

Report of the Treasurer Annual General Meeting 2019

Good morning. On behalf of the Finance Committee of the Hospital, I am pleased to provide the financial report regarding Fiscal 2018-2019 operations.

Hospital Financial Sustainability Plan

As you all are aware, the Hospital and the Board is accountable to both the community that we serve, as well as our primary funding agency, the South East Local Health Integration Network (commonly known as the South East LHIN). This accountability includes the requirement that we monitor and ensure the financial sustainability of the Hospital and that we meet or exceed our obligations under our accountability agreement with the South East LHIN. Our accountability agreement with the SE LHIN mandates that the hospital board must submit a balanced budget each year.

To meet our obligation of a balanced budget, the Hospital undertakes a vigorous budgeting process each year that involves the assistance of the Hospital's senior management, medical staff, and managers. Each year departments are asked how they can be operated more efficiently – asked how processes can be changed to remove waste or inefficiencies – and asked whether we can continue to provide quality care with the level of funding currently available.

Every year we are required to estimate the level of revenue (ie, the operating dollars) that the Hospital can expect for the next fiscal year from the Ministry of Health and Long Term Care. These are estimates only but must be relied upon in setting the budget – this process is always more difficult in an election year – and when the government has announced wide impacting changes to how health care will be funded or managed in the future.

At the end of this budgeting process, the Board ultimately must then approve a budget that is at least a balanced budget. As a Board, we have made the strategic decision to challenge the Hospital administration each year to present a budget with a minimum \$500,000 surplus with the long term goal of using that annual surplus to reduce the long term debt of the Hospital and improve our working capital position. While a \$500,000 surplus has been our strategic goal over the last few years – we are finding that expenses (both operating and capital expenses) have begun to chisel away at these surplus goals so that we do not expect to maintain this level of surpluses in the upcoming fiscal year.

Since the performance improvement plan was first undertaken in 2011 at the Hospital, we have successfully reduced our debt from a high point of \$15.7 million in March 2014 to a debt level of \$8.1 million as noted at the end of Fiscal 2019 (March 31, 2019).

We remain concerned that the Hospital remains in a working capital deficit position of \$8.5 million. Although great strides have been made through the commitment, hard work and sacrifice of the Hospital team members to improve our working capital position, as costs increase and unexpected expenses incur, we have been unable to continue to pay down this debt as quickly as we wanted. We continue to work with our funding partners and the provincial government to stabilize our revenue stream and ensure the Hospital's longer term sustainability.

To improve our working capital position, the Hospital is working closely with the Ontario Hospital Association (the OHA) and the Medium Sized Hospital Working Group to educate the government on how the funding formula over the last few years has caused a disproportionate hardship for medium sized hospitals. We are advocating for a change to the funding formula that will make it a more level playing field and, further, to assist the medium sized hospitals who have been unfairly impacted by the changes to the funding formula, we are asking the government to introduce a program aimed at medium sized hospitals to reduce their working capital deficits. A commitment by the Ontario government in this regard would give the Board some certainty that we will be able to eliminate our existing working capital deficit so that funding can be re-allocated to healthcare services instead of servicing debt. We will continue to advocate for this type of program that will assist medium size hospitals cope with the systemic underfunding that we have experienced over the last few years.

Fiscal 2018/2019 Operations

Today though, we are pleased to be able to report to our members that the Hospital recorded an operating surplus in fiscal 2018/2019. We did budget for a surplus of \$approximately \$734,000. However, at the end of year, our surplus was only approximately \$529,000.

During the course of the fiscal year, we did incur some unexpected expenses which impacted our budgeted surplus. As the Hospital does not have any investments or savings, when confronted with an immediate need to add additional services or update equipment or maintain the facilities (something as simple as additional snow removal costs), these costs must come from the existing operating dollars or funded through additional financing. The Hospital administration highlights any major deviations to the budget to the finance committee of the Board and to the overall Hospital board each month. While both the Board and the management of the Hospital are committed to the sustainability of the Hospital and the need to reduce our long term debt, we also acknowledge that priority issues must be addressed and services maintained at our Hospital on an ongoing basis. Throughout the fiscal year, decisions are undertaken that impact the initial budget that is set at the beginning of the fiscal year.

Audited Financial Statements

Full details of the financial position of the Hospital is available for everyone's review in the audited statements, copies of which are available today.

First. Revenue and Expenses: The total operating revenue for Fiscal 2018/98 was \$54.4 million, while total operating expenses were approximately \$53.9 million.

On the revenue side, the South East LHIN (Ministry of Health) provided \$43.8 million of the total revenues or the equivalent of 81% of revenues. We also receive funding from other agencies, patient income from out-of-province patients, as well as parking revenues. Thank you for those of you who will be paying the \$4.00 parking charge – know that your ttoonies are going directly to provide healthcare services to our community members.

With respect to expenses, salaries and benefits were \$32.0 million of our total expenses, or approximately 59% of total expenses. Other major categories of expenses for the Hospital include: Medical Staff Remuneration, General Supplies, medical and surgical supplies, drugs, and interest on the Hospital's outstanding line of credit (\$140,000) and amortization of equipment and software.

Second. Assets: As of March 31, 2019, the Hospital had total assets of \$69.4 million of which \$4.9 million are current and \$64.5 million are considered Capital Assets or restricted cash.

We continue to systematically retire our long term debt and have the goal to be debt free in less than 10 years (with the caveat that the goal is only achievable if we can maintain surplus budgets – as mentioned previously with current funding pressures, the hospital would benefit from additional government assistance to reduce our current working capital deficit.

Third. Capital Expenditures and Donations: As you are aware, the Ministry of Health provides revenue to the Hospital for operating costs. With respect to capital expenditures, the Hospital must meet these needs through the communities' own fundraising initiatives which are spearheaded by our foundations and auxiliaries. To augment the need for capital funds, the Board has also begun a strategic campaign aimed at the municipalities in our catchment area. Through the great work of our liaison committee, we are reaching out to each municipality and to the general public to explain the needs of the Hospital and to make a formal request that the municipalities consider an on-going sustainable contribution to the Hospital's capital needs. We are very pleased with the support that the Hospital is receiving in the community but also appreciate that one of important goals in the next fiscal year is to continue our advocacy and education programs to the public on overall Hospital funding.

In total last fiscal year, approximately \$2.4 million dollars was spent on Capital expenditures. These expenditures were made possible from donations from the Great War Memorial Hospital Foundation, the Smiths Falls Community Hospital Foundation and our two Volunteer Auxiliaries details of which are set out on page 17 of the financial statements. It can go without saying that the Hospital could not continue to operate without the generosity of our community and our partners. The Hospital also receives funding from various grant programs to assist with facility expenses through the Hospital Infrastructure Renewal Fund (HIRF) and Hospital Energy Efficiency Program (HEEP).

I would like to add my thanks to all donors, volunteers and Foundation and Auxiliary staff and governors. We could not offer the services and facilities that we do to our community without the cooperation of everyone to support the strategic priorities of the Hospital.

Conclusion.

In conclusion, I wanted to confirm to you that the Perth and Smiths Falls District Hospital continues to be committed to providing high quality patient and family-centred care and to provide that care in a fiscally responsible manner. I continue to be amazed by the team of people that contribute to the Hospital – whether that is the dedicated and skilled staff and physicians, the compassionate and altruistic volunteers, our collaborative and responsive partners, a supportive community or the dedicated and energized group of Board members governing the Hospital. Thank you to all of my Committee Members, with a special thank you to Jacquie Lord who has joined us from the Patient and Family Advisory Council and to our VP, Finance, Brian Allen, who works tirelessly to ensure the financial sustainability of our Hospital.

It is with heartfelt appreciation to all that I present the financial results for Fiscal 2018/2019 at the annual general meeting.

Respectfully submitted,
Cheryl Beckett
Chair, Finance Committee