

Financial Statements of

**THE PHYSICIANS' SERVICES
INCORPORATED FOUNDATION**

And Independent Auditors' Report thereon

Year ended December 31, 2020



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INDEPENDENT AUDITORS' REPORT

To the House of Delegates of The Physicians' Services Incorporated Foundation

Opinion

We have audited the financial statements of The Physicians' Services Incorporated Foundation (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, and its results of operations and its 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 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.



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Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and our auditors' report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the 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 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.



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- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

May 19, 2021

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Cash and cash equivalents (note 2)	\$ 684,285	\$ 2,370,618
Investments (note 3)	116,495,468	113,349,083
Dividends and interest receivable	74,286	150,635
Receivables and other assets	77,037	57,484
Capital assets (note 4)	893,272	939,711
	<u>\$ 118,224,348</u>	<u>\$ 116,867,531</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued liabilities	\$ 167,450	\$ 283,842
Securities sold short (note 5)	—	389,796
Grants payable (note 6)	9,621,500	9,655,300
	<u>9,788,950</u>	<u>10,328,938</u>

Net assets:

Invested in capital assets	893,272	939,711
Internally restricted capital (note 7)	107,542,126	105,598,882
	<u>108,435,398</u>	<u>106,538,593</u>

	<u>\$ 118,224,348</u>	<u>\$ 116,867,531</u>
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See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Statement of Operations

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Revenue:		
Interest	\$ 257,520	\$ 464,984
Dividends	2,424,542	2,524,810
Real Estate/Infrastructure Funds dividend	582,662	419,680
	<u>3,264,724</u>	<u>3,409,474</u>
Less investment management fees	404,882	389,692
	<u>2,859,842</u>	<u>3,019,782</u>
Expenses:		
Administrative:		
Salaries and benefits	460,274	371,886
Board and committee	157,145	204,917
Office supplies	102,078	179,426
Safekeeping charges	53,910	60,173
Amortization of capital assets	46,439	58,554
Legal and audit fees	34,799	21,689
Rent and maintenance	19,458	22,703
Delegate and annual meeting	1,588	47,091
Information services	1,403	14,741
	<u>877,094</u>	<u>981,180</u>
Grants and programs:		
Grants approved	5,055,320	6,487,208
Visiting scholars	15,000	39,500
	<u>5,070,320</u>	<u>6,526,708</u>
	<u>5,947,414</u>	<u>7,507,888</u>
Excess of expenses over revenue before the undernoted	(3,087,572)	(4,488,106)
Net gains on investments	4,984,377	14,514,150
Excess of revenue over expenses	\$ 1,896,805	\$ 10,026,044

See accompanying notes to financial statements.

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Statement of Changes in Net Assets

Year ended December 31, 2020, with comparative information for 2019

				2020	2019
	Invested in capital assets	Internally restricted capital	Unrestricted	Total	Total
Balance, beginning of year	\$ 939,711	\$ 105,598,882	\$ -	\$ 106,538,593	\$ 96,512,549
Excess (deficiency) of revenue over expenses	(46,439)	-	1,943,244	1,896,805	10,026,044
Internally restricted capital (note 7)	-	1,943,244	(1,943,244)	-	-
Balance, end of year	\$ 893,272	\$ 107,542,126	\$ -	\$ 108,435,398	\$ 106,538,593

See accompanying notes to financial statements.

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Statement of Cash Flows

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 1,896,805	\$ 10,026,044
Items not involving cash:		
Amortization of capital assets	46,439	58,554
Net gains on investments	(4,984,377)	(14,514,150)
Net change in non-cash working capital balances:		
Dividends and interest receivable	76,349	97,020
Receivables and other assets	(19,553)	(33,529)
Accounts payable and accrued liabilities	(116,392)	154,869
Grants payable	(33,800)	2,237,900
	(3,134,529)	(1,973,292)
Investing activities:		
Net change in investments	1,837,992	1,852,341
Net change in securities markets short selling	(389,796)	(17,465)
Acquisition of capital assets	-	(9,244)
	1,448,196	1,825,632
Decrease in cash and cash equivalents	(1,686,333)	(147,660)
Cash and cash equivalents, beginning of year	2,370,618	2,518,278
Cash and cash equivalents, end of year	\$ 684,285	\$ 2,370,618

See accompanying notes to financial statements.

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Notes to Financial Statements

Year ended December 31, 2020

The Physicians' Services Incorporated Foundation (the "Foundation") is incorporated without share capital under the laws of Ontario. Under the Income Tax Act (Canada), the Foundation is registered as a public foundation constituted for charitable purposes and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

1. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada Handbook.

(a) Revenue recognition:

Investment income, which consists of dividends, interest, realized and unrealized gains and losses on investments, is recognized on the accrual basis.

(b) Cash and cash equivalents:

Cash and cash equivalents includes cash in bank, cash with investment managers and a money market pooled fund, which is highly liquid.

(c) 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. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has elected to carry all investments 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. These costs are amortized using the straight-line method.

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (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 Foundation 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 asset 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 Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(d) Foreign currency translation:

Assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at exchange rates prevailing at the year-end date. Revenue and expenses have been translated using the exchange rates prevailing on the transaction date. Gains and losses arising from these translation policies are included in the statement of operations.

(e) Capital assets:

Purchased capital assets are recorded at cost. Capital assets are amortized on a straight-line basis over the estimated useful lives as follows:

Buildings	50 years
Building improvements	10 years
Furniture and equipment	5 years
Computer equipment	2 years

(f) Grants:

Grants are recognized in the statement of operations as an expense in the year the grant is approved by the Board of Directors.

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Significant accounting policies (continued):

(g) Use of estimates:

The preparation of 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 year. Actual results could differ from those estimates.

2. Cash and cash equivalents:

Components of cash and cash equivalents are as follows:

	2020	2019
Cash on deposit	\$ 684,285	\$ 635,502
Beutel Goodman Cash Management Funds	–	279,948
Connor, Clark & Lunn Money Market Pooled Fund	–	1,455,168
	<u>\$ 684,285</u>	<u>\$ 2,370,618</u>

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Notes to Financial Statements (continued)

Year ended December 31, 2020

3. Investments:

Investments are managed by four (2019 - five) independent investment managers.

Nature of investments		2020	2019
Beutel Goodman & Company Limited	Canadian fixed income pooled fund	\$ 11,717,540	\$ 8,742,538
Connor, Clark & Lunn Investment Management Ltd.	Canadian pooled equity fund	48,116,484	40,383,080
Vanguard Institutional Index Fund	U.S. pooled equity fund	42,092,617	36,245,516
Interactive Brokers	Canadian equity shares	–	15,884,357
		90,209,101	92,512,953
Crestpoint Real Estate & CCL Infrastructure	Canadian pooled funds	14,568,827	12,093,592
		\$ 116,495,468	\$ 113,349,083

4. Capital assets:

	2020		2019	
	Cost	Accumulated amortization	Net book value	Net book value
Buildings	\$ 903,310	\$ 99,364	\$ 803,946	\$ 822,012
Building improvements	183,034	99,053	83,981	102,285
Furniture and equipment	27,701	26,583	1,118	4,071
Computer equipment	89,751	85,524	4,227	11,343
	\$ 1,203,796	\$ 310,524	\$ 893,272	\$ 939,711

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Notes to Financial Statements (continued)

Year ended December 31, 2020

5. Securities sold short:

In 2019, the Foundation sold short various U.S. equities to comply with no tobacco and no alcohol investment holdings as stated in the statement of investment policies and goals.

6. Grants payable:

Grants payable represent the balance of grants approved by the Board of Directors, which are payable over the next three years.

7. Restriction on net assets:

The Board of Directors has internally restricted the original net assets which established the Foundation as the base on which investment income would be earned annually to fund general operations and provide funds for charitable endeavours in the health field. Annually, the Board of Directors increases or decreases these internally restricted amounts depending on the level of grants awarded in the year. These internally restricted amounts are not available for other purposes without approval of the Board of Directors.

8. Financial risks:

The Foundation manages its investment portfolio to earn investment income and invests according to a statement of investment policies and goals approved by the Board of Directors. The Foundation is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes. There has been no change to the risk exposure from 2019, inclusive of COVID-19 pandemic considerations.

Market price risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose the Foundation to a risk of loss. The Foundation mitigates this risk through controls to monitor and limit concentration levels.

The Foundation is exposed to foreign exchange risk in its foreign investment portfolios as a result of exchange rate fluctuations and the volatility of these rates.

THE PHYSICIANS' SERVICES INCORPORATED FOUNDATION

Notes to Financial Statements (continued)

Year ended December 31, 2020

8. Financial risks (continued):

Interest rate risk arises from fluctuations in interest rates and the degree of volatility of these rates. The Foundation is exposed to interest rate risk on its bonds and debentures investments.

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Foundation. In order to minimize the exposure to credit risk, the Foundation invests in Canadian-issued instruments according to its statement of investment policies and goals.

Additionally, the Foundation believes it is not exposed to significant liquidity risk as the majority of investments are held in instruments that are highly liquid and can be disposed of to settle commitments.

9. Comparative information:

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