excess (deficiency) of revenue over expenses	<u>\$ (5,257,228)</u>	<u>\$ 600,620</u>
Attributable to:		
Group Health Association	\$ (5,277,325)	\$ 565,365
Non-controlling interests	20,097	35,255
	<u>\$ (5,257,228)</u>	<u>\$ 600,620</u>

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, 2023, with comparative information for 2022

	Unrestricted net assets	Non-controlling interest	2023
Balance, beginning of year	\$ 10,339,658	1,166,938	\$ 11,506,596
Excess (deficiency) of revenue over expenses	(5,277,325)	20,097	(5,257,228)
Balance, end of year	\$ 5,062,333	1,187,035	\$ 6,249,368

	Unrestricted net assets	Non-controlling interest	2022
Balance, beginning of year	\$ 9,774,293	1,131,683	\$ 10,905,976
Excess of revenue over expenses	565,365	35,255	600,620
Balance, end of year	\$ 10,339,658	1,166,938	\$ 11,506,596

See accompanying notes to financial statements.

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Consolidated Statement of Cash Flows

Year ended March 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ (5,257,228)	\$ 600,620
Items not involving cash:		
Amortization of capital assets	1,902,458	1,706,450
Amortization of deferred capital contributions	(471,464)	(470,995)
Loss on disposal of capital assets	3,746,898	-
Employee future benefits	(67,000)	(1,194,200)
Unrealized loss on investments	3,728	150
	<u>(142,608)</u>	<u>642,025</u>
Changes in non-cash operating working capital:		
(Increase) decrease in inventories	(35,670)	88
(Increase) decrease in prepaid expenses	(63,121)	108,450
Decrease (increase) in accounts receivable	181,443	1,352,455
(Decrease) increase in accounts payable and accrued liabilities	(594,258)	1,763,830
(Decrease) increase in salaries and benefits payable	(952,205)	281,646
Increase in deferred revenue	-	97,629
Decrease in sick leave benefits	(137,065)	(199,346)
Decrease (increase) in receivable from Stewart Medicine Professional Corporation	91,382	(56,149)
	<u>(1,652,102)</u>	<u>3,990,628</u>
Financing:		
Repayment of operating line of credit	800,000	-
Repayment of long-term debt	(692,487)	(701,097)
	<u>107,513</u>	<u>(701,097)</u>
Investing:		
Purchase of capital assets	(606,565)	(1,730,509)
Disposition (purchases) of investments	1,262,462	(707,947)
	<u>655,897</u>	<u>(2,438,456)</u>
Increase (decrease) in cash	(888,692)	851,075
Cash, beginning of year	1,135,415	284,340
Cash, end of year	\$ 246,723	\$ 1,135,415

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Notes to Consolidated Financial Statements

Year ended March 31, 2023

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.

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2023

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.

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2023

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 of 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.

(i) Funding adjustments:

The Association receives a majority of its funding from the Ministry of Health ("MOH") which is subject to audit by the MOH and possible repayable amounts. Any adjustments required as a result of these audits are made in the year they become known.

2. Investments:

	2023	2022
Cash and fixed income	\$ 1,898,046	\$ 717,089
Managed asset funds and equities	256,050	2,703,197
	<u>\$ 2,154,096</u>	<u>\$ 3,420,286</u>

Fixed income investments have interest rates of 2.33% to 6.55% with maturity dates between December 5, 2023, 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.

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2023

4. Capital assets:

	2023		
	Cost	Accumulated amortization	Net book value
Land	\$ 2,822,849	\$ –	\$ 2,822,849
Buildings	18,333,068	10,235,382	8,097,686
Roads and parking lots	1,050,440	943,839	106,601
Technical equipment	8,271,604	6,342,959	1,928,645
Office equipment	1,452,220	1,353,353	98,867
Computers	2,571,126	1,847,765	723,361
Other equipment	1,878,026	1,555,786	322,240
Software	1,579,903	96,550	1,483,353
Leasehold Improvements	374,792	96,583	278,209
	\$ 38,334,028	\$ 22,472,217	\$ 15,861,811

	2022		
	Cost	Accumulated amortization	Net book value
Land	\$ 2,822,849	\$ –	\$ 2,822,849
Buildings	18,317,878	9,768,294	8,549,584
Roads and parking lots	1,063,327	935,642	127,685
Technical equipment	8,134,355	5,989,163	2,145,192
Office equipment	1,452,220	1,330,767	121,453
Computers	2,420,512	1,771,472	649,040
Other equipment	1,865,138	1,485,706	379,432
Software	12,707,011	6,532,308	6,174,703
Leasehold Improvements	374,792	59,104	315,688
	\$ 49,158,082	\$ 27,872,456	\$ 21,285,626

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 on March 31, 2023 was \$1,200,000 (2022 – \$400,000).

6. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$95,392 (2022 - \$146,556), which includes amounts payable for HST and payroll related taxes.

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2023

7. Deferred capital contributions:

The balance of deferred capital contributions is detailed as follows:

	2023	2022
Balance, beginning of year	\$ 2,572,084	\$ 3,043,079
Less amounts amortized to revenue	(471,464)	(470,995)
Less disposal of capital contributions	(381,024)	-
Balance, end of year	\$ 1,719,596	\$ 2,572,084

8. Long-term debt:

	2023	2022
Loan payable in monthly principal and interest payments of \$16,982 at 1.82%, maturing December 2023	\$ 1,145,865	\$ 1,327,055
Loan payable in monthly principal and interest payments of \$8,556 at 1.82%, maturing December 2023	498,126	590,844
Loan payable in monthly principal and interest payments of \$14,183 at 1.89%, maturing July 2023	1,858,862	1,992,658
Loan payable in monthly principal and interest payments of \$25,945 at 1.89%, maturing July 2023	1,249,430	1,534,213
	4,752,283	5,444,770
Less: current portion of long-term debt	(4,752,283)	(1,188,603)
	\$ -	\$ 4,256,167

The board of directors has approved the renewal of the two loans with July 2023 maturities, and as of the date of the audit report, the lender is finalizing renewals with a 5 year term at 6.1% and an additional \$300,000 principal, and a 3 year term at 6.38%, respectively. The current rates and monthly payments are continuing until the new agreements have been finalized.

The loans payables 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:

2023	\$ 4,752,283
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SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2023

9. 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 \$1,870,376 (2022 – \$1,757,902).

10. 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 of January 1, 2022, being the measurement date. The significant actuarial assumptions adopted in estimating the Association's accrued benefit obligation are as follows:

Discount rate	4.80%
Drug benefits costs escalation	5.00%
Dental benefits costs escalation	5.00%

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:

	2023	2022
Balance, beginning of year	\$ 1,903,300	\$ 3,097,500
Employee future benefit expense for the year	205,400	290,600
Benefit payouts made by the Association during the year	(100,000)	(180,700)
Actuarial gain	(172,400)	(1,304,100)
Balance, end of year	\$ 1,836,300	\$ 1,903,300

11. Other revenues:

	2023	2022
Other funded programs	\$ 6,425,026	\$ 6,280,442
Canada Emergency Wage Subsidy	-	728,169
Donations and fundraising	494,067	363,110
Rent, parking and other	1,181,574	1,218,256
Interest and investment income	63,664	50,521
	\$ 8,164,331	\$ 8,640,498

SAULT STE. MARIE AND DISTRICT GROUP HEALTH ASSOCIATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2023

12. 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 2025 in the annualized amounts of approximately \$244,500.

13. 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 2022.

(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.