

**Department of Health financial statements**

**6B**

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## Introduction

In Part A, we recommend that the Department include in its annual report a complete set of financial statements prepared in accordance with Canadian generally accepted accounting principles. The purpose of this chapter is to further discuss the benefits of preparing these financial statements and to show what financial information we think should be included.

The Department of Health does not publish complete financial statements showing all of its assets, liabilities, revenues, and expenses. The Department's annual report (and the Public Accounts) shows most of the Department's revenues and expenses, but not its assets and liabilities.

We have prepared *pro forma* consolidated financial statements for the Department (see Exhibit 1). We have done this 1) to encourage the Department to prepare annual financial statements and 2) to help the Legislative Assembly and the public to understand the financial position and results of operations of the Department.

## Benefits of Department of Health financial statements

The Minister of Health is accountable to the Assembly for the financial position and the results of operations of our public health system. Financial statements for the Department would help the Assembly to assess the Minister's and the Department's financial management of the health system. The financial statements would include all organizations that the Minister is responsible for, i.e., the Department, the 32 health districts and five Crown agencies. These entities are listed in Note 3(a) to the financial statements set out in Exhibit 1.

Also, these financial statements would help the Minister and the Department's management to carry out their responsibilities. They need this information regularly to assess the Department's financial performance and to make decisions.

## Preparing the financial statements

We prepared the financial statements from information that was readily available. Information not readily available has been omitted. These *pro forma* financial statements have not been audited.

### Basis of accounting

The accounting and reporting principles used to prepare the *pro forma* financial statements in Exhibit 1 are based on recommendations of the Public Sector Accounting Board (PSAB) of The Canadian Institute of Chartered Accountants (CICA), except the *pro forma* financial statements include the Department's tangible capital assets on the Statement of Financial Position (SOFP). Currently, the CICA recommends showing information about tangible capital assets on a separate statement. The *pro forma* financial statements include the capital assets on the SOFP because that presentation results in better disclosure of the Department's total assets. This presentation is consistent with the summary financial statements of four other provincial governments in Canada that show capital assets on the SOFP. Further, the CICA is now proposing to financial statements preparers and auditors that its recommendations be amended to require inclusion of capital assets on the SOFP. Senior staff of the CICA advises us that the CICA is receiving generally positive feedback from preparers and auditors on this proposed recommendation.

### Accounting for transactions with the GRF

The Department of Health receives annual appropriations from the General Revenue Fund (GRF) to pay for the health system's operating and capital costs. The *pro forma* consolidated financial statements reflect GRF appropriations received by the Department as revenue.

### Costs borne by other government organizations

These financial statements are useful and a good first step. However, they would be more useful if the Government allocated all costs to the Department. To properly understand and assess the Department's performance, it is important for the accounting information collected and presented about the Department's activities to be complete and accurate. Information about the full cost of programs is needed.

Governments commonly direct their supervising agencies to pay for certain costs on behalf of individual agencies. For example, on behalf of several departments and agencies, the Department of Finance pays the employer's share of required contributions to employee pension plans and of premiums for Canada pension plan, employment insurance, and workers' compensation. The Government could easily allocate these direct costs to the agencies to which they relate. Other indirect costs may be more difficult to allocate. These indirect costs are borne by the supervising agencies that provide services for many agencies, such as legal services, banking services, central accounting and computer services, and human resource services.

One very significant cost that is not reflected as an expense of any department or Crown agency is the annual pension expense for the Public Service Superannuation Plan. This cost exceeds \$100 million each year.

Another significant item is the debt that the Department of Finance incurs for general government purposes, and the interest costs on that debt. Excluding debt and interest costs from the financial statements of departments reduces their usefulness.

Financial statements would be most useful if all of the costs were recognized. At a minimum, costs not recognized by the Department should be disclosed in the notes to its financial statements.

## **Developments outside Saskatchewan**

Some governments (e.g., United States, Australia, Alberta) currently prepare financial statements for their departments. In Alberta, the Public Accounts contain the annual report of the Government of Alberta and the annual reports of each of its ministries. Each ministry's annual report includes consolidated ministry financial statements as well as individual financial statements of the applicable department and other entities making up the ministry. Each Minister is held accountable for the performance results compared to the desired results set out in the ministry's business plan.

## Recommendation

We encourage the Department to prepare financial statements showing the total assets, liabilities, revenues and expenses that are the responsibility of the Minister of Health and the Department. This will improve public accountability and decision-making.

We also reported a similar matter in our 2000 Fall Report – Volume 3 relating to the Department of Agriculture. In March 2001, the Public Accounts Committee (PAC) considered this matter and did not concur with our recommendation. PAC noted that the Government currently provides financial accountability to the public through the Estimates, the Public Accounts, and the Mid-Year Report. In addition, the Government's accountability project is currently addressing performance management and accountability. Also, PAC noted that the CICA might report on this issue.

We think that the Government should report on the financial results of its key sectors such as Health. In Part A of this chapter, we recommend that the Department include a complete set of financial statements in its annual report prepared in accordance with Canadian generally accepted accounting principles for the public sector.

**Exhibit 1**

**Department of Health**

**Pro Forma  
Consolidated Financial Statements  
For the Year Ended March 31, 2001  
(unaudited)**

**DEPARTMENT OF HEALTH  
PRO FORMA  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
As at March 31  
(unaudited)**

	2001	2000
	(in thousands of dollars)	
<b>FINANCIAL ASSETS</b>		
Cash and temporary investments	\$ 136,536	\$ 104,853
Accounts receivable	38,297	48,652
Other investments (Note 3c)	40,994	46,395
Total financial assets	215,827	199,900
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 169,352	\$ 165,905
Bank loans	31,394	36,827
Deferred revenue (Note 5)	37,996	44,815
Long-term debt (Note 4)	94,753	92,103
Total liabilities	333,495	339,650
Net debt (Statement 3)	(117,668)	(139,750)
Tangible capital and other assets (Note 3d)		
Tangible capital assets (Note 3e and 6)	954,927	966,454
Inventory of supplies & prepaid expenses (Note 3f)	29,706	28,515
	984,633	994,969
Accumulated surplus (Statement 2)	\$ 866,965	\$ 855,219
Commitments (Note 10)		
Contingencies (Note 11)		

(See accompanying notes to the financial statements)



## Statement 2

**DEPARTMENT OF HEALTH  
PRO FORMA  
CONSOLIDATED STATEMENT OF OPERATIONS  
Year Ended March 31  
(unaudited)**

	<u>Budget</u> (Note 9)	<u>2001</u> (in thousands of dollars)	<u>2000</u>
<b>Revenue</b>			
Transfers from the General Revenue Fund	\$	\$ 2,075,650	\$ 1,955,736
Service fees revenue		109,288	99,513
Transfers from other governments		22,874	21,486
Donations		17,154	11,651
Investment income		11,512	10,645
Ancillary		18,098	17,450
Other		37,841	42,927
		<u>2,292,417</u>	<u>2,159,408</u>
<b>Expense</b>			
Acute services		863,969	832,180
Supportive care services		413,789	382,229
Medical services and education		401,221	383,590
Prescription drug plan and extended benefits		140,620	127,952
Home based services		90,996	86,402
Provincial health services		77,756	64,288
Mental health services		57,558	54,941
Community health services		53,169	51,695
Rehabilitation services		42,832	43,407
Emergency response services		34,876	25,156
Health improvement initiatives		27,356	25,320
Administration		20,266	35,490
Ancillary		12,162	12,128
Alcohol and drug services		13,176	12,584
Other		30,925	25,870
		<u>2,280,671</u>	<u>2,163,232</u>
Annual surplus (deficit)		11,746	(3,824)
Accumulated surplus, beginning of year		<u>855,219</u>	<u>859,043</u>
Accumulated surplus, end of year (Statement 1)	\$	<u>\$ 866,965</u>	<u>\$ 855,219</u>

(See accompanying notes to the financial statements)

**DEPARTMENT OF HEALTH  
PRO FORMA  
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT  
Year Ended March 31  
(unaudited)**

	2001	2000**
	(in thousands of dollars)	
Annual surplus (deficit)	\$ 11,746	\$ (3,824)
Purchase of tangible capital assets	(68,705)	
Amortization of tangible capital assets	80,232	
	11,527	
Acquisition of supplies inventory and prepaid expenses	**	
Consumption of supplies inventory and prepaid expenses	**	
	(1,191)	
(Increase) decrease in net debt	22,082	
Net debt, beginning of year	(139,750)	
Net debt, end of year (Statement 1)	\$ (117,668)	\$ (139,750)

\*\* information not readily available

(See accompanying notes to the financial statements)

**DEPARTMENT OF HEALTH  
PRO FORMA  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Year Ended March 31  
(unaudited)**

	2001	2000**
	(in thousands of dollars)	
<b>Operating activities:</b>		
Transfers from the GRF	\$ 2,075,650	\$
Transfers from other governments	22,874	
Service fees and other revenue received	193,893	
Salaries and benefits paid to employees	(1,055,423)	
Medical services and other operating costs paid to suppliers	(1,139,224)	
	97,770	
<b>Investing activities:</b>		
Sale of investments	5,401	
Purchase of tangible capital assets	(68,705)	
	(63,304)	
<b>Financing activities:</b>		
Proceeds from debt	2,650	
Increase (decrease) in cash	37,116	
Cash position, beginning of year	68,026	
Cash position, end of year	\$ 105,142	\$
Cash position is comprised of the following:		
Cash and temporary investments	\$ 136,536	\$ 104,853
Less bank loans	31,394	36,827
Total	\$ 105,142	\$ 68,026

\*\* information not readily available

(See accompanying notes to the financial statements)

**DEPARTMENT OF HEALTH  
PRO FORMA  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2001  
(unaudited)**

**1. Legislative Authority**

The Department of Health is continued under *The Department of Health Act (Act)*. The Minister of Health is responsible for the Department and all of its Crown agencies. According to the Act, the Minister and the Department are to promote the health of the people of Saskatchewan.

**2. Mandate**

The Department's mandate is to support Saskatchewan people to achieve their best possible health and well-being. The Department's annual report explains how it carries out its mandate.

**3. Significant Accounting Policies and Reporting Practices**

The Department is responsible for preparing these consolidated financial statements in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants (CICA). These financial statements are in accordance with CICA recommendations, except they include the Department's tangible capital assets on the Statement of Financial Position (SOFP). Currently, the CICA recommends showing information about tangible capital assets on a separate statement. The pro forma financial statements include the capital assets on the SOFP because that presentation results in better disclosure of the Department's total assets.

a) Reporting entity and consolidation principles

These consolidated financial statements include the accounts of the departmental entity (Saskatchewan Health) and the accounts of the following Crown agencies that are accountable to, and are the responsibility of, the Minister of Health. For further information, readers should refer to the individual financial statements of these agencies that are prepared annually. Financial statements for the 32 district health boards may be obtained from the respective districts. For those districts with foundations, the foundation's financial statements may also be obtained from the respective districts. Financial statements for the other Crown agencies are submitted annually to the Legislative Assembly and may be obtained from the respective Crown agencies.

Crown Agencies

32 district health boards (including St. Paul's Hospital (Grey Nuns) of Saskatoon) and their foundations, where applicable  
Saskatchewan Cancer Foundation  
Saskatchewan Health Information Network

Health Services Utilization and Research Commission  
St. Louis Alcoholism Rehabilitation Centre Inc.  
Board of Governors, Uranium City Hospital

All of the Department's Crown agencies are government service organizations. They are accounted for using the accounting policies described below. In addition, significant transactions and balances between these entities are eliminated.

In these financial statements, the term "Department" is used to collectively describe the activities of the entire reporting entity.

b) Accrual Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. This reflects transactions when they occur, rather than when they are settled.

c) Investments

Investments are recorded at cost, which approximates fair value.

d) Other assets

In the public sector, recognition and valuation of tangible capital assets and other non-financial assets are based on their service potential. For the most part, such assets do not generate future net cash inflows. Therefore, these assets will not provide resources to discharge the liabilities of the government. For government non-financial assets, the future economic benefit consists of their capacity to render service to further the government's objectives.

e) Tangible capital assets

These financial statements report financial results on the expense basis. Accordingly, tangible capital assets, with a life exceeding one year, are amortized on a straight-line basis over their useful lives.

f) Inventory

Inventory consists of medical and surgical supplies, drugs, and other supplies. All inventories are valued at cost, determined either on an average cost basis or on the first in, first out, basis.

g) Revenue

Revenues are recorded on the accrual basis of accounting. Government transfers (e.g., transfers from the General Revenue Fund (GRF)) are recognized as revenue in the period during which the transfer is authorized and any eligibility criteria are met. Amounts received for which goods or services have not been provided, or for which the related expenses have not been incurred, are recorded as deferred revenue.

h) Employee pension and benefit costs

These financial statements do not reflect the cost of benefits that are paid for by the Department of Finance. This includes a portion of the employer's share of the costs

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related to the Government's pension plans (the Public Service Superannuation Plan (PSSP) and the Public Employees Pension Plan (PEPP)), the Canada pension plan, employment insurance, workers' compensation, and dental and life insurance plans.

i) Transfers to organizations and individuals

Authorized entitlements to eligible recipients are recognized as expenses when entitlements become due, if the amounts can be reasonably estimated (e.g., supplementary health benefits).

Grants are recorded as expenses when they have been approved and the eligibility criteria, if any, have been met by the recipient.

### 4. Long-term Debt

These financial statements show only part of the Department's debt. The Department of Finance administers most debt on behalf of all government departments. The Government incurred this debt to pay for departments' capital assets and annual operating deficits. There is currently no process for allocating Saskatchewan Health's share of this debt. Therefore, no provision has been made in these financial statements for this debt, and related financing costs, pertaining to Saskatchewan Health.

For the debt recorded in these financial statements, most of it consists of mortgages issued to district health boards to finance the acquisition of health facilities. A number of mortgages are held by Canada Mortgage and Housing Corporation (CMHC). For most mortgages, the boards have pledged the related buildings as security. Stated interest rates vary from 5.125% to 10.5% per annum. As CMHC subsidizes most of the mortgages, the effective interest rates for subsidized mortgages are considerably lower than the stated rates.

Required principle repayments are as follows (in thousands of dollars):

2002	\$ 4,495
2003	4,219
2004	3,436
2005	3,647
2006	3,700
Thereafter	75,256

### 5. Deferred Revenue

Included in deferred revenue are community trust funds totalling \$21.6 million at March 31, 2001 (2000 - \$24.2 million). The community trust funds represent assets transferred to the district health boards in accordance with pre-amalgamation agreements signed with amalgamating health corporations. The assets include cash and investments initially accumulated by health corporations in the districts from donations or municipal tax levies. These community trust fund assets are subject to restrictions set out in the pre-amalgamation agreements.

Deferred revenue also includes \$5.9 million received in advance from the Federal Government for the construction of the Fort Qu'Appelle Indian Hospital and the Athabasca Health Authority hospital in Stony Rapids. Deferred revenue is recorded as revenue as the related costs are incurred.

**6. Tangible Capital Assets**

	Land and Improvements	Buildings	Equipment	Totals 2001	Totals 2000**
	(in thousands of dollars)				
Estimated useful life	5-40 yrs	10-40 yrs	3-20 yrs		
Cost, beginning of year	\$ 21,250	\$ 1,198,553	\$ 544,532	\$ 1,764,335	\$
Additions	672	42,267	25,766	68,705	
Disposals	---	---	---	---	
Cost, end of year	<u>21,922</u>	<u>1,240,820</u>	<u>570,298</u>	<u>1,833,040</u>	
Accumulated amortization, beginning of year	8,166	416,226	373,489	797,881	
Amortization	460	40,530	39,242	80,232	
Disposals	---	---	---	---	
Accumulated amortization, end of year	<u>8,626</u>	<u>456,756</u>	<u>412,731</u>	<u>878,113</u>	
Net book value	<u>\$ 13,296</u>	<u>\$ 784,064</u>	<u>\$ 157,567</u>	<u>\$ 954,927</u>	<u>\$ 966,454</u>

\*\* information not readily available

**7. Related Party Transactions**

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards, and commissions related to the Department by virtue of common control or significant influence by the Government of Saskatchewan.

Routine operating transactions with related parties are settled at the standard rates charged by those agencies and are settled on normal trade terms. These transactions are as follows (in thousands of dollars):

	<u>2001</u>	<u>2000</u>
Revenue	information not readily available	
Expenses		
Accounts receivable		
Accounts payable		

Other transactions and amounts due to or from related parties are disclosed separately in these financial statements and the notes thereto.

Saskatchewan Health receives certain services from other departments without charge including legal services, banking services, central accounting and computer services, and human resource services. Due to the difficulty in allocating the cost of these services to individual departments, no provision for such costs has been included in these financial statements.

**8. Pension Plans**

Employees of the Department participate in one of three pension plans operated by related parties: the retirement plan of the Saskatchewan Association of Health Organizations

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(SAHO), the Public Service Superannuation Plan (PSSP), and the Public Employees' Pension Plan (PEPP).

The SAHO plan is a multi-employer defined benefit plan that is the responsibility of SAHO. PSSP is also a defined benefit plan (closed to new members in 1977) that is the responsibility of the Government of Saskatchewan. PEPP is a defined contribution plan that is also the responsibility of the Government of Saskatchewan.

The pension expense pertaining to PEPP is an amount slightly greater than the amounts employees must contribute for current service. This cost is paid from the Department of Finance's appropriation for Saskatchewan Health employees (therefore no expense has been recorded in these financial statements). The Crown agencies contribute to PEPP and SAHO plans on behalf of their employees.

Like all departments, Saskatchewan Health does not pay for the cost of PSSP. The Department of Finance pays from its appropriation, on Saskatchewan Health's behalf, the pension allowances to retired employees when they become due. No liability for pension plans relating to Saskatchewan Health's employees has been recorded in these financial statements.

### **9. Budget**

The Department did not prepare a consolidated budget for 2001 that includes all of the entities it controls. The Government's Estimates only include budget figures for Saskatchewan Health. Individual entities prepare budgets for their own operations. For a comparison of budget to actual amounts for entities in the reporting entity, readers should refer to Volume 2 of the Public Accounts, the Financial Statements Compendium, and to the individual entities' financial statements.

Financial resources were administered by the Department in accordance with the legislation.

### **10. Commitments**

Minimum annual lease payments required by operating leases on property and equipment over the next five years are as follows (in thousands of dollars):

2002	\$ 7,084
2003	6,836
2004	6,716
2005	5,801
2006	5,752

### **11. Contingencies**

Several health districts are defendants to claims that have been brought against them because of their medical operations. The districts think these claims are without merit and, accordingly, have not made any provision for losses in their accounts. All claims, except for one in the amount of \$6 million, are covered by insurance. Settlements, if any, in excess of insurance coverage, would be accounted for as a charge against operations in the period in which the settlements arise.



Regina District Health Board and Worker's Compensation Board (WCB), a related party, jointly constructed the Wascana Rehabilitation Centre for their shared use. The district manages the facility. Should WCB wish to terminate this agreement, the District must return WCB's funding contribution, less amortization over a 40 year term. At March 31, 2001 that amount is \$8.4 million.

**12. Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- The carrying amounts of these financial instruments approximate fair value due to their immediate or short-term nature.
  - cash and temporary investments
  - accounts receivable
  - accounts payable and accrued liabilities
  - bank loans
- For other investments, the fair value is considered to approximate quoted market values.
- The fair value of debt payable is \$94.1 million and is determined using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements.

**13. Trust Funds**

The Department administers funds held in trust for patients and residents, for clinical research and for other purposes. The total cash held in trust at March 31, 2001 was \$4.2 million. These amounts are not reflected in the financial statements.

**14. Restricted Accumulated Surplus**

There are restrictions placed on \$2.5 million of the entity's accumulated surplus by funding contributors that the districts are to use for research and equipment purchases.

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**15. Expenses By Object**

	<u>2001</u>	<u>2000</u>
	(in thousands of dollars)	
Salaries and benefits	\$ 1,059,684	\$ 1,013,994
Operating costs *	382,680	361,347
Medical services	399,827	374,575
Prescription Drug Plan	99,062	85,466
Transfers to other health care providers	149,046	139,526
Canadian Blood Services	25,173	22,803
Saskatchewan Aids to Independent Living	21,052	18,917
Medical education	19,703	21,105
Supplementary health benefits	17,286	17,237
Interest	8,688	7,750
Amortization	80,232	82,875
Other	18,238	17,637
<b>Total</b>	<b><u>\$ 2,280,671</u></b>	<b><u>\$ 2,163,232</u></b>

\* Costs include medical & surgical supplies and drugs, utilities, repairs and maintenance, food, prosthetics, and housekeeping and laundry supplies. Due to inconsistencies in how the districts and Crown agencies report these expenses in their financial statements, an accurate breakdown of these costs is not readily available.

**16. Reconciliation to Summary Financial Statements**

(in thousands of dollars)

Summary Financial Statements (SFS) health expenditure	\$ 2,223,259
Difference in tangible capital asset, inventory, and district health board foundations accounting policies	16,105
Inter-entity expense eliminations and adjustments within the SFS reporting entity not recorded in health's financial statements	32,835
Other	<u>8,472</u>
<b>Total expense per health financial statements (Statement 2)</b>	<b><u>\$ 2,280,671</u></b>