

Health Sciences North 2024 Annual Meeting

Financial Report from the
Treasurer

Kati McCartney



Health Sciences North
Horizon Santé-Nord

hsnsudbury.ca

**Financial Presentation
Treasurer – Kati McCartney
Annual Meeting – June 12, 2024**

My name is Kati McCartney, and as Treasurer of the Board and Chair of the Board's Finance Committee, it is my duty to present the report from our independent auditors, KPMG, as presented to the Finance and Audit Committees and to the Board.

You will find a copy of the Financial Statements on our website.

KPMG expressed an unqualified or "clean" audit opinion, representing the highest level of assurance under Canadian Auditing Standards.

The Audit Committee had the opportunity to meet with the auditors, with and without management.

The financial statements are final, having been approved by the Board on June 4th.

I will limit my comments to the Statement of Operations and to the Statement of Financial Position.

With regard to the Statement of Operations:

- Total revenues for regular hospital operations amounted to \$665.2 million, with an additional \$3.0 million in revenue for pandemic impacts and \$17.4 million in revenue for prior years' Bill 124 wage pressures.
- Recurring Ministry revenues increased by \$73.4 million or 21.8%, reflecting higher base funding of \$26.9 million, increased funding for Quality-Based Procedures and Priority Programs of \$3.5 million, bedded capacity funding of \$11.0 million that was previously included in pandemic funding, one-time funding for current year Bill 124 pressures of \$18.6 million, and prior year settlements of \$10.3 million.
- Cancer Care Ontario funding increased by \$7.6 million or 9.1% primarily due to increased New Drug Funding Program revenue of \$2.2 million, higher revenue for pathology lab testing of \$1.8 million, and prior year settlements of \$1.8 million.
- Total expenses for regular hospital operations increased by \$61.6 million or 10.0%, with an additional \$4.4 million in Bill 124 retroactive liabilities associated with updated assumptions for prior years' wage pressures.
- Personnel costs increased from \$330.8 million to \$366.2 million, an increase of \$35.5 million or 10.7%, reflecting a 1.9% increase in hours worked of \$6.8 million, and an increase in purchased services expense of \$2.4 million, with the remainder attributed to rate increases.
- General and medical surgical supplies and drug expenditures increased from \$181.6 million to \$201.6 million, an increase of \$20.0 million or 11.0%, reflecting increased Electronic Medical Record (EMR) operational costs and increases activity and inflation.

- Ministry pandemic funding decreased by \$45.9 million, as bedded capacity and health human resources supports funding transitioned to regular base and one-time operational funding, and also reflects the discontinuation of pandemic incremental funding and decreased pandemic lab activities in the current year.
- Bill 124 funding for retroactive liabilities of \$17.4 million and additional Bill 124 retroactive liabilities related to prior years of \$4.4 million have been presented separately in the Statement of Operations.
- Ontario Health requires hospitals not to have a deficiency of revenue over expenses from Hospital operations, before net building depreciation. This is the line that hospitals are required to balance.
- HSN completes the 2023-2024 fiscal year with a deficit from regular Hospital operations of \$10.0 million, excluding Bill 124 retroactive impacts and net building depreciation. Inclusive of Bill 124 retroactive impacts, the surplus from Hospital operations before net building depreciation is \$2.9 million, which is above the balanced position that the hospital is required to achieve.
- The overall current year deficit from Hospital operations, inclusive of net building depreciation, is \$13.3 million, excluding the net surplus for Bill 124 retroactive liabilities of \$12.9 million.
- After incurring an annual deficit from hospital operations of \$8.9 million in 2017-2018, HSN achieved annual surpluses from hospital operations of \$1.8 million in 2018-2019, \$338,000 in 2019-2020, \$2.9 million in 2020-2021, \$1.9 million in 2021-2022, and \$4.5 million in 2022-2023 excluding Bill 124 liabilities.
- As nearly all hospitals have reflected an overall deficiency of revenue over expenses in the prior year due to Bill 124 liabilities recognized at that time, the funding for which has been reported in the current fiscal year, many hospitals are reporting an improved overall operating result in the current year, inclusive of these timing differences from Bill 124 retroactive impacts.

With regard to the Statement of Financial Position:

- The cash balance increased by \$63.9 million, reflecting a cash-adjusted operating surplus (excluding amortization and deferred capital contribution revenue) of \$12.9 million, positive working capital changes of \$47.0 million, capital additions of \$41.4 million, funded in part by capital donations and grants of \$14.8 million, and a net increase in long-term debt of \$30.5 million.
- Accounts receivable decreased by \$10.3 million, reflecting Healthcare of Ontario Pension Plan overpayments recoverable of \$6.6 million in the prior year but not in the current year, and a lower receivable from ONE Health Information Technology Services for Meditech Expense infrastructure and implementation services of \$4.1 million.
- Capital assets increased by \$15.2 million, reflecting \$41.4 million of capital additions offset by \$26.1 million of amortization expense.
- Accounts payable and accrued liabilities increased by \$48.2 million, reflecting an increased balance payable to the Ministry of \$18.1 million, higher trade payables at year-end of \$23.7 million, higher salary accruals of \$4.8 million and lower deferred revenues of \$3.7 million.

- Deferred capital contributions increased by \$749,000, reflecting \$14.8 million of contributions received offset by \$14.0 million recognized as revenue.
- Long-term obligations (including current portion) increased by \$30.5 million, reflecting new borrowings of \$32.7 million for the EMR project and principal repayments of \$2.2 million.

That concludes my overview of the financial statements.

The Finance Committee and the Board review annually HSN's financial position and performance with historical benchmarking going back to the creation of the corporation in 1997, as well as benchmarking on 22 financial and operational indicators with 35 similar-sized Ontario hospitals. I would highlight the following:

- Our cash position at \$93.7 million is at its highest point in the last 26 fiscal years since the creation of the corporation. Eleven years ago, we had no cash in the bank and our bank indebtedness was \$42 million.
- Our net debt is \$7.3 million. This reflects a conservative approach with respect to the retroactive Bill 124 impacts, as only funding for liabilities awarded and paid to date are reflected in operating results for the year. HSN has been in a positive net assets position in only six of the last 25 fiscal years, with net debt as high as \$59.2 million 10 years ago and a 25-year median net debt of \$29.7 million.
- The median of comparator hospitals was net assets of \$89.7 million in 2022-2023.
- Our long-term obligations, which represent \$61.1 million or 8.8% of our revenues, are higher today than the average of the last 10 years, but below the maximum of \$76.7 million at the end of fiscal 2016-2017, and below the median of comparator hospitals, which was \$83.5 million in 2022-2023.
- Our working capital shortfall of \$42.3 million is an improvement compared to 11 years ago when it was \$102.3 million. We have received \$75.6 million in working capital relief since then. Due to our strong cash position, we were able to delay borrowing for capital expenses incurred for our regional EMR until the end of fiscal 2023-2024, which allowed us to save approximately \$3.0 million over recent fiscal years in unnecessary interest costs.
- The median of comparator hospitals was a working capital surplus of \$28.4 million in 2022-2023.

This concludes the financial report for the 2023-2024 fiscal year.