

GUAM MEMORIAL HOSPITAL AUTHORITY

**(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Memorial Hospital Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2013 and 2012, the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Memorial Hospital Authority as of September 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that GMHA will continue as a going concern. As discussed in note 16 to the financial statements, GMHA has incurred recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 as well as the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other than Pension on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

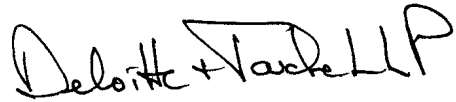
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenses, patient service revenues by patient classification, and billings and collections and reconciliation of billings to gross patient revenues on pages 37 to 41 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of expenses, patient service revenues by patient classification, and billings and collections and reconciliation of billings to gross patient revenues are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenses, patient service revenues by patient classification, and billings and collections and reconciliation of billings to gross patient revenues are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of full time employee count on page 42 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2014 on our consideration of GMHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GMHA's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 27, 2014

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

INTRODUCTION

Guam Memorial Hospital Authority ("GMHA"), a component unit of the Government of Guam ("GovGuam"), was created on July 26, 1977 under Public Law 14-29 as an autonomous agency of GovGuam. GMHA owns and operates the Guam Memorial Hospital (the "Hospital"). The Hospital provides acute, outpatient, long term and emergency care services to all patients who seek medical services at the Hospital.

The following Management's Discussion & Analysis (MD&A) of GMHA's activities and financial performance will serve as an introduction and overview of the audited financial statements of the Hospital for the fiscal years ended September 30, 2013 and September 30, 2012. The information contained in the MD&A has been prepared by management and should be considered with the financial statements and the notes which follow this section.

OVERVIEW OF THE FINANCIAL RESULTS

SUMMARY

In order to meet its mission "to provide quality patient care in a safe environment", GMHA requires all insurers to adequately fund the Hospital. In addition, GovGuam must provide economic relief for the Hospital's services to un-insured patients.

In Fiscal 2013 as in previous years, GMHA did not receive adequate reimbursement from the federal and Guam governments. Reimbursement from local and off-island insurers was below GMHA's cost to provide clinical services.

Lacking adequate reimbursement, GMHA cannot:

- Meet payroll and employee benefit obligations to its physicians and employees
- Negotiate advantageous purchasing terms for goods and services and make timely payments to vendors
- Purchase clinical equipment and technology or make improvements to the Hospital's infrastructure

Auditors from the U.S. Department of the Interior Office of the Inspector General reviewed GMHA's fiscal operations and cash flow in the first calendar quarter of 2013. In their closing conference, the audit team confirmed that GMHA's efforts to improve cash flow – as explained in the following commentary – were appropriate.

Fiscal 2013 was a challenging year as inadequate cash flows severely jeopardized GMHA's ability to provide basic patient care. The "Statements of Cash Flows" on page 15 shows negative cash flows from operations of \$11,765,171 for the year ended September 30, 2013.

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Catastrophic cash flow shortages in the months of July through September 2013, when GMHA lost 52% (\$3.6 million) of its average monthly cash receipts, impacted GMHA's viability.

- From July through September 2013, the Federal Government's Department of the Treasury garnished Medicare remittances because of GMHA's outstanding \$6 million liability to the Health and Human Services distributor Program Support Center (a/k/a "Perry Point"). The garnished Medicare remittances were applied towards the Perry Point liability.

Through the combined efforts of Congresswoman Bordallo, Governor Calvo, Guam senators and GMHA leaders, Perry Point lifted the garnishment in late September 2013.

- From early July through September 2013, Guam's Department of Public Health and Social Services (DPHSS) stopped reimbursing GMHA. GMHA's leaders learned that the Medicaid and Medically Indigent Program (MIP) had exhausted their Fiscal 2013 appropriations.

GovGuam advanced \$1.8 million in August 2013 and, again, in September 2013. These advances allowed GMHA to meet net payroll obligations. However, these advances were inadequate to allow GMHA to pay vendors – leading to an increasing liability to vendors who provided goods and services.

When GMHA leaders presented its balanced Fiscal 2014 budget to the Governor and to the Legislature in July 2013, GMHA identified fundamental changes to funding including:

1. Reimbursement from Medicare, Medicaid and MIP at GMHA's cost to provide the services
2. Adequate funding for the Medicaid and MIP programs. The Governor and the Legislature must ensure funds are appropriated to reimburse GMHA at its costs
3. Improved reimbursement from Guam insurers
4. GovGuam appropriations to fund GMHA's services to the self- and un-insured patients
5. GovGuam appropriations ensure GMHA had adequate funds for operating and capital expenditures

The Fiscal 2014 appropriations budget did not provide adequate funding for GMHA or its programs. GMHA's leaders are very concerned that Fiscal 2013 funding shortfalls will be repeated in Summer 2014.

In presentations to the Governor and the Legislature, GMHA's trustees and executive leaders have consistently identified the following funding and operational issues:

1. Medicare reimbursements are based on historical (1992-1994) financial data that is no longer relevant.

In Summer 2013, GMHA released a Request for Proposal ("RFP") for a firm to correct Medicare's funding methodology – "re-basing" is the term used for this process. GMHA contracted with EOP Group, LLC, a Washington, D.C. consulting firm, to correct Medicare's reimbursement under TEFRA. EOP Group is reviewing GMHA's financial records and organizational changes that affected the Hospital's costs. EOP Group expects to submit its recommendations to CMS in Fall 2014.

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2. Medicaid and MIP reimbursements are inadequate because of a) DPHSS' reimbursement methodology, and b) inadequate funding in the GovGuam fiscal appropriations budget.

Medicaid and MIP reimbursements mirror Medicare reimbursement. Since Medicare's payments are below GMHA's cost, Medicaid and MIP's payments are also below GMHA's cost to provide the services. GMHA plans to submit legislation to change Medicaid's and MIP's health plans to correct this funding shortfall.

Revision to Public Health's Per Diem Reimbursement

When Medicare changes GMHA's interim per diem reimbursement, DPHSS should make like changes.

GMHA's leaders received Medicare's notification of an increased interim per diem in May 2013 with the payment change retro-active to October 1, 2012. In July 2013, GMHA asked DPHSS to increase its per diem reimbursement from \$1,000 to \$1,100 to match Medicare's new interim per diem rate.

In addition, GMHA asked DPHSS to revise its per diem reimbursement retro to October 1, 2012. GMHA requested additional reimbursement for 1,868 patient encounters with a total length of stay of 8,184 days. GMHA could not confirm DPHSS paid the full \$818,400 (8,184 times \$100).

"Settlement" when GMHA Costs Exceed Reimbursement

Medicaid's and MIP's reimbursements were \$4 million below GMHA's "cost" to provide the services. While Medicare pays a portion of the difference between GMHA's costs and Medicare's reimbursement, Medicaid and MIP do not reimburse GMHA a portion of the reimbursement shortfall.

Adequate Appropriations for Medicaid and MIP

Medicaid and MIP exhausted appropriated funds in July 2013 – leaving GMHA and other healthcare providers without reimbursement of claims. GovGuam must adequately budget and fund DPHSS's Medicaid and MIP programs to ensure GMHA, its physicians and other Guam healthcare providers are reimbursed for clinical services.

3. GovGuam must provide financial support for GMHA's services to self-pay or un-insured patients – whether the patient's origin is from Guam or from another location. As a not-for-profit hospital, GMHA must follow the EMTALA (Emergency Medical Treatment & Labor Act) mandate to provide care to all patients who seek care. In Fiscal 2013, GMHA had \$26.4 million of claims for services to self- and un-insured patients for which GMHA received \$5.6 million from self- and un-insured patients – leaving \$20.9 million as uncompensated care.
4. Under-funding from prior years and Fiscal 2013 has led to a \$24 million liability to local and off-island vendors for supplies and services including \$6 million owed to Program Support Center (a/k/a Perry Point), a federal government supplier. Frustrated vendors have raised prices to GMHA or have withheld deliveries of needed supplies and services.

The Governor of Guam committed \$2 million from Guam's annual receipt of the Department of the Interior "Compact Impact" funds to allow GMHA to increase its debt financing to \$25 million. GMHA worked with Guam's Economic Development Authority ("GEDA") to expand its debt and re-finance outstanding bank debt. The financing was completed in February 2014.

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The financing transaction is explained in the footnotes to the financial statements. The additional \$14 million debt, however, is inadequate to pay all vendors or to provide working capital to GMHA to meet monthly cash needs.

5. GovGuam imposes mandates that affect GMHA's operations and cash flow:
- a. GMHA makes a full 30% contribution to the retirement fund even though GMHA is only required to match 5% for the majority of its employees who are enrolled in the Defined Contribution retirement plan. This mandate costs GMHA over \$6 million each year.

In April 2013, GMHA identified 772 employees in the Defined Contribution plan for whom GMHA made the 30.09% contribution to Guam's Retirement Plan.

In its Fiscal 2015 budget, GMHA asked GovGuam to remove the additional 25% (30% less 5%) burden.

- b. Two GovGuam decisions have significantly impacted GMHA's employment costs without funding for the incremental expenditures. In May 2013, GovGuam lifted the salary freeze that had been in place from October 2011 – resulting in \$3.6 million of additional expenses. GovGuam also implemented the Hay Study compensation guidelines in February 2014 with incremental costs exceeding \$2.5 million.
- c. Generous GovGuam annual leave and sick leave benefits create an annual obligation exceeding 150,000 hours – equal to 78 employees.
- d. Procurement and request-for-proposal regulations prevent GMHA from securing the most advantageous prices on a timely basis.

GovGuam's procurement regulations mandate a Request for Proposal ("RFP") when the proposed purchase exceeds \$15,000. These regulations result in a 4-5 month lag to complete the RFP process. With budgeted non-personnel expenses of \$30 million (Fiscal 2013) or \$42 million (Fiscal 2014 excluding \$20 million payment to vendors), GMHA has many expenditures that exceed \$15,000 – leading to a time-consuming process to ensure the most competitive pricing.

6. Commercial insurers can support GMHA. GMHA has recommended changes to fees for the hospital's and physicians' services. GMHA is re-negotiating contracts with Guam insurers that have not been updated from 2006.

GMHA's business practices, which have not changed in decades, impede the Hospital's ability to reduce costs and improve cash flows.

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Summarized Statements of Net Position

<u>Assets</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 29,299,115	\$ 39,508,502	\$ 47,323,955
Capital assets, net	<u>40,182,567</u>	<u>37,198,296</u>	<u>36,577,600</u>
Total assets	\$ <u>69,481,682</u>	\$ <u>76,706,798</u>	\$ <u>83,901,555</u>
<u>Liabilities and Net Position</u>			
Liabilities:			
Current liabilities	\$ 41,333,134	\$ 33,939,349	\$ 48,894,791
Long-term liabilities	<u>15,557,950</u>	<u>15,892,168</u>	<u>16,393,814</u>
Total liabilities	<u>56,891,084</u>	<u>49,831,517</u>	<u>65,288,605</u>
Net Position:			
Net investment in capital assets	40,182,567	37,198,296	36,577,600
Unrestricted	<u>(27,591,969)</u>	<u>(10,323,015)</u>	<u>(17,964,650)</u>
Total net position	<u>12,590,598</u>	<u>26,875,281</u>	<u>18,612,950</u>
Total liabilities and net position	\$ <u>69,481,682</u>	\$ <u>76,706,798</u>	\$ <u>83,901,555</u>

Summarized Statements of Revenues, Expenses, and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 69,867,610	\$ 85,620,011	\$ 69,850,260
Operating expenses	<u>103,638,656</u>	<u>103,498,644</u>	<u>105,785,724</u>
Operating loss	(33,771,046)	(17,878,633)	(35,935,464)
Non-operating revenues (expenses), net	<u>13,147,749</u>	<u>22,221,069</u>	<u>4,856,280</u>
(Loss) income before capital grants and contributions	(20,623,297)	4,342,436	(31,079,184)
Capital grants and contributions:			
GovGuam	5,524,790	1,270,592	1,407,210
Federal grants	<u>813,824</u>	<u>2,649,303</u>	<u>983,283</u>
Change in net position	(14,284,683)	8,262,331	(28,688,691)
Net position at the beginning of the year	<u>26,875,281</u>	<u>18,612,950</u>	<u>47,301,641</u>
Net position at the end of the year	\$ <u>12,590,598</u>	\$ <u>26,875,281</u>	\$ <u>18,612,950</u>

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OPERATIONS DATA

The following two tables provide comparative information about GMHA's charges and patient days by major insurer group for Fiscals 2012 and 2013:

Fiscal 2012 and Fiscal 2013 Gross Charges by Insurer Category (in \$ Millions)

<u>Description</u>	<u>Total</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>MIP</u>	<u>Insurer</u>	<u>Self</u>
In-Patient						
2013	\$ 93.9	\$ 25.4	\$ 16.2	\$ 7.4	\$ 26.8	\$ 18.1
2012	\$ 94.4	\$ 26.4	\$ 13.9	\$ 9.0	\$ 25.1	\$ 20.0
Out-Patient						
2013	\$ 20.4	\$ 2.5	\$ 6.5	\$ 1.6	\$ 6.0	\$ 3.8
2012	\$ 22.1	\$ 2.6	\$ 5.0	\$ 2.5	\$ 6.5	\$ 5.5
SNU						
2013	\$ 5.6	\$ 2.5	\$ 0.9	\$ 0.4	\$ 1.3	\$ 0.5
2012	\$ 5.9	\$ 2.4	\$ 0.8	\$ 0.8	\$ 1.2	\$ 0.7
Sub-Total – Facilities						
2013	\$ 120.0	\$ 30.4	\$ 23.6	\$ 9.4	\$ 34.1	\$ 22.5
2012	\$ 122.6	\$ 31.4	\$ 19.7	\$ 12.3	\$ 32.9	\$ 26.3
Physician Professional Services						
2013	\$ 21.2	\$ 3.8	\$ 5.9	\$ 2.4	\$ 5.2	\$ 3.9
2012	\$ 22.0	\$ 3.5	\$ 4.8	\$ 3.0	\$ 5.4	\$ 5.3
GMHA Total						
2013	\$ 141.1	\$ 34.2	\$ 29.5	\$ 11.7	\$ 39.3	\$ 26.4
2012	\$ 144.6	\$ 34.9	\$ 24.5	\$ 15.3	\$ 38.3	\$ 31.6

This table shows:

- The Hospital's charges to self-pay patients fell 16% as the Hospital's obstetrics and nursery days dropped 950 patient days.
- Charges to Medicaid patients increased 20% while patient days, as shown in the following table, increased 43% from Fiscal 2012 to Fiscal 2013.

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Fiscal 2012 and Fiscal 2013 Patient Days for Hospital and Skilled Nursing Unit

<u>Description</u>	<u>Total</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>MIP</u>	<u>Insurer</u>	<u>Self</u>
Acute I/P						
2013	49,750	12,376	11,032	4,034	13,668	8,640
2012	48,501	12,464	7,707	4,540	13,179	10,611
SNU						
2013	8,691	3,487	1,475	773	1,792	1,164
2012	10,359	3,936	1,364	2,018	2,049	992

FINANCIAL RESULTS

GMHA's fiscal 2013 operating loss of \$33.8 million was greater than the \$17.9 million operating loss in fiscal 2012. GMHA recognized a further deterioration in the collections from self-pay and un-insured patients by reducing its estimated collections from 20% (Fiscal 2012) to 5% (Fiscal 2013). While GMHA successfully collected \$400,000 in Summer 2013 from an amnesty payment program, these collections paled in comparison to the total receivables from self-pay and un-insured patients:

	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
Receivables from self-pay patients	\$ 30.2 million	\$ 24.1 million
Receivables placed with collection agencies	51.3 million	46.7 million
Receivables placed with DRT	<u>79.8 million</u>	<u>78.8 million</u>
Total self-pay receivables	\$ 161.3 million	\$ 149.6 million
Charges to self-pay and un-insured patients	\$ 26.4 million	\$ 31.6 million
Collections from patients, collections agencies and DRT (GMHA received \$12 million in fiscal 2012 after DRT received proceeds from bond financing)	\$ 6.3 million	\$ 16.7 million
Percentage of collections compared to receivables	3.9%	11.2%

Comment about Medicare Reimbursement

In previous audit reports, GMHA discussed GMHA's Medicare reimbursement as dictated by TEFRA regulations. When, in 1982, Congress passed the Tax Equity and Fiscal Responsibility Act (TEFRA), hospitals in U.S. territories including Guam were reimbursed based on the cost of treating Medicare patients as determined by the Medicare Cost Report.

Medicare defined an aggregate reimbursement per Medicare discharge that was based on the facility's 1982 cost of care. After "re-basing" its reimbursement in 1999 to 1992-1994 cost, Medicare has not modified the reimbursement per discharge.

After releasing a request-for-proposal in late Fiscal 2013, GMHA selected EOP Group, LLC, a Washington, D.C. consulting firm to help the Hospital present accurate cost data to the Centers for Medicare and Medicaid Services ("CMS") and negotiate new reimbursement. EOP Group coordinated the selection of a new consultant to prepare GMHA's Fiscal 2013 Medicare Cost Report.

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EOP Group will present the Fiscal 2013 data to CMS as well as respond to CMS questions about GMHA costs and utilization. EOP Group's work will continue through Summer 2014.

Accounts Receivable Management

GMHA has \$63,084,000 in "active" accounts receivable from insurance carriers, federal and local government entities and individuals as shown in the table below.

GMHA Active Accounts Receivable as of September 30, 2013 (in \$000's)

<u>Insurer</u>	<u>Total</u>	<u>Current</u>	<u>31-60</u>	<u>61-90</u>	<u>91-120</u>	<u>120+</u>
GovGuam	\$ 1,581	\$ 72	\$ 37	\$ 43	\$ 47	\$ 1,382
Insurers	13,447	2,983	1,750	838	801	7,075
Medicaid	19,514	3,474	3,041	2,143	1,981	8,875
Medicare	15,989	2,886	2,662	2,223	1,697	6,521
MIP	8,945	1,140	1,053	766	809	5,177
Other	3,608	34	111	17	69	3,377
Self – Current	55,208	1,899	1,700	1,566	1,284	48,759
Self – In Collections	<u>113,714</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,714</u>
Total	\$ <u>232,006</u>	\$ <u>12,488</u>	\$ <u>10,354</u>	\$ <u>7,596</u>	\$ <u>6,688</u>	\$ <u>194,880</u>

In September 2013, for the first time, GMHA began reconciling Medicaid and MIP receivables with Public Health. GMHA continues to reconcile receivables with insurers to ensure accurate financial data.

To improve collections, GMHA released two "Requests for Proposal":

- Collection agencies to appropriately collect patient and guarantor receivables
- Out-sourcing coding, billing and receivable management to a third party

Fiscal Management

Under the leadership of the Board of Trustees and GMHA's Chief Executive Officer, the Hospital is following the strategic plan "ACES +Q" that was approved in March 2013. This strategic plan defines "accountability" and "cost effectiveness" as two of the five cornerstones of the plan.

Hospital management continues to address procedural and contractual matters that have impacted the Hospital's fiscal status. Examples:

- Fees for hospital services
- Accuracy of bills for services and supplies
- Utilization management
- Physician/provider contracts
- Governmental (federal and local) reimbursement and subsidies
- Staffing and overtime management
- Purchasing protocols with vendor negotiations

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CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The Hospital began a \$7.6 million capital project (the Project) to renovate its Intensive Care Unit (ICU) and emergency departments. The Project will be substantially completed in fiscal year 2014.

At September 30, 2013, 2012 and 2011, the Hospital had \$40,182,567, \$37,198,296, and \$36,577,600, respectively, investment in capital assets, net of accumulated depreciation, where applicable. See note 7 to the financial statements for more information on the Hospital's capital assets.

Long-Term Debt and Liabilities

In January 2014, GMHA entered into a \$25 million bank loan to pay off the January 2011 bank loan and for other purposes permitted by law.

At September 30, 2013, 2012 and 2011, the Hospital had \$15,557,950, \$15,892,168, and \$16,393,814, respectively in long-term liabilities. See note 9 to the financial statements for more information on the Hospital's long-term liabilities and changes therein.

ECONOMIC OVERVIEW/ OUTLOOK

As noted in previous audit reports, there are many external factors that fiscally impact GMHA:

1. Following national trends, commercial insurers ask insured members to assume greater personal responsibility for deductibles and co-pays. This leads to increased GMHA receivables from patients.
2. GovGuam is near its funding capacity. GMHA cannot rely on GovGuam to "bridge" any working capital short-falls through new appropriations for the Hospital.
3. A competitor hospital will begin operations in the third (calendar) quarter of 2014. Hospital management cannot estimate the impact of the new hospital as too little information is known about the hospital's clinical services. GMHA management will ensure the hospital staffs its operations based on the census and the patient acuity.
4. Guam relies on the tourism and hospitality industries. Employees in these industries receive lower wages – leaving less disposable income for paying health care costs.

CONTACTING HOSPITAL EXECUTIVES

The Management's Discussion and Analysis report is designed to provide citizens, taxpayers, patients, and stakeholders a general overview of GMHA's finances. It should also demonstrate the Hospital's stewardship and accountability of monies that it receives and spends.

Management's Discussion and Analysis for the years ended September 30, 2012 and 2011 is set forth in GMHA's report on the audit of financial statements which is dated May 21, 2013. That Discussion and Analysis explains in more detail major factors impacting the 2012 and 2011 financial statements.

If you have any questions about this report, please contact the Hospital Chief Executive Officer at 647-2418/2367 or the Chief Financial Officer at 647-2934/2190.

GMHA's Board of Trustees, leaders, managers and staff believe in transparency. Working together, they ensure that GMHA provides clinical services to meet and exceed patient expectations.

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Statements of Net Position
September 30, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash	\$ 3,600,068	\$ 1,642,886
Patient accounts receivable, net of estimated uncollectibles of \$214,727,608 in 2013 and \$187,797,151 in 2012	20,853,362	32,741,697
Due from the Government of Guam	662,108	1,237,199
Other receivables, net of allowance for doubtful accounts of \$374,801 in 2013 and \$376,221 in 2012	319,231	123
Inventory	3,329,509	3,385,389
Prepaid expenses	164,426	99,857
Total current assets	<u>28,928,704</u>	<u>39,107,151</u>
Note receivable	161,144	192,084
Capital assets:		
Depreciable assets, net	31,484,993	33,026,717
Construction in progress	8,697,574	4,171,579
Restricted cash	209,267	209,267
Total noncurrent assets	<u>40,552,978</u>	<u>37,599,647</u>
Total assets	<u>\$ 69,481,682</u>	<u>\$ 76,706,798</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Current portion of note payable	\$ 814,082	\$ 541,763
Accounts payable - trade	20,210,697	19,941,276
Accounts payable - Government of Guam Retirement Fund	1,972,295	2,577,793
Accrued taxes and related liabilities	5,759,969	4,998,006
Accrued payroll and benefits	3,997,500	1,620,277
Unearned revenues	3,600,000	-
Current portion of accrued annual leave	1,613,189	1,616,540
Other current liabilities	3,365,402	2,643,694
Total current liabilities	<u>41,333,134</u>	<u>33,939,349</u>
Note payable, net of current portion	9,939,043	10,751,109
Accrued annual leave, net of current portion	2,159,477	2,076,497
Accrued sick leave	3,459,430	3,064,562
Total liabilities	<u>56,891,084</u>	<u>49,831,517</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	40,182,567	37,198,296
Unrestricted	(27,591,969)	(10,323,015)
Total net position	<u>12,590,598</u>	<u>26,875,281</u>
Total liabilities and net position	<u>\$ 69,481,682</u>	<u>\$ 76,706,798</u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Net patient service revenue (net of contractual adjustments and provision for bad debts of \$71,863,340 in 2013 and \$64,223,700 in 2012)	\$ 69,261,522	\$ 84,078,448
Other operating revenues:		
Cafeteria food sales	477,055	486,363
Other revenue (including bad debt recovery of \$1,420 in 2013 and \$957,794 in 2012)	129,033	1,055,200
Total operating revenues	69,867,610	85,620,011
Operating expenses:		
Nursing	49,655,149	49,379,392
Professional support	24,097,980	24,745,526
Administrative support	12,930,770	13,054,953
Fiscal services	6,829,249	6,959,252
Depreciation	4,423,908	4,399,179
Administration	2,858,668	1,884,056
Retiree healthcare costs	1,991,175	1,938,983
Medical staff	851,757	1,137,303
Total operating expenses	103,638,656	103,498,644
Operating loss	(33,771,046)	(17,878,633)
Nonoperating revenues (expenses):		
Transfers from GovGuam	9,315,182	19,325,842
Federal grants	6,165,237	4,585,006
Contributions	151,883	126,571
Federal program expenditures	(235,707)	(399,036)
Interest and penalties	(2,161,134)	(1,387,080)
Others	(87,712)	(30,234)
Total nonoperating revenues (expenses)	13,147,749	22,221,069
(Loss) income before capital grants and contributions	(20,623,297)	4,342,436
Capital grants and contributions:		
Government of Guam	5,524,790	1,270,592
Federal grants	813,824	2,649,303
Total capital grants and contributions	6,338,614	3,919,895
Change in net position	(14,284,683)	8,262,331
Net position at the beginning of the year	26,875,281	18,612,950
Net position at the end of the year	\$ 12,590,598	\$ 26,875,281

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 80,032,103	\$ 90,021,545
Receipts from sales and other services	286,980	1,541,440
Payments to suppliers and contractors	(20,954,057)	(25,210,937)
Payments to employees	(71,130,197)	(70,666,381)
Net cash used for operating activities	(11,765,171)	(4,314,333)
Cash flows from noncapital financing activities:		
Contributions from the Government of Guam	7,899,098	4,837,345
Federal grants received	6,165,237	4,423,673
Advances from the Government of Guam	3,600,000	-
Contributions	151,883	126,571
Interest and penalties paid	(2,161,134)	(1,387,080)
Payments made under federal programs	(235,707)	(399,036)
Principal repayment of note payable	(539,747)	(598,074)
Other payments	(87,712)	(30,234)
Net cash provided by noncapital financing activities	14,791,918	6,973,165
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(7,408,179)	(5,019,875)
Contributions from the Government of Guam	5,524,790	1,270,592
Federal grants received	813,824	2,649,303
Net cash used for capital and related financing activities	(1,069,565)	(1,099,980)
Net change in cash	1,957,182	1,558,852
Cash at beginning of year	1,642,886	84,034
Cash at end of year	\$ 3,600,068	\$ 1,642,886
Summary of noncash noncapital financing activities:		
Decrease in accounts payable - Government of Guam Retirement Fund	\$ -	\$ (12,299,633)
Transfers from Government of Guam	-	12,299,633
	\$ -	\$ -

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Statements of Cash Flows, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (33,771,046)	\$ (17,878,633)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Contractual adjustments and provisions for uncollectible accounts	71,863,340	64,223,700
Depreciation	4,423,908	4,399,179
Retiree healthcare costs	1,991,175	1,938,983
Bad debts recovery	(1,420)	(957,794)
Recovery of provision for litigation	-	(617,279)
(Increase) decrease in assets:		
Patient accounts receivable	(61,123,699)	(54,820,219)
Note receivable	30,940	29,142
Other receivables	(317,688)	957,671
Inventory	55,880	1,404,983
Prepaid expenses	(64,569)	96,730
Increase (decrease) in liabilities:		
Accounts payable - trade	269,421	1,572,107
Accounts payable - Government of Guam Retirement Fund	(605,498)	(174,850)
Accrued taxes and related liabilities	761,963	(1,406,272)
Accrued payroll and benefits	2,377,223	438,108
Accrued annual leave and sick leave	474,497	214,637
Unearned revenues	-	(3,489,526)
Other current liabilities	1,870,402	(245,000)
Net cash used in operating activities	\$ (11,765,171)	\$ (4,314,333)

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2013 and 2012

(1) Reporting Entity

The Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam (GovGuam), was created on July 26, 1977 under Public Law No. 14-29 as an autonomous agency of the Government of Guam. GMHA owns and operates the Guam Memorial Hospital (the Hospital). The Hospital is licensed for 159 general acute care beds, 16 bassinets, and 33 long-term beds. The Hospital provides all customary acute care services and certain specialty services primarily to the residents of Guam. These include adult and pediatric, clinical and ancillary medical services; and 24-hour emergency services. The Hospital derives a significant portion of its revenues from third-party payors, including Medicare, GovGuam's Medically Indigent Program (MIP), Medicaid and commercial insurers.

GMHA operates under the authority of a nine-member Board of Trustees, all of whom are appointed by the Governor of Guam with the advice and consent of the Guam Legislature.

GMHA's financial statements are incorporated into the financial statements of GovGuam as a component unit.

(2) Summary of Significant Accounting Policies

GMHA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Basis of Accounting

The financial statements of GMHA have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. GMHA considers revenues and costs that are directly related to patient and other healthcare operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Net Position

Net position represents the residual interest in GMHA's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of the following section:

- Net investment in capital assets – include capital assets restricted and unrestricted, net of accumulated depreciation reduced by outstanding debt net of debt service reserve.
- Restricted nonexpendable - net position subject to externally imposed stipulations that require GMHA to maintain the position permanently.
- Restricted expendable - net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of GMHA pursuant to those stipulations or that expire with the passage of time.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

- Unrestricted – net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Custodial credit risk is the risk that, in the event of a bank failure, GMHA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name.

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand, cash held in demand accounts, and time certificates of deposit maturing within ninety days, but excludes restricted cash. As of September 30, 2013 and 2012, cash and restricted cash is \$3,809,335 and \$1,852,153, respectively, and the corresponding bank balances are \$5,310,113 and \$2,941,021, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, bank deposits in the amount of \$250,000 and \$2,941,021, respectively, are FDIC insured.

Restricted cash of \$209,267 as of September 30, 2013 and 2012 represents reserve funds pursuant to a loan agreement with a bank.

Patient Accounts Receivable

Accounts receivable for services provided to patients covered under the Medicare, MIP and Medicaid programs, privately sponsored managed care programs for which payment is made based on terms defined under formal contracts, and other payors (including self-pay) are recorded at their estimated realizable values based on contractual billing rates or the Hospital's standard fees for non-contract payors. A provision for uncollectible accounts is based on management's evaluation of the collectability of current accounts and historical trends. Finance charges or interest is not accrued for past due accounts. Uncollectible accounts are written-off against the provision for the specific insurance program.

Management believes there are no significant credit risks associated with receivables from government programs. Receivables from managed care programs and others are from various payors who are subject to differing economic conditions. They do not represent any concentrated credit risk to the Hospital. Management continually monitors and adjusts the estimated allowances for contractual adjustments and uncollectible accounts.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Due from GovGuam

Amounts due from GovGuam consists of reimbursable expenditures from Federal grant awards and receivables from local appropriations.

Inventory

Inventory consists of pharmaceutical and other hospital supplies. The Hospital reports inventory at the lower of cost, determined using an average historical cost, or market and is shown net of a provision for obsolescence commensurate with known or estimated exposures.

Capital Assets

Capital assets consist of building and land improvements, long-term care facilities and movable equipment. Building and land improvements acquired prior to June 30, 1978, are recorded at their appraised values at June 30, 1978 with subsequent additions recorded at cost. Prior to January 1, 2007, GMHA capitalized at the time of acquisition all expenditures of property and equipment that equaled or exceeded \$500 with a minimum useful life of at least three years. Subsequent to January 1, 2007, the capitalization policy for acquisitions was increased to \$5,000.

Major renewals and betterments are capitalized, while maintenance and repairs, which do not improve or extend the life of an asset, are charged to expense. Donated capital assets are recorded at their fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Useful lives for capital assets are based on the American Hospital Association Guide, *Estimated Useful Lives of Depreciable Hospital Assets*, as follows:

Building and land improvements	10 - 40 years
Long - term care facilities	10 - 40 years
Movable equipment	3 - 20 years

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GMHA has no items that qualify for reporting in this category.

Compensated Absences

Compensated absences are recorded as a long-term liability in the statements of net position. Amounts estimated to be paid during the next fiscal year are reported as current liabilities. Vacation pay is convertible to pay upon termination of employment.

In accordance with Public Law No. 27-5 and Public Law No. 28-68, employee vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences, Continued

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service;
2. Three-fourths day (6) hours for each full bi-weekly pay period in the case of employees with more than five (5) years of service but less than fifteen (15) years of service; and
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

The statutes further amended the maximum accumulation of such vacation credits from 480 to 320 hours. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over 320 hours shall be lost upon retirement.

Public Law No. 26-86 allows employees who participate in the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. At September 30, 2013 and 2012, GMHA has accrued an estimated sick leave liability of \$3,459,430 and \$3,064,562, respectively. However, this amount is an estimate and the actual payout may be materially different than estimated.

Unearned Revenues

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. The unearned revenue of \$3,600,000 as of September 30, 2013 relates to advance appropriations received from the Government of Guam pursuant to Public Law 32-68 or known as the "General Appropriations Act of 2014".

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (addition to net position) until then. GMHA has no items that qualify for reporting in this category.

Net Patient Service Revenues

GMHA has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established fees. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments under reimbursement agreements and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

GovGuam Contributions

GMHA receives financial support from GovGuam in the form of supplemental appropriations and subsidies, including on-behalf payments. As these supplemental appropriations and subsidies are for noncapital purposes, regardless of restrictions, they are classified as noncapital contributions and are included as nonoperating revenues in the statements of revenues, expenses and changes in net position. GovGuam contributions that are restricted for acquiring or improving capital assets are reported as capital grants and contributions in the statements of revenues, expenses and changes in net position.

Federal Grant Award Revenues and Contributions

From time-to-time, GMHA receives Federal grant awards and contributions from the Federal Emergency Management Administration, the U. S. Department of Health and Human Services for the Bioterrorism Hospital Preparedness Program, and the U.S. Department of the Interior (Compact Impact) passed-through GovGuam as well as contributions from individuals, non-profit organizations, and private organizations. Revenues from federal awards and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Federal awards and contributions may be restricted for either specific operating purposes or for capital acquisitions. Amounts restricted to capital replacement and expansions are reported as capital grants and contributions in the statements of revenues, expenses and changes in net position.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

As an instrumentality of GovGuam, GMHA and all property acquired by or for the Hospital, and all revenues and income are exempt from taxation by GovGuam.

Risk Management

GMHA is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. GMHA is self-insured for medical malpractice claims and judgments.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Pledged Revenues

GMHA has pledged, in addition to the full faith and credit of the Government of Guam, all future gross revenues to repay a \$12 million bank loan issued in fiscal year 2011. Note proceeds were used to retire current liabilities. The note is payable from total operating revenues and is payable through 2018. Annual interest and principal related payments are expected to require less than 1.8% of total operating revenues (based on 2013 data). The total interest and principal remaining on the notes as of September 30, 2013 and 2012 is \$14,007,808 and \$14,714,278, respectively. Principal and interest paid for fiscal years 2013 and 2012 were \$1,255,603, for each year, and total operating revenues for fiscal years 2013 and 2012 were \$69,867,610 and \$85,620,011, respectively.

New Accounting Standards

During the year ended September 30, 2013, GMHA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GMHA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GMHA.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GMHA.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of GMHA.

(3) Patient Accounts Receivable

GMHA grants credit without collateral to its patients, many of whom are Guam residents and are insured under third-party payor agreements. Patient accounts receivable at September 30, 2013 and 2012, consist of:

	<u>2013</u>	<u>2012</u>
Account referrals - Department of Revenue and Taxation	\$ 79,822,299	\$ 78,801,597
Self-pay Patients	30,218,100	24,124,639
Medically Indigent Program	8,997,795	13,881,149
Local Third-Party Payor and Other	26,018,958	24,941,601
Medicaid Assistance Program	19,709,627	19,270,180
Medicare	19,473,446	12,787,414
Collection agencies and other	<u>51,340,745</u>	<u>46,732,268</u>
	235,580,970	220,538,848
Less allowance for uncollectible accounts	<u>(214,727,608)</u>	<u>(187,797,151)</u>
	<u>\$ 20,853,362</u>	<u>\$ 32,741,697</u>

Patient accounts receivable from "Local Third-Party Payor and Other" includes receivables from GovGuam of \$984,308 and \$3,678,896 as of September 30, 2013 and 2012, respectively, for healthcare services.

During fiscal years 2013 and 2012, GMHA collected \$2,611,816 and \$10,378,070, respectively, from accounts referred to the Department of Revenue and Taxation.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(4) Note Receivable

In February 2008, GMHA accepted a promissory note from a collection agency in the amount of \$312,431 for outstanding collections of delinquent patient accounts. The note bears a fixed interest of 6% and matures on February 1, 2018. At September 30, 2013 and 2012, the balance of the note was \$161,144 and \$192,084, respectively.

(5) Other Receivables

The Hospital grants credit without collateral to customers primarily located on Guam for catering services and supplies issuances. Other receivables at September 30, 2013 and 2012, consist of:

	<u>2013</u>	<u>2012</u>
Government of Guam:		
Department of Mental Health and Substance Abuse	\$ 81,773	\$ 75,558
Guam Fire Department	292,712	292,712
Other	<u>319,547</u>	<u>8,074</u>
	694,032	376,344
Less allowance for uncollectible accounts	<u>(374,801)</u>	<u>(376,221)</u>
	<u>\$ 319,231</u>	<u>\$ 123</u>

(6) Inventory

Inventory at September 30, 2013 and 2012, consists of the following:

	<u>2013</u>	<u>2012</u>
Pharmaceuticals, drugs and medicine	\$ 1,446,388	\$ 2,048,989
Medical and pharmaceutical supplies	1,982,460	1,836,400
Dietary food supplies	<u>63,375</u>	<u>-</u>
	3,492,223	3,885,389
Less allowance for obsolescence	<u>(162,714)</u>	<u>(500,000)</u>
	<u>\$ 3,329,509</u>	<u>\$ 3,385,389</u>

(7) Capital Assets

Capital assets activity for the years ended September 30, 2013 and 2012 was as follows:

	2013			
	<u>Balance</u> <u>October 1,</u>	<u>Transfers</u> <u>and</u> <u>Additions</u>	<u>Transfers</u> <u>and</u> <u>Deletions</u>	<u>Balance</u> <u>September 30,</u>
Depreciable assets:				
Building and land improvements	\$ 65,418,684	\$ -	\$ -	\$ 65,418,684
Long-term care facility	11,021,985	-	-	11,021,985
Movable equipment	<u>24,110,253</u>	<u>2,886,780</u>	<u>(533,451)</u>	<u>26,463,582</u>
	100,550,922	2,886,780	(533,451)	102,904,251
Less accumulated depreciation and amortization	<u>(67,524,205)</u>	<u>(4,423,908)</u>	<u>528,855</u>	<u>(71,419,258)</u>
	33,026,717	(1,537,128)	(4,596)	31,484,993
Non-depreciable assets:				
Construction in progress	<u>4,171,579</u>	<u>6,442,708</u>	<u>(1,916,713)</u>	<u>8,697,574</u>
Total capital assets, net	<u>\$ 37,198,296</u>	<u>\$ 4,905,580</u>	<u>\$ (1,921,309)</u>	<u>\$ 40,182,567</u>

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Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(7) Capital Assets, Continued

	2012			
	Balance October 1,	Transfers and Additions	Transfers and Deletions	Balance September 30,
Depreciable assets:				
Building and land improvements	\$ 63,357,114	\$ 2,179,834	\$ (118,264)	\$ 65,418,684
Long-term care facility	11,021,985	-	-	11,021,985
Movable equipment	<u>24,723,463</u>	<u>787,933</u>	<u>(1,401,143)</u>	<u>24,110,253</u>
	99,102,562	2,967,767	(1,519,407)	100,550,922
Less accumulated depreciation and amortization	<u>(64,637,681)</u>	<u>(4,399,179)</u>	<u>1,512,655</u>	<u>(67,524,205)</u>
	34,464,881	(1,431,412)	(6,752)	33,026,717
Non-depreciable assets:				
Construction in progress	<u>2,112,719</u>	<u>4,238,694</u>	<u>(2,179,834)</u>	<u>4,171,579</u>
Total capital assets, net	\$ <u>36,577,600</u>	\$ <u>2,807,282</u>	\$ <u>(2,186,586)</u>	\$ <u>37,198,296</u>

(8) Due to GovGuam Retirement Fund (“GGRF”)

GMHA owed GGRF employer and member contributions under the Defined Benefit Plan (DB) for payroll periods from fiscal years ended September, 1998 through September, 2004. GMHA was assessed interest and penalties on these unpaid contributions in accordance with 4 Guam Code Annotated § 8137, *Retirement of Public Employees*, which stated that GGRF would impose interest at a rate equivalent to the average rate of return on its investments from the previous fiscal year and a 1% penalty for delinquent payments.

Public Law No. 28-38, passed in June 2005 required that GovGuam’s general fund remit “interest-only” payments monthly to GGRF for the aforementioned liabilities. The law indicated that monthly payments, totaling \$190,501, would continue until the outstanding balance is fully paid. However, if the obligations were not paid within ten years following the enactment of Public Law No. 28-38, payments by GMHA would resume per 4 Guam Code Annotated § 8137. Public Law No. 30-196 passed in August 2010 and Public Law No. 31-74 passed in June 2011 amended Public Law No. 28-38. Public Law No. 30-196 changed the calculation of interest owed to GGRF and Public Law 31-74 provided for the inclusion of GMHA’s delinquent retirement contributions for fiscal year 2011 to the balance of GMHA’s prior years’ retirement liabilities as identified in Public Law 28-38.

During fiscal year 2012, GovGuam issued General Obligation Bonds and used \$12 million from the proceeds to pay GMHA’s liability to GGRF, including the aforementioned liabilities.

During the fiscal years ended September 30, 2013 and 2012, GovGuam’s general fund paid interest totaling \$0 and \$573,121, respectively, for GMHA.

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(8) Due to GovGuam Retirement Fund (“GGRF”), Continued

At September 30, 2013 and 2012, accounts payable due to GGRF reported as current liabilities consist of the following:

	<u>2013</u>	<u>2012</u>
Employer and member contributions of:		
Current fiscal year (DB) Plan	\$ 139,273	\$ 315,280
Unfunded liability	326,018	589,198
Prior fiscal years (DB Plan)	-	22,678
Employer and member contributions of current fiscal year (DCRS Plan)	-	124,282
Supplemental annuities/COLA benefits for retirees	1,507,004	1,507,004
Interest and penalties	-	19,218
Others	-	133
	<u>\$ 1,972,295</u>	<u>\$ 2,577,793</u>

At September 30, 2013 and 2012, amounts due to GGRF included an outstanding obligation of \$1,507,004 for supplemental benefits for the Hospital’s retirees who retired prior to October 1, 1995 and Cost of Living Allowance (COLA) benefits for those employees who retired prior to October 1, 2001. In accordance with Public Law No. 26-35, as amended by Public Law No. 26-49, GMHA was among various autonomous agencies required to reimburse GGRF for certain supplemental benefits paid to its retirees by GGRF.

Statutory employer contributions for DCRS plan members for the years ended September 30, 2013 and 2012 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, 5% of the member’s regular pay is deposited into the member’s individual investment account. The remaining amount is contributed towards the unfunded liability of the DB plan. At September 30, 2013 and 2012, GMHA’s unpaid contributions toward the unfunded liability of the DB Plan amounted to \$326,018 and \$589,198, respectively.

(9) Long-Term Debt and Other Liabilities

As of September 30, 2013 and 2012, long-term debt consists of:

	<u>2013</u>	<u>2012</u>
Note payable to a bank, in an original amount of \$12 million, variable interest at 1% over bank's reference rate subject to a minimum interest of 6.5% and maximum interest of 9.5%, due in monthly installments of principal and interest of \$104,634 beginning April 2011 through January 2018, all remaining balance due on January 31, 2018. The note is collateralized by the full faith and credit of the Government of Guam and all of the revenues of GMHA.	\$ 10,753,125	\$ 11,292,872
Less current portion	<u>(814,082)</u>	<u>(541,763)</u>
	<u>\$ 9,939,043</u>	<u>\$ 10,751,109</u>

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(9) Long-Term Debt and Other Liabilities, Continued

On January 31, 2011, GMHA entered into a \$12 million bank loan. Proceeds of the loan were to be used when a cash shortage threatened GMHA and would not be used for the hiring of non-healthcare professionals who did not provide direct care or patient care support. The loan was guaranteed by the Government of Guam and entitled to the full faith and credit of the Government of Guam. Pursuant to the loan agreement, GMHA pledged all of its revenues.

Management is of the opinion that compliance with applicable loan covenants occurred during the year ended September 30, 2013.

In January 2014, GMHA entered into a \$25 million bank loan to pay off the January 2011 bank loan and for other purposes permitted by law.

As of September 30, 2013, future maturities of long-term debt are as follows:

Year ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 814,082	\$ 611,953	\$ 1,426,035
2015	852,919	501,381	1,354,300
2016	897,504	456,798	1,354,302
2017	947,061	407,241	1,354,302
2018	997,995	356,306	1,354,301
2019-2023	5,854,378	917,125	6,771,503
2024	<u>389,186</u>	<u>3,879</u>	<u>393,065</u>
	<u>\$ 10,753,125</u>	<u>\$ 3,254,683</u>	<u>\$ 14,007,808</u>

The changes in long-term liabilities for the years ended September 30, 2013 and 2012, are as follows:

	Balance October 1, 2012	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2013	Due Within One Year
Note payable	\$ 11,292,872	\$ -	\$ (539,747)	\$ 10,753,125	\$ 814,082
Annual leave	3,693,037	2,897,917	(2,818,288)	3,772,666	1,613,189
Sick leave	<u>3,064,562</u>	<u>1,896,808</u>	<u>(1,501,940)</u>	<u>3,459,430</u>	<u>-</u>
	<u>\$ 18,050,471</u>	<u>\$ 4,794,725</u>	<u>\$ (4,859,975)</u>	<u>\$ 17,985,221</u>	<u>\$ 2,427,271</u>
	Balance October 1, 2011	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2012	Due Within One Year
Note payable	\$ 11,890,946	\$ -	\$ (598,074)	\$ 11,292,872	\$ 541,763
Annual leave	3,702,156	2,862,137	(2,871,256)	3,693,037	1,616,540
Sick leave	<u>2,840,806</u>	<u>1,869,752</u>	<u>(1,645,996)</u>	<u>3,064,562</u>	<u>-</u>
	<u>\$ 18,433,908</u>	<u>\$ 4,731,889</u>	<u>\$ (5,115,326)</u>	<u>\$ 18,050,471</u>	<u>\$ 2,158,303</u>

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(10) Medical Malpractice/Employment and Personnel Claims

GMHA is self-insured for malpractice. GMHA's exposure under malpractice claims is limited to \$300,000 per claim by the Government Claims Act. GMHA is the defendant in claims, including claims for employment and personnel matters, which are pending review or are expected to go to litigation. While GMHA intends to pursue an aggressive defense of these cases and claims, the possibility exists that some may result in material monetary damages being awarded to claimants or plaintiffs. Hospital management is of the opinion that resolution of these claims will not have a material impact on the accompanying financial statements.

(11) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

GMHA participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes GMHA, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2011, 2010, and 2009, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2013, 2012 and 2011, respectively, have been determined by the Guam Legislature as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Normal costs (% of DB Plan payroll)	17.52%	17.07%	17.00%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.02%</u>	<u>7.57%</u>	<u>7.50%</u>
Employer portion of normal costs (% of total payroll)	3.00%	3.03%	3.03%
Unfunded liability cost (% of total payroll)	<u>24.33%</u>	<u>23.75%</u>	<u>21.75%</u>
Government contribution as a % of total payroll	<u>27.33%</u>	<u>26.78%</u>	<u>24.78%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>30.09%</u>	<u>28.30%</u>	<u>27.46%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

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(11) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Public Law 31-74 passed in June 2011 provided for a reduction in the employer contribution rate from 27.46% to 21.93% for the period between June 2011 and September 2011.

GMHA's contributions to the DB Plan for the years ended September 30, 2013, 2012 and 2011 were \$2,934,787, \$3,046,820 and \$2,992,302 respectively, which were equal to the required contributions for the respective years then ended.

Defined Contribution Retirement System (DCRS)

Contributions into the DCRS plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual investment account within the DCRS. Employees are afforded the opportunity to select from different investment options available under the DCRS.

Statutory employer contributions for DCRS plan payroll are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only the equivalent of 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan. GMHA's contributions toward the unfunded liability of the DB Plan for the years ended September 30, 2013, 2012 and 2011 were \$8,556,676, \$8,139,145 and \$6,817,544 respectively, which were equal to the required contributions for the respective years then ended.

Members of the DCRS plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

GMHA's contributions to the DC Plan for the years ended September 30, 2013, 2012 and 2011 were \$1,632,868, \$1,665,883, and \$1,640,628 respectively, which were equal to the required contributions for the respective years then ended.

Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple-employer defined benefit plan to provide certain post-retirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage.

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(11) Employee Retirement Plans, Continued

Other Post Employment Benefits, Continued

Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

During the years ended September 30, 2013, 2012 and 2011, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,991,175, \$1,938,983 and \$2,170,712, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GMHA retirees and were equivalent to the required contribution for those years.

(12) Patient Service Revenue

GMHA has agreements with third-party payors that provide for payments to GMHA at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. Rates for the long-term care facility vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. GMHA is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by GMHA and audits thereof by the Medicare fiscal intermediary. At September 30, 2013 and 2012, GMHA recorded a \$2.9 million and \$1.9 million receivable, respectively, relative to medicare cost settlements.
- Medicaid Assistance Program and Medically Indigent Program (MIP) - GMHA is reimbursed for the cost of inpatient and outpatient services rendered under the programs administered by the GovGuam Department of Public Health and Social Services. During each fiscal year, GMHA is reimbursed on a per diem rate for in-patient and a percentage changes for out-patient.

Gross patient revenue from the Medicare, Medicaid and MIP programs accounted for approximately 22 percent, 20 percent and 8 percent, respectively, of GMHA's gross patient revenue for the year ended September 30, 2013, and 22 percent, 16 percent and 10 percent, respectively, of GMHA's gross patient revenue for the year ended September 30, 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

GMHA also has entered into payment agreements with certain commercial insurance carriers. The basis for payment to GMHA under these agreements includes discounts from established charges.

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(12) Patient Service Revenue, Continued

Patient service revenues for the years ended September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Services provided to Medicaid patients	\$ 28,507,222	\$ 23,587,362
Services provided to Medicare patients	31,659,853	32,350,799
Services provided to MIP patients	11,354,251	14,424,804
Services provided to Self-pay patients	25,873,933	28,874,271
Self-pay (“charity care”) payments through GMHA Pharmaceuticals Fund	-	2,159,002
Services provided to Other patients	<u>43,729,603</u>	<u>46,905,910</u>
	141,124,862	148,302,148
Less contractual adjustments and provisions for uncollectible accounts	<u>(71,863,340)</u>	<u>(64,223,700)</u>
Net patient service revenue	<u>\$ 69,261,522</u>	<u>\$ 84,078,448</u>

Services provided to Medicaid patients for the years ended September 30, 2013 and 2012 included \$6,862,641 and \$6,477,005, respectively, in revenues paid through the GMHA Pharmaceutical Fund.

(13) Transfers from the Government of Guam (GovGuam)

During the years ended September 30, 2013 and 2012, GovGuam passed supplemental appropriations in public laws from the General Fund and various special revenue funds for certain specific programs and financial assistance, which are summarized as follows:

	<u>2013</u>	<u>2012</u>
GMHA Pharmaceuticals Fund	\$ 9,150,154	\$ 8,636,007
Healthy Futures Fund	2,457,639	2,706,308
General Fund	2,225,415	2,060,918
General Fund – on behalf payments	1,991,175	1,938,983
GMHA Healthcare Trust and Development Fund	310,006	-
Tobacco Bond Proceeds	43,434	320,000
General Fund – Bond Proceeds	<u>-</u>	<u>12,299,633</u>
	<u>\$ 16,177,823</u>	<u>\$ 27,961,849</u>

In accordance with Public Law 31-233, GovGuam appropriated \$9,150,054 from the GMHA Pharmaceuticals Fund, \$2,457,639 from the Healthy Futures Fund and \$2,225,415 from the General Fund for the year ended September 30, 2013. Of the \$9,150,054 appropriations from the GMHA Pharmaceutical Fund, \$6,862,641 or seventy-five percent (75%) was credited to Medicaid patient receivables. GMHA recorded the remaining \$2,287,413 as non-operating revenues.

In accordance with Public Law 31-77, GovGuam appropriated \$8,636,007 from the Guam Memorial Hospital Authority Pharmaceuticals Fund for the year ended September 30, 2012. Of this amount, \$6,477,005 or seventy-five percent (75%) was credited to Medicaid patient receivables. GMHA applied the remaining \$2,159,002 to billing for services provided to “charity care” patients.

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(13) Transfers from the Government of Guam (GovGuam), Continued

Public Law 32-60 established the GMHA Healthcare Trust and Development Fund which provided 60% of funds collected from gaming tax be allocated to GMHA for subsidizing the establishment and operation of an urgent healthcare center within the GMHA facility. For the year ended September 30, 2013, GMHA accrued \$310,006 pursuant to this Public Law.

In accordance with Public Law 31-196, GovGuam appropriated \$12,299,633 from bond proceeds to pay GMHA's past due GovGuam Retirement Fund liabilities, which were paid directly to the GovGuam Retirement Fund during the year ended September 30, 2012.

In accordance with Public Law 31-77, GovGuam appropriated \$2,706,308 from the Healthy Futures Fund and \$2,060,918 from the General Fund for the year ended September 30, 2012. Further, under Public Law 31-77, GovGuam reprogrammed and appropriated \$320,000 from the 2007 Tobacco Bond Proceeds and funds from the available interest of the Tobacco Asset Backed Bonds 2001 Series B for the year ended September 30, 2012 for GMHA's working capital expenditures.

During the years ended September 30, 2013 and 2012, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,991,175 and \$1,938,983, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of Hospital retirees.

(14) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are residents of Guam and are either insured under third-party payor agreements or uninsured. The mix of receivables from patients and third-party payors at September 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Self-Pay Patients	47%	47%
Local Third-Party Payor and Other	33%	32%
Medicaid Assistance Program	8%	9%
Medicare	8%	6%
Medically Indigent Program	<u>4%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

(15) Commitments and Contingencies

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$1,886,881 at September 30, 2013. During fiscal year 2012, GMHA began a \$7.6 million capital project to renovate its ICU and Emergency Departments. The project will be substantially completed in fiscal year 2014.

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Notes to Financial Statements
Years Ended September 30, 2013 and 2012

(15) Commitments and Contingencies, Continued

Medicare

The Government of Guam and its component units, including GMHA, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998 for employees hired after March 31, 1986. Prior to October 1998, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the Government is found to be liable for such amounts, an indeterminate liability could result. It is the opinion of GMHA and all other component units of the Government of Guam that this health insurance component is optional prior to October 1998.

Therefore, no liability for any amount, which may ultimately arise from this matter, has been recorded in the accompanying financial statements.

Litigation

GMHA is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the accompanying financial statements.

Retroactive Pay

On October 12, 2011, the Office of the Governor issued Executive Order No. 2011-14 which ordered the freezing of salary step increases for employees of line agencies and instrumentalities of the Executive Branch of the Government of Guam. On May 13, 2013, Executive Order No. 2013-004 was issued rescinding Executive Order No. 2011-14 and lifting the freeze on salary step increases. As of September 30, 2013, GMHA recorded retroactive pay, related to fiscal years 2012 to 2013, of \$1,954,956 which was included in accrued payroll and benefits in the accompanying statements of net position.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GMHA did not pay any bonuses pursuant to the law from 1991 through 2002. In 2003, GMHA adopted a merit system similar to the GovGuam merit system. GMHA has assessed the impact of the requirements of the law for fiscal years 1991 through 2013. As of September 30, 2013, GMHA recorded merit payable of \$182,552 related to fiscal years 2011 to 2013 which is included in accrued payroll and benefits in the accompanying statements of net position.

Unpaid Taxes

GMHA has not made required payments of withholding taxes for certain quarters of tax years 2010 and 2011. As a result, GMHA may incur penalties and interest. GMHA is of the opinion that it has adequately accrued for the amount of interest and penalties that may ultimately be assessed.

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(15) Commitments and Contingencies, Continued

Federal Award Programs

GMHA has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2013 and prior year audits amounted to \$2,201,988. If the questioned costs are ultimately disallowed, GMHA would be liable for the return of such funds. However, no liability, which may arise from the ultimate outcome of this matter, has been provided for in the accompanying financial statements. Audits of federal program funds are also performed by various federal agencies. If the audits result in cost disallowances, GMHA may be liable. However, management does not believe that resolution of this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

(16) Dependency on the Government of Guam

GMHA has incurred losses from operations of \$33,771,046 and \$17,878,633 and negative cash flows from operations of \$11,765,171 and \$4,314,333 for the years ended September 30, 2013 and 2012, respectively. At September 30, 2013 and 2012, GMHA's deficiencies on delinquent and unpaid retirement contributions, including interest and penalties, with the GovGuam Retirement Fund were \$1,972,295 and \$2,577,793, respectively. GMHA recorded contractual adjustments and provisions for uncollectible accounts of \$71,863,340 and \$64,223,700 for the fiscal years ended September 30, 2013 and 2012, respectively.

GMHA management has taken the following actions and measures to address losses from operations and negative cash flows from operations:

- Management is critically evaluating staffing patterns to ensure that quality and patient safety goals are met with "prudent" staffing.
- Management has asked the Government of Guam for financial assistance through the Department of Public Health and Social Services programs and for alternative funding of self-pay patients.
- Management is requesting "relief" from the contribution burden for the Retirement fund.
- Management plans to complete its negotiations with Guam insurers by August 1, 2014.
- Management is pursuing "re-basing" from CMS that will provide greater reimbursement for services to Medicare patients.
- Management is reviewing GMHA fees for its clinical and professional services. Management has introduced fee increases to the community and to the Guam Legislature.

Management believes that the continuation of the Hospital's operations is dependent upon the future payment of medical services underwritten by the Government of Guam, continued compensation by the Government of Guam for the cost of services provided under the Medicaid and Medically Indigent Program, the collection of long outstanding patient receivables, and/or improvements in operations.

(17) Subsequent Event

In January 2014, GMHA entered into a \$25 million bank loan to pay off the January 2011 bank loan and for other purposes permitted by law.

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Schedule 1
Schedule of Funding Progress and Actuarial Accrued Liability - Post
Employment Benefits Other than Pension

The Schedule of Funding Progress presents GASB 45 results of Other Post Employment Benefits (OPEB) valuations as of fiscal year ends September 30, 2011, 2009, and 2007 for the Guam Memorial Hospital Authority's share of the Government of Guam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
October 1, 2007	\$ -	\$ 34,115,000	\$ 34,115,000	0.0%	\$ 38,481,404	88.7%
October 1, 2009	\$ -	\$ 70,091,529 *	\$ 70,091,529 *	0.0%	\$ 43,717,830	160.3%
October 1, 2011	\$ -	\$ 79,012,000	\$ 79,012,000	0.0%	\$ 45,597,150	173.3%

* No formal valuation was performed. The liabilities as of October 1, 2009 represent discounted October 1, 2011 liabilities.

The actuarial accrued liability presented above is only for GMHA's active employees. It does not include the actuarial accrued liability for GMHA's retirees, which was not separately presented in the OPEB valuation.

See Accompanying Independent Auditors' Report.

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Schedule of Expenses
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
NURSING:		
Salaries	\$ 29,025,217	\$ 28,585,178
Overtime	1,738,505	1,258,796
Other pay	4,265,961	4,428,086
Fringe benefits	<u>10,064,109</u>	<u>9,647,788</u>
Total personnel costs	45,093,792	43,919,848
Contractual services:		
Registry nurses	-	46,963
Others	1,370,430	1,289,052
Supplies and materials	3,159,154	4,103,773
Miscellaneous	<u>31,773</u>	<u>19,756</u>
	<u>\$ 49,655,149</u>	<u>\$ 49,379,392</u>

	<u>2013</u>	<u>2012</u>
PROFESSIONAL SUPPORT:		
Salaries	\$ 8,293,358	\$ 8,100,439
Overtime	855,973	690,309
Other pay	1,260,215	1,327,904
Fringe benefits	<u>3,198,320</u>	<u>3,042,404</u>
Total personnel costs	13,607,866	13,161,056
Supplies and materials	9,094,251	10,502,410
Utilities	15,402	19,211
Contractual services	1,336,436	989,784
Miscellaneous	<u>44,025</u>	<u>73,065</u>
	<u>\$ 24,097,980</u>	<u>\$ 24,745,526</u>

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Expenses, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
ADMINISTRATIVE SUPPORT:		
Salaries	\$ 4,193,219	\$ 4,150,423
Overtime	383,782	327,161
Other pay	232,659	269,307
Fringe benefits	1,763,261	1,698,340
Total personnel costs	6,572,921	6,445,231
Supplies and materials	2,138,455	2,489,806
Utilities	3,272,061	3,273,178
Contractual services	669,537	604,085
Miscellaneous	277,796	242,653
	\$ 12,930,770	\$ 13,054,953

	2013	2012
FISCAL SERVICES:		
Salaries	\$ 3,039,327	\$ 3,002,276
Overtime	171,268	98,206
Other pay	169,676	191,333
Fringe benefits	1,233,154	1,197,960
Annual leave lump sum pay	382,359	275,232
Sick leave (DC plan)	470,486	249,391
Total personnel costs	5,466,270	5,014,398
Supplies and materials	368,711	280,807
Contractual services	914,742	1,583,335
Miscellaneous	79,526	80,712
	\$ 6,829,249	\$ 6,959,252

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Expenses, Continued
Years Ended September 30, 2013 and 2012

	2013	2012
ADMINISTRATION:		
Salaries	\$ 1,199,935	\$ 985,437
Overtime	7,069	2,463
Other pay	60,990	59,436
Fringe benefits	529,370	426,087
Total personnel costs	1,797,364	1,473,423
Supplies and materials	31,580	29,497
Contractual services	340,724	398,891
Insurance (Property)	486,430	521,313
Miscellaneous	202,570	(539,068)
	\$ 2,858,668	\$ 1,884,056
	2013	2012
MEDICAL STAFF:		
Salaries	\$ 579,114	\$ 773,397
Overtime	161	42
Other pay	34,247	58,155
Fringe benefits	224,684	298,726
Total personnel costs	838,206	1,130,320
Supplies and materials	12,183	5,060
Miscellaneous	1,368	1,923
	\$ 851,757	\$ 1,137,303
Total actual expenses, without depreciation and retiree healthcare costs	\$ 97,223,573	\$ 97,160,482

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Patient Service Revenues by Patient Classification
Years Ended September 30, 2013 and 2012

	2013	2012
Gross Patient Service Revenue:		
Medicaid patients	\$ 28,507,222	\$ 23,587,362
Medicare patients	31,659,853	32,350,799
MIP patients	11,354,251	14,424,804
Other patients	43,729,603	46,905,910
Self-pay patients	25,873,933	31,033,273
	\$ 141,124,862	\$ 148,302,148
 Contractual Adjustments and Provision for Bad Debts:		
Contractual adjustments:		
Medicaid patients	\$ 20,741,219	\$ 14,627,129
Medicare patients	16,615,870	18,653,983
MIP patients	5,937,893	8,803,621
Other patients	10,531,616	5,154,508
Provision for bad debts:		
Self-pay patients	18,036,742	16,984,459
	\$ 71,863,340	\$ 64,223,700
 Net Patient Service Revenue:		
Medicaid patients	\$ 7,766,003	\$ 8,960,233
Medicare patients	15,043,983	13,696,816
MIP patients	5,416,358	5,621,183
Other patients	33,197,987	41,751,402
Self-pay patients	7,837,191	14,048,814
	\$ 69,261,522	\$ 84,078,448

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Billings and Collections and Reconciliation of Billings to Gross Patient Revenues
For the Years ended September 30, 2013, 2012, 2011 and 2010

	Medicaid, Medicare and MIP				Self Pay and Government - DOC and Others				Third-Party Payors						Grand Total	Timing Differences and Adjustments	Gross Patient Revenues	
	Medicaid	Medicare	MIP	Subtotal	Self Pay	Government - DOC and Others	Subtotal	Subtotal	Payor A	Payor B	Payor C	Payor D	Payor E	Subtotal				
2013																		
Billings	\$ 39,212,864	\$ 32,839,005	\$ 15,154,011	\$ 87,205,880	\$ 19,906,788	\$ 627,442	\$ 20,534,230	\$ 107,740,110	\$ 2,334,868	\$ 9,843,431	\$ 20,464,503	\$ 4,499,810	\$ 3,861,423	\$ 41,004,035	\$ 148,744,145			
Collections	\$ 20,092,685	\$ 11,024,844	\$ 7,981,051	\$ 39,098,580	\$ 8,691,358	\$ 2,883,123	\$ 11,574,481	\$ 50,673,061	\$ 1,685,414	\$ 7,096,579	\$ 14,300,681	\$ 2,810,175	\$ 2,791,049	\$ 28,683,898	\$ 79,356,959		(7,619,283)	\$ 141,124,862
Percentage of collections over billings	<u>51%</u>	<u>34%</u>	<u>53%</u>	<u>45%</u>	<u>44%</u>	<u>460%</u>	<u>56%</u>	<u>47%</u>	<u>72%</u>	<u>72%</u>	<u>70%</u>	<u>62%</u>	<u>72%</u>	<u>70%</u>	<u>53%</u>			
2012																		
Billings	\$ 29,033,976	\$ 32,656,387	\$ 23,921,025	\$ 85,611,388	\$ 21,703,311	\$ 1,015,397	\$ 22,718,708	\$ 108,330,096	\$ 2,149,394	\$ 8,469,988	\$ 19,733,802	\$ 3,509,496	\$ 4,509,680	\$ 38,372,360	\$ 146,702,456			
Collections	\$ 12,081,258	\$ 14,523,747	\$ 15,777,615	\$ 42,382,620	\$ 16,756,138	\$ 1,088,226	\$ 17,844,364	\$ 60,226,984	\$ 1,934,655	\$ 6,798,356	\$ 15,047,548	\$ 2,463,368	\$ 2,294,382	\$ 28,538,309	\$ 88,765,293		1,599,692	\$ 148,302,148
Percentage of collections over billings	<u>42%</u>	<u>44%</u>	<u>66%</u>	<u>50%</u>	<u>77%</u>	<u>107%</u>	<u>79%</u>	<u>56%</u>	<u>90%</u>	<u>80%</u>	<u>76%</u>	<u>70%</u>	<u>51%</u>	<u>74%</u>	<u>61%</u>			
2011																		
Billings	\$ 29,277,059	\$ 29,118,123	\$ 20,281,319	\$ 78,676,501	\$ 24,664,607	\$ 815,665	\$ 25,480,272	\$ 104,156,773	\$ 3,338,052	\$ 9,330,528	\$ 20,229,778	\$ 3,845,433	\$ 3,798,912	\$ 40,542,703	\$ 144,699,476			
Collections	\$ 16,982,331	\$ 10,404,210	\$ 7,303,460	\$ 34,690,001	\$ 8,437,216	\$ 236,853	\$ 8,674,069	\$ 43,364,070	\$ 3,387,794	\$ 6,205,515	\$ 15,049,914	\$ 2,741,192	\$ 2,054,332	\$ 29,438,747	\$ 72,802,817		2,091,703	\$ 146,791,179
Percentage of collections over billings	<u>58%</u>	<u>36%</u>	<u>36%</u>	<u>44%</u>	<u>34%</u>	<u>29%</u>	<u>34%</u>	<u>42%</u>	<u>101%</u>	<u>67%</u>	<u>74%</u>	<u>71%</u>	<u>54%</u>	<u>73%</u>	<u>50%</u>			
2010																		
Billings	\$ 28,347,466	\$ 30,805,021	\$ 23,078,531	\$ 82,231,018	\$ 24,460,841	\$ 828,648	\$ 25,289,489	\$ 107,520,507	\$ 4,290,480	\$ 9,721,928	\$ 21,204,366	\$ 4,655,058	\$ 4,590,879	\$ 44,462,711	\$ 151,983,218			
Collections	\$ 13,595,866	\$ 13,302,398	\$ 15,002,789	\$ 41,901,053	\$ 10,687,886	\$ 504,750	\$ 11,192,636	\$ 53,093,689	\$ 3,413,999	\$ 7,122,314	\$ 13,080,186	\$ 3,179,678	\$ 2,402,413	\$ 29,198,590	\$ 82,292,279		(5,292,016)	\$ 146,691,202
Percentage of collections over billings	<u>48%</u>	<u>43%</u>	<u>65%</u>	<u>51%</u>	<u>44%</u>	<u>61%</u>	<u>44%</u>	<u>49%</u>	<u>80%</u>	<u>73%</u>	<u>62%</u>	<u>68%</u>	<u>52%</u>	<u>66%</u>	<u>54%</u>			

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A Component Unit of the Government of Guam)

Schedule of Full Time Employee (FTE) Count
Years Ended September 30, 2013 and 2012

<u>Department</u>	<u>2013</u>	<u>2012</u>
Actual FTE count:		
Nursing	453	462
Professional Support	178	192
Administrative Support	160	163
Fiscal Services	79	81
Administration	13	12
Medical Staff	54	57
	<u>937</u>	<u>967</u>
Budgeted FTE count	<u>1,096</u>	<u>1,104</u>

See accompanying independent auditors' report.