

**Report of the Finance Committee
June 26, 2018**

Good morning. On behalf of the Finance Committee of the Hospital, I am pleased to provide the financial report regarding Fiscal 2017-2018 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. We are provided with a tool by the Ministry of Health that estimates the level of revenue (ie, operating dollars) that the Hospital can expect for the next fiscal year. These are estimates only but must be relied upon in setting the budget.

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 surplus reduce the long term debt of the Hospital.

Since the performance improvement plan was first undertaken in 2011 at the Hospital, we have successfully reduced that long term debt from a high point of \$15.4 million in March 2014 to the current working capital deficit of approximately \$7 million noted at the end of Fiscal 2018 (March 31, 2018). Although we did run a surplus on the operating side this year, it should be noted that our working capital deficit actually increased as the Hospital was required to increase our debt in order to finance an unexpected significant project – updating the HVAC system in the OR at the Smiths Falls site.

We remain concerned that the Hospital remains in a working capital deficit position of \$7 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 may be unable to continue to pay down this debt in future years. With the change in government, it will remain to be seen how the new Ministry of Health views hospital funding and what that outcome will mean for our Hospital's longer term sustainability.

To improve our working capital position, the Hospital would benefit greatly from the introduction of a government program to assist hospitals that continue to have working capital deficits. A commitment by the Ontario government in this regard, would give the Board some certainty that we will be able to manage eliminating our current working capital deficit. Everyone would rather be spending our operating dollars on health services and not report on how much of our revenue must be used to service our long term debt.

Fiscal 2017/2018 Operations

Today though, we are pleased to be able to report to our members that the Hospital recorded another operating surplus. We did budget for a surplus of \$approximately \$895,000. However, at the end of year, our surplus was only approximately \$630,000.

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 update equipment, the facilities (such as replacing an HVAC system in an operating room) or add additional services, 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 acknowledged that priority issues must be addressed and services maintained at our Hospital.

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 2017/18 was \$52.9 million, while total operating expenses were approximately \$52.2 million.

On the revenue side, the South East LHIN (Ministry of Health) provided \$42 million of the total revenues or the equivalent of 80% of revenues.

With respect to expenses, salaries and benefits were \$31.3 million of our total expenses, or approximately 60% 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 (\$87,505) and amortization of equipment and software.

Second. Assets: As of March 31, 2017, the Hospital had total assets of \$71.3million of which \$4.7 million are current and \$66.6 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 10 years (although that goal is only achievable if we can maintain surplus budgets – with current funding pressures, the hospital would benefit from additional government assistance to work with all hospitals to reduce their current working capital deficits.

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 our foundations and auxiliaries. As you may be aware, 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 to explain the needs of the Hospital and make a formal request that the municipalities consider a special levy in their next budget season. While the foundations and auxiliaries continue their fundraising indicatives, we are pursuing the tax levy in order to provide a sustainable and certain level of capital funding commitment for the near future so that the Hospital can undertake some intensive capital projects such as the upgrade to the hospital information system.

In total last fiscal year, approximately \$3.8 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, our two Volunteer Auxiliaries and funding grants, such as the Hospital Infrastructure Renewal Fund (HIRF) and Hospital Energy Efficiency Program (HEEP). Greater detail on our partners' contributions to the Hospital is set out on page 15 of the financial statements.

Thank you, on behalf of the Board, 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 overwhelmed and 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. It is with appreciation to all that I present the financial results for Fiscal 2018/2019.

Respectfully submitted,
Cheryl Beckett, Chair
Finance Committee