

## Appendix 5: FINANCIAL DATA SOURCES AND CONSIDERATIONS

The Commission used two primary data sources to provide current and historical financial data: the Medicare Cost Report (Worksheet G), and audited financial statements.

The Medicare Cost Report is an annual report submitted to the Centers for Medicare and Medicaid Services (CMS) by all Medicare providers (any hospital that receives federal Medicare/Medicaid funds). The report is comprehensive – hospitals report total costs, not just Medicare costs – and requires information on administrative structure, staffing and utilization of services, as well as financial data. Medicare Cost Reports are maintained in the Healthcare Cost Report Information System (HCRIS), a national data reporting system. Currently, the most recent data available for all hospitals is for FY 2005.

The New Jersey Health Care Facilities Financing Authority (NJHCFFA), the State's primary issuer of municipal bonds for New Jersey's health care organizations, provided hospitals and hospital systems' audited financial statements. During its 35-year history, the NJHCFFA has issued more than \$13 billion in bonds on behalf of over 140 health care organizations throughout the State. New Jersey hospitals submit audited financial statements to NJHCFFA for review and inclusion in a database used for on-going monitoring and analysis. Although FY 2005 is the most current year for which NJHCFFA has a complete set of audited reports, as of November 2007, all but 11 hospitals have submitted their FY 2006 audited financial data to NJHCFFA.

The Medicare Cost Reports have the advantage of providing a national database, collected through a standardized form, which allows for state-by-state comparisons. However, an independent party does not

review the reports. Further, inconsistent or incomplete reporting of certain financial elements limits the ability to calculate key financial ratios. For example, reporting non-operating gains and losses is not consistent across hospitals, which limits the ability to compare operating and total margins from facility to facility. In addition, this will cause the operating margin to be equal to or greater than the total margin. As another example, the Medicare Cost Report does not include a line item for board-designated funds; without this element, days cash-on-hand as conventionally defined cannot be calculated.

Audited financial statements are reviewed by an independent third party. Further, the requirement that the statements be prepared in accordance with Generally Accepted Accounting Principles (GAAP) reduces the inconsistency in reporting of financial elements from hospital to hospital. However, with few exceptions, it is difficult to get state-by-state data based on audited financial statements.

The primary value of unaudited statements is that they are usually available within 45 to 60 days from the end of a period. In contrast, audited financial statements are not usually available until 120 to 150 days after the fiscal year ends; cost reports are usually not available until six or more months after the year ends. Thus, unaudited statements will typically provide the most current picture of a hospital's financial condition. The primary disadvantage of unaudited statements is that they have not been reviewed by an independent outside party. In some cases, there may be material differences between the unaudited and audited statements based on the findings of that outside review. Therefore, unaudited statements should be analyzed with caution.

