



## Guam Memorial Hospital Authority FY 2017 Financial Highlights

July 3, 2018

The Guam Memorial Hospital Authority (GMHA) closed fiscal year (FY) 2017 with a \$1.9 million (M) decrease in net position (net loss), accumulating to GMHA's negative \$80.1M net position. Certain FY 2016 accounts had to be restated in order to report pension liabilities, ad hoc Cost of Living Allowance (COLA), supplemental annuity payments, and pension expense, according to the Governmental Accounting Standards Board (GASB) Statement No. 73. This restatement reduced GMHA's previously reported FY 2016 net income of \$40.0M to \$35.5M. FY 2016's net income resulted because of the \$49.9M influx from the Limited Obligation (Section 30) Bonds, compared to the \$15M received in FY 2017.

Independent auditors, Deloitte & Touche, LLP issued unmodified (clean) opinions on GMHA's FY 2017 financial statements and compliance for major federal programs. However, emphasis were made on GMHA's ability to continue as a going concern and the restatement of FY 2016 financial statements due to the implementation of GASB 73.

### Decreases in GMHA Revenues and Expenses

Operating revenues decreased by \$6.7M or 7% from \$98.9M in FY 2016 to \$92.2M, due mainly to decreases in net Medicaid patient service revenue. In addition, transfers from the Government of Guam decreased by \$44.4M or 64% due mainly to the following decreases in appropriation or subsidy: Section 30 Bond Fund by \$34.9M; Healthy Futures Fund by \$7.2M; and General Fund by \$2.3M.

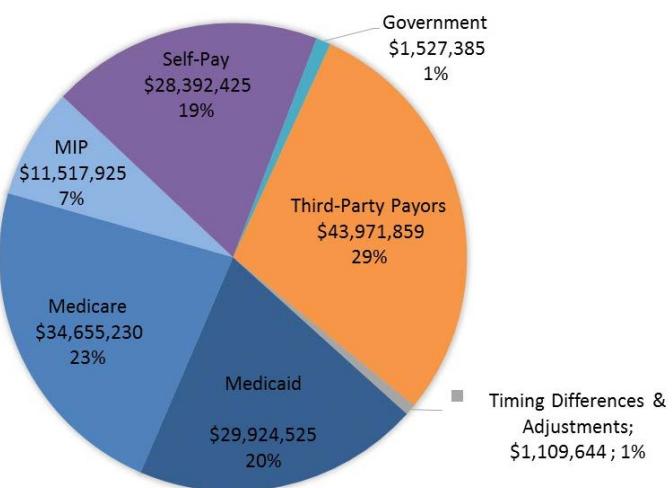
Operating expenses decreased by \$14.4M or 11% from \$134.3M in FY 2016 to \$119.9M due mainly to a decrease in fringe benefits for the nursing, professional support, administration, administrative support, and fiscal services departments, which resulted from adjustments to net pension liability.

### Substantial Doubt about Going Concern

With uncompensated care provided to those without insurance or the underinsured, and the Medicare reimbursement rate at only 54% of the costs of delivering service care, GMHA is in constant need of government subsidy. While the hospital continues to provide patient care regardless of one's health insurance coverage or ability to pay, GMHA's recurring losses and negative operating cash flows raise substantial doubt about its ability to continue as a going concern.

In FY 2017, GMHA's gross patient service revenue was \$151.1M but after contractual

2017 GROSS PATIENT BILLINGS



adjustments and provisions for uncollectible accounts, net patient service revenue was \$88.2M. GMHA's patient/payer mix consists mainly of the 3 M's [Medicaid, Medicare, and Medically Indigent Program (MIP) patients], self-pay patients, and third-party payers (health insurance companies).

**The 3 M's.** Services to patients covered by Medicaid, Medicare, and MIP made up 50% of GMHA's gross patient billings in FY 2017, and averaged \$86.4M/year over the past five years (from FY 2013 through FY 2017).

**Self-Pay Patients.** Services to patients who were underinsured or without health insurance coverage made up 19% of gross patient billings in FY 2017, and averaged \$27.5M/year over the past five years. In addition to using a collection agency to collect on self-pay receivables, GMHA continues to refer patient receivables to the Department of Revenue and Taxation (DRT). From the accounts referred to DRT, GMHA collected \$4.0M in FY 2017 and \$8.5M in FY 2016.

**Third-Party Payors.** Services to patients with health insurance coverage represented only 29% of gross patient billings in FY 2017, and averaged \$41.7M/year over the past five years. Out of five insurance carriers, from FY 2013 through FY 2017, GMHA's largest insurance carrier was billed an average of \$19.6M/year.

For every \$1 billed to patients, GMHA collects the following:

	<b>5-Year Average</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>3M's (Medicaid, Medicare, &amp; MIP)</b>	46 ¢	41 ¢	51 ¢	43 ¢	50 ¢	45 ¢
<b>Self-Pay</b>	42 ¢	46 ¢	43 ¢	40 ¢	39 ¢	44 ¢
<b>Third-Party Payors</b>	71 ¢	88 ¢	68 ¢	65 ¢	66 ¢	70 ¢

With an average collection of only 53¢ for every \$1 billed to all patients over the past five years, GMHA is in constant need of government subsidy.

#### ***Medicare Reimbursement Rate Significantly Lower Than Current Costs of Services***

In FY 2017, the actual cost per discharge was \$14,839, with Medicare reimbursement at \$8,051 per discharge, or 54% of actual costs. GMHA receives Medicare reimbursements on a per diem rate that is based on GMHA's cost 23 years ago. Medicaid and MIP closely mirror Medicare payment methodology. On separate occasions, GMHA submitted to the U.S. Centers for Medicare and Medicaid Services (CMS) applications to update Medicare reimbursement rates but was denied each time. GMHA has also requested additional reimbursements through the Adjustments approach but this process delays reimbursements by up to 4 years.

#### **Compliance Report and Management Letter**

Even with clean opinions, the independent auditors identified a material weakness concerning GMHA's patient receivables. Particularly, the finding concerned \$220M of receivable write-offs that had not been reflected in the subledgers, analysis and schedule of receivable suspense accounts not completed, and late billing after patient discharge. Management letter comments identified seven deficiencies and other matters in GMHA's internal control over financial reporting; and six deficiencies concerning GMHA's internal control over its information technology environment.

For a more detailed commentary on GMHA's operations, see the Management's Discussion and Analysis in the audit report at [www.opaguam.org](http://www.opaguam.org) and [www.gmha.org](http://www.gmha.org).