

**GUAM MEMORIAL HOSPITAL AUTHORITY**

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

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

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**YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Guam Memorial Hospital Authority:

We have audited the accompanying statements of net assets of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GMHA's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GMHA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

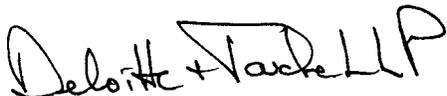
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Memorial Hospital Authority as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenses and patient service revenues on pages 34 through 39 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 and patient service revenue are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The schedule of full time employee count on page 40 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information 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.

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

May 21, 2013

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Management Discussion and Analysis  
Years Ended September 30, 2012 and 2011

**INTRODUCTION**

Guam Memorial Hospital Authority (“GMHA”), a component unit of the Government of Guam, provides acute, outpatient, long term and emergency care services to everyone requiring medical services.

The following Management 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, 2011 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 WITH A FINANCIAL ANALYSIS**

A summary of the Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets is presented below:

Summarized Statements of Net Assets

<u>Assets</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>
Current and other assets	\$ 39,508,502	\$ 47,323,955	\$ 51,170,293
Capital assets, net	<u>37,198,296</u>	<u>36,577,600</u>	<u>38,236,491</u>
Total assets	\$ <u>76,706,798</u>	\$ <u>83,901,555</u>	\$ <u>89,406,784</u>
<u>Liabilities and Net Assets</u>			
Liabilities:			
Current liabilities	\$ 33,939,349	\$ 48,894,791	\$ 37,473,712
Long-term liabilities	<u>15,892,168</u>	<u>16,393,814</u>	<u>4,631,431</u>
Total liabilities	<u>49,831,517</u>	<u>65,288,605</u>	<u>42,105,143</u>
Net Assets:			
Invested in capital assets	37,198,296	36,577,600	38,236,491
Unrestricted	<u>(10,323,015)</u>	<u>(17,964,650)</u>	<u>9,065,150</u>
Total net assets	<u>26,875,281</u>	<u>18,612,950</u>	<u>47,301,641</u>
Total liabilities and net assets	\$ <u>76,706,798</u>	\$ <u>83,901,555</u>	\$ <u>89,406,784</u>

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

	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>
Operating revenues	\$ 85,620,011	\$ 69,850,260	\$ 84,626,368
Operating expenses	<u>103,498,644</u>	<u>105,785,724</u>	<u>105,762,200</u>
Operating loss	(17,878,633)	(35,935,464)	(21,135,832)
Non-operating revenues (expenses), net	<u>22,221,069</u>	<u>4,856,280</u>	<u>5,749,554</u>
Excess (deficiency) of revenues over (under) expenses	4,342,436	(31,079,184)	(15,386,278)
Capital grants and contributions from GovGuam	1,270,592	1,407,210	1,006,397
Federal award capital grants and contributions	<u>2,649,303</u>	<u>983,283</u>	<u>1,938,450</u>
Change in net assets	8,262,331	(28,688,691)	(12,441,431)
Net assets at the beginning of the year	<u>18,612,950</u>	<u>47,301,641</u>	<u>59,743,072</u>
Net assets at the end of the year	\$ <u>26,875,281</u>	\$ <u>18,612,950</u>	\$ <u>47,301,641</u>

In fiscal year 2012, GMHA's net assets increased \$8,262,000 compared to a loss of \$28,689,000 in fiscal year 2011. GMHA realized a \$12,927,000 increase in Transfers from the Government of Guam ("GovGuam") with \$12.3 million received from bond proceeds to pay GMHA's past due GovGuam Retirement Fund liabilities. Transfers from GovGuam during fiscal year 2012 are as follows:

Bond Proceeds	\$ 12,300,000
Healthy Future Fund	2,706,000
General Fund	4,000,000
Other Fund	<u>320,000</u>
Total non-operating revenues from GovGuam	\$ <u>19,326,000</u>

GMHA's operating loss reduced \$18,057,000 from Fiscal 2011 to Fiscal 2012 due to a \$13.4 million reduction in GMHA's contractual adjustments and provision for bad debts.

In the following section of the report, we discuss GMHA's revenues and use of services.

GMHA saw a 1% increase in charges in fiscal year 2012. Net patient service revenues increased 21.6%. GMHA had corrected its reserves in Fiscal year 2011 – impacting its reported net patient service revenue.

	<u>Fiscal 2012</u>	<u>Fiscal 2011</u>
Gross charges	\$ 148,302,148	\$ 146,791,179
Net patient service revenue	\$ 84,078,000	\$ 69,139,000
Net patient service revenue as % of gross charges	56.7%	47.1%

A \$4.4 million reduction of out-patient charges was partially off-set by a \$2.2 million increase in in-patient charges from fiscal year 2011 to fiscal year 2012.

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The following chart shows the distribution of in-patient, out-patient and skilled nursing unit (“SNU”) charges for fiscal years 2012 and 2011 by the five major insurer groups:

Gross Charge Information (in \$ Millions)

<u>Description</u>	<u>Total</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>MIP</u>	<u>Insurer</u>	<u>Self-Pay</u>
<b>In-Patient</b>						
F’2012	\$103.1	\$27.7	\$15.6	\$10.8	\$27.0	\$22.0
F’2011	\$100.9	\$26.7	\$11.6	\$11.9	\$28.3	\$22.4
<b>Out-Patient</b>						
F’2012	\$ 35.2	\$ 4.7	\$ 8.0	\$ 3.6	\$10.1	\$ 8.8
F’2011	\$ 39.6	\$ 6.3	\$ 7.3	\$ 4.7	\$11.3	\$10.0
<b>SNU</b>						
F’2012	\$ 6.2	\$ 2.6	\$ 0.8	\$ 0.9	\$ 1.2	\$ 0.7
F’2011	\$ 6.9	\$ 2.2	\$ 0.9	\$ 1.7	\$ 1.0	\$ 1.1

Comparative Patient Days for In-Patient and Skilled Nursing Unit

<u>Description</u>	<u>Total</u>	<u>Medicare</u>	<u>Medicaid</u>	<u>MIP</u>	<u>Insurer</u>	<u>Self-Pay</u>
<b>Acute I/P</b>						
F’2012	48,500	12,500	7,700	4,500	13,200	10,600
F’2011	48,400	11,800	6,600	5,800	13,600	10,600
<b>SNU</b>						
F’2012	10,400	4,000	1,400	2,000	2,000	1,000
F’2011	10,300	2,900	1,300	2,700	1,600	1,800

In fiscal year 2012, GMHA realized a case-mix change to more intensive patients – leading to higher charges. GMHA experienced increases in telemetry, medical-surgery and intensive care patient days while less-intensive nursery and pediatrics patient days fell in fiscal year 2012.

The closure of out-patient hemo-dialysis department reduced out-patient revenues by \$4.4 million. GMHA also saw a \$1.3 million reduction of diagnostic studies from fiscal year 2011 to fiscal year 2012.

Payer Mix and Reimbursement

The shift in patient days to Medicare and Medicaid patients does not significantly affect GMHA’s reimbursement. In fact, it has a negative short-term working capital impact as Medicare’s, Medicaid’s, MIP’s reimbursement does not change due to TEFRA limitations on per diem reimbursement. After completing the annual cost report, it is possible that GMHA’s reimbursement per discharge would be improved based on costs per discharge.

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Medicare reimburses a fixed amount per discharge (\$7,040.80 in fiscal year 2012) with reimbursement un-affected by the patient's actual length of stay. The Hospital's reimbursement from Medicare, Medicaid and insurers does not cover GMHA's costs as shown in the following table:

In fiscal year 2012, GMHA's actual cost per day and discharge was:

	Fully-Allocated Costs for Medicare per <u>CMS Cost</u>	<u>Unit of Measure</u>	<u>Patient Days</u>	<u>Average Cost</u>	<u>Medicaid and MIP</u>
In-patient	\$17,649,654	Medicare Patient Day	11,694	\$ 1,509.29	\$1,509.29
In-patient	\$17,649,654	Medicare Discharges	1,661	\$10,625.92	N/A
		Medicaid Reimbursement per Day			\$1,000.00
In-patient TEFRA base reimbursement	\$11,694,769	Medicare Discharge	1,661	\$7,040.80	N/A
TEFRA base reimbursement less than cost	(\$5,954,885)	Medicare Discharge	1,661	\$3,585.12	N/A
TEFRA base % of cost	66.3%				66.2%
TEFRA pass- through costs	\$935,540	Medicare Discharge	1,661	\$563.24	N/A
TEFRA "relief" reimbursement	\$1,169,477	Medicare Discharge	1,661	\$704.08	N/A
Net under- reimbursement before deductible & co-pay	(\$3,849,868)	Medicare Discharge	1,661	(\$2,317.80)	N/A
Net under- reimbursement % before deductible & co-pay	21.8%				33.8%

In addition, GMHA incurs a significant loss providing physician (Part B) services where reimbursement does not cover costs.

Medicare Reimbursement

In previous audit reports, GMHA leaders 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.

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The reimbursement defined an aggregate limit per discharge that was set based on the facility's 1982 cost of care. After "re-basing" its reimbursement in 1999, GMHA has received TEFRA reimbursements based on the 1992-1994 fiscal year costs.

The table above shows that Medicare reimburses at 66.3% of costs. After adding the pass-through of capital and other costs, Medicare reimbursement is 71.6% of costs.

Since 2006, GMHA leadership have been in communication with Centers for Medicare and Medicaid ("CMS"), the governor (of Guam) office and with legislative leaders to amend GMHA's reimbursement to allow reimbursement of the hospital's costs. To date, CMS has not been receptive to GMHA's request for a different reimbursement model.

Medicaid and MIP Reimbursement

The table above shows that Medicaid and MIP reimburse GMHA using a per diem rate. There are several important exceptions between Medicaid's and MIP's reimbursement as compared to Medicare's:

- Medicaid and MIP reimburse GMHA at a per diem rate while Medicare reimburses using a per discharge rate
- Medicaid and MIP do not retroactively adjust the completed fiscal year in-patient reimbursement following completion of the cost report. In the table above, Medicare's total reimbursement was:

	<u>Total</u>	<u>Per Day</u>
Total Medicare Reimbursement	\$ 13,799,786	\$1,180
Medicaid and MIP Reimbursement (7,700 and 4,500 patient days @ \$1,000)	\$ 12,200,000	\$1,000
Under-reimbursement for Fiscal Year 2012	\$ 1,599,786	

In addition, Medicaid and MIP do not adjust the reimbursement for Fiscal 2013 – the year in progress – until it receives CMS' letter detailing the new per diem. Through February 2013, GMHA realized 7,062 patient days. At \$180.07 per day, GMHA will lose an additional \$1,272,000 because Medicaid and MIP are not retro-active.

Medicaid's and MIP's Reimbursement for Out-patient Services

According to the Medicaid reimbursement program and under CMS guidelines, when Medicaid does not reimburse GMHA its fully allocated cost of caring for Medicaid/MIP Patients– and this is valid for GMHA – CMS will pay 50% of the shortfall. Medicaid (GovGuam) should pay the remaining 50% of the unreimbursed expense.

GMHA has not pursued this additional reimbursement from CMS or GovGuam/Medicaid for Fiscal 2011 but will work with GovGuam to process the necessary paperwork for fiscal year 2012. The following table shows the additional funds that GMHA could receive for fiscal year 2012:

<u>Description</u>	<u>CMS</u>	<u>GovGuam (Medicaid, MIP)</u>	<u>Total</u>
Under-reimbursed expenses from Fiscal 2012	\$ 2,186,434	\$ 2,186,434	\$ 4,372,868

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Additional monthly stipend/settlement due	\$ 2,186,434/12 =\$182,200 per month	\$ 2,186,434/12 =\$182,200 per month	
Additional stipend/settlement due from October 2012 through January 2013	\$ 728,811 (\$182,200 *4)	\$ 728,811 (\$182,200 *4)	\$ 1,457,622
Additional monthly reimbursement	\$ 182,200	\$ 182,200	\$ 364,400

If GMHA pursued the unreimbursed expenses for fiscal year 2011 and CMS would allow the retro-adjustment for fiscal year 2011, GMHA would receive an additional \$2,335,528.

Fiscal Year 2013 Budget

In February 2013, GMHA’s Board of Trustees and leaders learned that:

- The fiscal year 2013 budget was incomplete. In fact, the budget incorrectly budgeted revenues, human resource and benefit expenses and resulting cash flows – resulting with a \$12 million unfunded liability!
- GMHA was losing \$1.5 - \$2.0 million per month.

GMHA’s executives are:

1. Aggressively managing revenues, expenses and contracts to determine how the hospital can continue to meet clinical expectations while operating with an operating loss.
2. Working with GovGuam leaders to determine what additional sources of cash/income can be used to off-set the losses.

Accounts Receivable Management

GMHA has \$102,489,000 in “active” accounts receivable from insurance carriers, federal and local government entities and individuals as shown in the following report:

GMHA active accounts receivable as of September 30, 2012 (in \$000’s)

<u>Payor</u>	<u>Total</u>	<u>Current</u>	<u>31-60</u>	<u>61-90</u>	<u>91-120</u>	<u>120+</u>
GovGuam	\$ 5,396	\$ 37	\$ 64	\$ 29	\$ 44	\$ 5,222
Insurers	9,946	3,072	1,314	395	278	4,887
Medicaid	19,927	2,969	2,668	2,573	2,384	9,333
Medicare	10,766	3,211	2,095	693	596	4,171
MIP	12,966	1,164	1,399	1,492	1,561	7,350
Other	2,707	179	130	89	24	2,285
Self	<u>40,781</u>	<u>1,890</u>	<u>1,664</u>	<u>1,659</u>	<u>2,146</u>	<u>33,422</u>
Total	\$ <u>102,489</u>	\$ <u>12,522</u>	\$ <u>9,334</u>	\$ <u>6,930</u>	\$ <u>7,033</u>	\$ <u>66,670</u>

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In addition, GMHA had \$117,766,000 in accounts receivable that had been fully reserved – not expected to be collected. \$73,500,000 was placed with the Department of Revenue and Taxation. \$43,079,000 represented accounts placed with collection agencies.

GMHA leaders acknowledge that the Hospital’s collection procedures must improve. The recruitment of a Chief Executive Officer and Chief Financial Officer in late 2012 was the first step towards improving and tightening financial procedures including:

- Fiscal managers are creating new protocols for registering patients and collecting payments
- Development of an “Invitation for Bid” for collection agencies to appropriately collect payments from patients or the guarantors

Fiscal Management

In January 2013, GMHA’s senior executives quantified the significant monthly financial loss from operations. The hospital’s Chief Executive Officer, Chief Medical Officer and Chief Financial Officer are working together to implement many clinical and administrative changes.

The Chief Executive Officer presented a new strategic plan “ACES +Q” to the community and hospital staff in March 2013. This strategic plan defines “accountability” and “cost effectiveness” as two of the five cornerstones of the plan.

Leaders are now addressing the many procedural and contractual matters that have plagued the hospital for many years. Examples:

- Fee structure
- Unbilled services
- Utilization review
- Physician/provider contracts
- Governmental (federal and local) reimbursements and subsidies
- Overtime management
- Purchasing protocols with vendor negotiations

**CAPITAL ASSETS AND LONG-TERM DEBT**

Capital Assets

The Hospital began a \$7.4 million capital project (the Project) to renovate its ICU and emergency departments. The Project will be substantially completed in fiscal year 2013.

At September 30, 2012, 2011 and 2010, the Hospital had \$37,198,296, \$36,577,600 and \$38,236,491, respectively, invested 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.

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Long-Term Debt and Liabilities

At September 30, 2012, 2011 and 2010, the Hospital had \$15,892,168, \$16,393,814 and \$4,631,431, 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 OUTLOOK/OVERVIEW**

There are many external factors that influence GMHA's results:

1. Guam remains dependent on the tourist industry and the existing military infra-structure.
2. The Government of Guam has apparently maximized its financial capacity. GMHA cannot count on the Government to "bridge" any working capital short-falls.
3. Guam has anticipated a build-up of military services. It is uncertain when this change will take place or its economic impact.
4. Close to 20% (\$25 million) of GMHA's charges are to un-insured individuals – who are unable or unwilling to secure health insurance. GMHA must create a paradigm shift whereby individuals recognize their financial responsibility for paying hospital claims.
5. A competitor hospital is expected to begin operations in Summer 2014. As GMHA prepares its fiscal year 2014 budget, leaders must anticipate declining admissions from patients who have insurance or the financial means to pay for services there.

**CONTACTING HOSPITAL EXECUTIVES**

This report is designed to provide our 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 collects and spends.

The Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in the report on the audit of the Hospital's financial statements which is dated March 23, 2012. The Discussion and Analysis explains the major factors impacting the 2011 financial statements. If you have any questions about this report or the 2011 and 2010 reports and need additional information, 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, we ensure that GMHA provides the clinical services and has the fiscal resources to meet and exceed patient expectations.

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Statements of Net Assets  
September 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ 1,642,886	\$ 84,034
Patient accounts receivable, net of estimated uncollectibles of \$187,797,151 in 2012 and \$178,564,976 in 2011	32,741,697	40,996,484
Due from the Government of Guam	1,237,199	825,985
Other receivables, net of allowance for doubtful debts of \$376,221 in 2012 and \$1,332,365 in 2011	123	-
Inventory	3,385,389	4,790,372
Prepaid expenses	99,857	196,587
Total current assets	<u>39,107,151</u>	<u>46,893,462</u>
Note receivable	192,084	221,226
Capital assets:		
Property and equipment, net	33,026,717	34,464,881
Construction in progress	4,171,579	2,112,719
Restricted cash	209,267	209,267
Total noncurrent assets	<u>37,599,647</u>	<u>37,008,093</u>
Total assets	<u>\$ 76,706,798</u>	<u>\$ 83,901,555</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Current portion of notes payable	\$ 541,763	\$ 598,094
Accounts payable - trade	19,941,276	18,369,169
Accounts payable - Government of Guam Retirement Fund	2,577,793	15,052,276
Accrued taxes and related liabilities	4,998,006	6,404,278
Accrued payroll and benefits	1,620,277	1,182,169
Deferred revenues	-	3,489,526
Current portion of accrued annual leave	1,616,540	1,442,000
Other current liabilities	2,643,694	2,357,279
Total current liabilities	<u>33,939,349</u>	<u>48,894,791</u>
Notes payable, net of current portion	10,751,109	11,292,852
Accrued annual leave, net of current portion	2,076,497	2,260,156
Accrued sick leave	3,064,562	2,840,806
Total liabilities	<u>49,831,517</u>	<u>65,288,605</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	37,198,296	36,577,600
Unrestricted	<u>(10,323,015)</u>	<u>(17,964,650)</u>
Total net assets	<u>26,875,281</u>	<u>18,612,950</u>
Total liabilities and net assets	<u>\$ 76,706,798</u>	<u>\$ 83,901,555</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Net patient service revenue (net of contractual adjustments and provision for bad debts of \$64,223,700 in 2012 and \$77,651,869 in 2011)	\$ 84,078,448	\$ 69,139,310
Other operating revenues:		
Cafeteria food sales	486,363	553,649
Other revenue (including bad debts recovery of \$957,794 in 2012)	1,055,200	157,301
Total operating revenues	85,620,011	69,850,260
Operating expenses:		
Nursing	49,379,392	48,988,708
Professional support	24,745,526	24,978,061
Administrative support	13,054,953	13,079,501
Fiscal services	6,959,252	7,254,755
Depreciation	4,399,179	4,853,099
Administration	1,884,056	3,329,489
Retiree healthcare costs	1,938,983	2,170,712
Medical staff	1,137,303	1,131,399
Total operating expenses	103,498,644	105,785,724
Operating loss	(17,878,633)	(35,935,464)
Nonoperating revenues (expenses):		
Transfers from GovGuam	19,325,842	6,399,186
Federal grants	4,585,006	2,049,041
Contributions	126,571	329,061
Federal program expenditures	(399,036)	(657,545)
Interest and penalties	(1,387,080)	(3,105,834)
Others	(30,234)	(157,629)
Total nonoperating revenues (expenses)	22,221,069	4,856,280
Income (loss) before capital grants and contributions	4,342,436	(31,079,184)
Capital grants and contributions:		
Government of Guam	1,270,592	1,407,210
Federal grants	2,649,303	983,283
Total capital grants and contributions	3,919,895	2,390,493
Change in net assets	8,262,331	(28,688,691)
Net assets at the beginning of the year	18,612,950	47,301,641
Net assets at the end of the year	\$ 26,875,281	\$ 18,612,950

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 90,021,545	\$ 72,394,810
Receipts from sales and other services	1,541,440	748,456
Payments to suppliers and contractors	(25,210,937)	(22,568,251)
Payments to employees	(70,666,381)	(66,758,923)
Net cash used for operating activities	(4,314,333)	(16,183,908)
Cash flows from noncapital financing activities:		
Contributions from the Government of Guam	4,837,345	6,697,158
Federal grants received	4,423,673	2,049,041
Contributions	126,571	329,061
Proceeds from bank loan	-	12,000,000
Interest and penalties paid	(1,387,080)	(3,105,834)
Payments made under federal programs	(399,036)	(657,545)
Principal repayment of bank loan and note payable	(598,074)	(299,276)
Other payments	(30,234)	(22,359)
Net cash provided by noncapital financing activities	6,973,165	16,990,246
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(5,019,875)	(3,329,478)
Contributions from the Government of Guam	1,270,592	1,407,210
Federal grants received	2,649,303	983,283
Net cash used for capital and related financing activities	(1,099,980)	(938,985)
Cash flows from investing activities:		
Transfers to restricted funds	-	(209,267)
Net cash used for investing activities	-	(209,267)
Net change in cash	1,558,852	(341,914)
Cash at beginning of year	84,034	425,948
Cash at end of year	\$ 1,642,886	\$ 84,034
Summary of noncash financing activities:		
Decrease in accounts payable - GovGuam Retirement Fund	\$ (12,299,633)	\$ -
Transfers from Government of Guam	12,299,633	-
Decrease in accounts payable - trade	-	(190,222)
Increase in notes payable	-	190,222
	\$ -	\$ -

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, 2012 and 2011

	2012	2011
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (17,878,633)	\$ (35,935,464)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Contractual adjustments and provisions for uncollectible accounts	64,223,700	77,651,869
Depreciation	4,399,179	4,853,099
Retiree healthcare costs	1,938,983	2,170,712
Bad debts recovery	(957,794)	-
Recovery of provision for litigation	(617,279)	-
(Increase) decrease in assets:		
Patient accounts receivable	(54,820,219)	(75,261,916)
Note receivable	29,142	27,450
Other receivables	957,671	37,506
Inventory	1,404,983	(1,276,523)
Prepaid expenses	96,730	66,621
Increase (decrease) in liabilities:		
Accounts payable - trade	1,572,107	2,036,422
Accounts payable - retirement fund	(174,850)	6,136,507
Accrued taxes and related liabilities	(1,406,272)	(1,670,418)
Accrued payroll and benefits	438,108	388,185
Accrued annual leave and sick leave	214,637	3,296,511
Deferred revenues	(3,489,526)	838,097
Other current liabilities	(245,000)	457,434
Net cash used in operating activities	\$ (4,314,333)	\$ (16,183,908)

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2012 and 2011

(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). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, GMHA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, equity is presented in the following net asset categories:

- Invested in capital assets - capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Restricted net assets - resources which GMHA is legally or contractually obligated to spend in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.

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

Notes to Financial Statements  
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

- Unrestricted net assets - net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.

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, and liabilities 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.

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 assets and cash flows, cash is defined as cash on hand, cash held in demand accounts, and time certificates of deposit maturing within ninety days. As of September 30, 2012 and 2011, cash is \$1,852,153 and \$293,301, respectively, and the corresponding bank balances are \$2,941,021 and \$2,089,035, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of \$2,941,021 and \$2,089,035, respectively, are FDIC insured.

Restricted cash of \$209,267 as of September 30, 2012 and 2011 represents reserve funds pursuant to a loan agreement with a bank.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

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.

Due from GovGuam

Amounts due from GovGuam are recorded when reimbursable expenditures from Federal grant awards are incurred.

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

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Compensated absences are recorded as a long-term liability in the statement of net assets. 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.

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, 2012 and 2011, GMHA has accrued an estimated liability of \$3,064,562 and \$2,840,806, respectively. However, this amount is an estimate and the actual payout may be materially different than estimated.

Deferred Revenues

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. The deferred revenue of \$3,489,526 as of September 30, 2011, primarily relates to receivables from the Government of Guam for healthcare services for which payments are dependent upon funding availability and appropriations.

Net Patient Service Revenues

The Hospital 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**  
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Notes to Financial Statements  
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

GovGuam Contributions

The Hospital 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 assets. 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 assets.

Federal Grant Award Revenues and Contributions

From time-to-time, the Hospital 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 in the statements of revenues, expenses and changes in net assets.

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, the Hospital and all property acquired by or for the Hospital, and all revenues and income are exempt from taxation by GovGuam.

Risk Management

The Hospital 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. The Hospital is self-insured under GovGuam for medical malpractice claims and judgments.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Pledged Revenues

The Hospital 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 notes are payable from total operating revenues and are payable through 2018. Annual interest and principal related payments are expected to require less than 2% of total operating revenues (based on 2012 data). The total interest and principal remaining on the notes as of September 30, 2012 and 2011 is \$14,714,278 and \$16,090,585, respectively. Principal and interest paid for fiscal years 2012 and 2011 were \$1,255,603 and \$627,801, respectively, and total operating revenues for fiscal years 2012 and 2011 were \$85,620,011 and \$69,850,260, respectively.

New Accounting Standards

During fiscal year 2012, GMHA implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which improves financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

In April 2012, GASB issued 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. 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 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.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2012 and 2011

**(3) Patient Accounts Receivable**

The Hospital 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, 2012 and 2011, consist of:

	<u>2012</u>	<u>2011</u>
Account referrals - Department of Revenue and Taxation	\$ 78,801,597	\$ 78,157,487
Self-pay Patients	24,124,639	27,169,666
Medically Indigent Program	13,881,149	12,894,211
Local Third-Party Payor and Other	24,941,601	25,722,035
Medicaid Assistance Program	19,270,180	12,521,112
Medicare	12,787,414	19,498,143
Collection agencies and other	<u>46,732,268</u>	<u>43,598,806</u>
	220,538,848	219,561,460
Less allowance for uncollectible accounts	<u>(187,797,151)</u>	<u>(178,564,976)</u>
	<u>\$ 32,741,697</u>	<u>\$ 40,996,484</u>

Patient accounts receivable from "Local Third-Party Payor and Other" includes receivables from GovGuam of \$3,678,896 and \$3,489,526 as of September 30, 2012 and 2011, respectively, for healthcare services.

During fiscal years 2012 and 2011, GMHA collected \$10,378,070 and \$1,731,192, respectively, from accounts referred to the Department of Revenue and Taxation.

**(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, 2012 and 2011, the balance of the note was \$192,084 and \$221,226, 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, 2012 and 2011, consist of:

	<u>2012</u>	<u>2011</u>
Government of Guam:		
Department of Mental Health and Substance Abuse	\$ 75,558	\$ 948,728
Guam Fire Department	292,712	369,312
Hospital employees	2,948	9,298
Other	<u>5,126</u>	<u>5,027</u>
	376,344	1,332,365
Less allowance for uncollectible accounts	<u>(376,221)</u>	<u>(1,332,365)</u>
	<u>\$ 123</u>	<u>\$ -</u>

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2012 and 2011

**(6) Inventory**

Inventory at September 30, 2012 and 2011, consists of the following:

	<u>2012</u>	<u>2011</u>
Pharmaceuticals, drugs and medicine	\$ 2,048,989	\$ 2,876,494
Medical and pharmaceutical supplies	<u>1,836,400</u>	<u>2,307,710</u>
	3,885,389	5,184,204
Less: allowance for obsolescence	<u>(500,000)</u>	<u>(393,832)</u>
	<u>\$ 3,385,389</u>	<u>\$ 4,790,372</u>

**(7) Capital Assets**

Capital asset activity for the years ended September 30, 2012 and 2011 was as follows:

	2012			
	<u>Balance October 1,</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance September 30,</u>
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>
	2011			
	<u>Balance October 1,</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance September 30,</u>
Depreciable assets:				
Building and land improvements	\$ 61,575,935	\$ 1,984,376	\$ (203,197)	\$ 63,357,114
Long-term care facility	11,021,985	-	-	11,021,985
Movable equipment	<u>24,703,534</u>	<u>515,103</u>	<u>(495,174)</u>	<u>24,723,463</u>
	97,301,454	2,499,479	(698,371)	99,102,562
Less: accumulated depreciation and amortization	<u>(60,347,683)</u>	<u>(4,853,099)</u>	<u>563,101</u>	<u>(64,637,681)</u>
	36,953,771	(2,353,620)	(135,270)	34,464,881
Non-depreciable assets:				
Construction in progress	<u>1,282,720</u>	<u>2,814,375</u>	<u>(1,984,376)</u>	<u>2,112,719</u>
Total capital assets, net	<u>\$ 38,236,491</u>	<u>\$ 460,755</u>	<u>\$(2,119,646)</u>	<u>\$ 36,577,600</u>

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2012 and 2011

(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. Public Law 31-74 provided for the inclusion of \$5,526,700 in 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 the fiscal years ended September 30, 2012 and 2011, GovGuam’s general fund paid interest totaling \$573,121 and \$481,725, respectively, for GMHA.

At September 30, 2012 and 2011, accounts payable due to GGRF reported as current liabilities consist of the following:

	<u>2012</u>	<u>2011</u>
Employer and member contributions of:		
Prior fiscal years (DB Plan)	\$ 22,678	\$ 4,987,183
Current fiscal year (DB) Plan	315,280	2,165,252
Unfunded liability	589,198	3,904,429
Employer and member contributions of current fiscal year (DCRS Plan)	124,282	428,392
Supplemental annuities/COLA benefits for retirees	1,507,004	1,507,004
Interest and penalties	19,218	1,223,031
Public law 31-74 savings and interest	-	833,316
Others	<u>133</u>	<u>3,669</u>
	<u>\$ 2,577,793</u>	<u>\$ 15,052,276</u>

At September 30, 2012 and 2011, 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.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2012 and 2011

(8) Due to GovGuam Retirement Fund, Continued

Statutory employer contributions for DCRS plan members for the years ended September 30, 2012 and 2011 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 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, 2012 and 2011, GMHA's unpaid contributions toward the unfunded liability of the DB Plan amounted to \$589,198 and \$3,904,429, respectively.

Public Law 31-74 passed in June 2011 provided for a reduction in the employer retirement contribution rate from 27.46% to 21.93% for the period between June 2011 and September 2011. Pursuant to the Public Law, GMHA was required to remit the savings from the reduction of the employer contribution for the payment of current year delinquent contributions to the DC Plan. As of September 30, 2012 and 2011, GMHA's liability pursuant to the public law is \$0 and \$833,316, respectively.

During fiscal year 2012, GovGuam issued General Obligation Bonds and used \$12 million from the proceeds to pay GMHA's liability to GGRF as follows:

	<u>Members Contributions</u>	<u>Employer Contributions</u>	<u>Interest and Penalties</u>	<u>Total</u>
FY 2010 and prior	\$ 1,509,148	\$ 3,238,768	\$ 879,682	\$ 5,627,598
FY 2011	501,649	5,112,156	224,914	5,838,719
PL 31-74 Savings	-	<u>823,455</u>	<u>9,861</u>	<u>833,316</u>
	<u>\$ 2,010,797</u>	<u>\$ 9,174,379</u>	<u>\$ 1,114,457</u>	<u>\$ 12,299,633</u>

(9) Long-Term Debt and Other Liabilities

Long-Term Debt:

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

	<u>2012</u>	<u>2011</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 the Hospital.	\$ 11,292,872	\$ 11,790,724
Promissory note payable to a vendor, payable in monthly installments of principal and interest of \$20,000 beginning August 2011 due in March 2012, uncollateralized and bears interest of 12% per annum.	<u>-</u>	<u>100,222</u>
Total long-term debt	11,292,872	11,890,946
Less: current maturities	<u>541,763</u>	<u>598,094</u>
	<u>\$ 10,751,109</u>	<u>\$ 11,292,852</u>

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

On January 31, 2011, the Hospital entered into a \$12 million bank loan. Proceeds of the loan were to be used when a cash shortage threatened the Authority 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. Pursuant to the loan agreement, the Hospital pledged all of its revenues.

Management is of the opinion that compliance with applicable loan covenants occurred during the year ended September 30, 2012.

As of September 30, 2012, future maturities of long-term debt are as follows:

Year ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 541,763	\$ 713,840	\$ 1,255,603
2014	573,777	681,826	1,255,603
2015	612,204	643,399	1,255,603
2016	651,493	604,110	1,255,603
2017	696,836	558,767	1,255,603
2018	<u>8,216,799</u>	<u>219,464</u>	<u>8,436,263</u>
	\$ <u>11,292,872</u>	\$ <u>3,421,406</u>	\$ <u>14,714,278</u>

At September 30, 2012 and 2011, the changes in long-term liabilities are as follows:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2012	Due Within <u>One Year</u>
Notes 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>
	Balance October 1, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2011	Due Within <u>One Year</u>
Notes payable	\$ -	\$ 12,190,222	\$ (299,276)	\$ 11,890,946	\$ 598,094
Annual leave	3,697,222	2,366,944	(2,362,010)	3,702,156	1,442,000
Sick leave	<u>2,457,555</u>	<u>1,183,471</u>	<u>(800,220)</u>	<u>2,840,806</u>	<u>-</u>
	\$ <u>6,154,777</u>	\$ <u>15,740,637</u>	\$ <u>(3,461,506)</u>	\$ <u>18,433,908</u>	\$ <u>2,040,094</u>

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(10) Medical Malpractice/Employment and Personnel Claims

The Hospital is self-insured for malpractice. The Hospital's exposure under malpractice claims is limited to \$300,000 per claim by the Government Claims Act. The Hospital is the defendant in claims, including claims for employment and personnel matters, which are pending review or are expected to go to litigation. While the Hospital 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](http://www.ggrf.com).

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2010, 2009, and 2008, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2012, 2011 and 2010, respectively, have been determined by the Guam Legislature as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal costs (% of DB Plan payroll)	17.07%	17.00%	18.34%
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>7.57%</u>	<u>7.50%</u>	<u>8.84%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.03%	3.73%
Unfunded liability cost (% of total payroll)	<u>23.75%</u>	<u>21.75%</u>	<u>22.69%</u>
Government contribution as a % of total payroll	<u>26.78%</u>	<u>24.78%</u>	<u>26.42%</u>

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(11) Employee Retirement Plans, Continued

Funding Policy:, Continued

Statutory contribution rates as a % of DB Plan payroll:

Employer	<u>28.30%</u>	<u>27.46%</u>	<u>26.04%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

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 required and actual contributions to the DB Plan for the years ended September 30, 2012, 2011 and 2010 were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Required contributions	\$ <u>3,046,820</u>	\$ <u>2,992,302</u>	\$ <u>3,223,103</u>
Actual contributions	\$ <u>2,887,144</u>	\$ <u>1,399,019</u>	\$ <u>2,862,255</u>

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 for the years ended September 30, 2012 and 2011, 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 required and actual contributions toward the unfunded liability of the DB Plan for the years ended September 30, 2012, 2011 and 2010 were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Required contributions	\$ <u>8,139,145</u>	\$ <u>6,817,544</u>	\$ <u>6,310,538</u>
Actual contributions	\$ <u>7,521,889</u>	\$ <u>2,913,115</u>	\$ <u>5,301,192</u>

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 required and actual contributions to the DC Plan for the years ended September 30, 2012, 2011 and 2010 were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Required contributions	\$ <u>1,665,883</u>	\$ <u>1,640,628</u>	\$ <u>1,514,745</u>
Actual contributions	\$ <u>1,603,906</u>	\$ <u>1,426,432</u>	\$ <u>1,392,797</u>

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(11) Employee Retirement Plans, Continued

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 postretirement 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.

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, 2012, 2011 and 2010, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,938,983, \$2,170,712 and \$1,383,548, 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

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. At September 30, 2012, cost reports through September 30, 2011, have been audited or otherwise settled. At September 30, 2012, GMHA recorded a \$1.9 million receivable.
- Medicaid Assistance Program and Medically Indigent Program (MIP) - The Hospital 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, the Hospital is reimbursed on a per diem rate for in-patient and a percentage changes for out-patient.

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(12) Patient Service Revenue, Continued

Gross patient revenue from the Medicare, Medicaid and MIP programs accounted for approximately 22 percent, 16 percent and 10 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2012, and 22 percent, 13 percent and 11 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2011. 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.

The Hospital also has entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges.

Net patient service revenues for the years ended September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Patient service revenues at established charge rates:		
Services provided to Medicaid patients	\$ 17,110,357	\$ 12,935,006
Medicaid payments through GMHA Pharmaceuticals Fund	6,477,005	5,971,012
Services provided to Medicare patients	32,350,799	32,999,609
Services provided to MIP patients	14,424,804	16,584,240
Services provided to Self-pay patients	28,874,271	30,637,248
Self-pay ("charity care") payments through GMHA Pharmaceuticals Fund	2,159,002	1,990,337
Services provided to Other patients	<u>46,905,910</u>	<u>45,673,727</u>
	148,302,148	146,791,179
Less contractual adjustments and provisions for uncollectible accounts	<u>(64,223,700)</u>	<u>(77,651,869)</u>
Net patient service revenue	<u>\$ 84,078,448</u>	<u>\$ 69,139,310</u>

(13) Guam Memorial Hospital Authority Pharmaceuticals Fund

In January 2009, the Guam Legislature passed Public Law No. 29-132, which changed the application of funds appropriated from the Guam Memorial Hospital Authority Pharmaceuticals Fund. In accordance with the public law, the Hospital applied appropriated Pharmaceuticals funds as operating revenue, retroactively and prospectively.

In accordance with Public Law No. 30-196, GovGuam appropriated \$7,961,349 from the Guam Memorial Hospital Authority Pharmaceuticals Fund for payment of bills and services incurred by qualified Medicaid recipients and charity care patients for the year ended September 30, 2011.

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%) is credited toward billings for services provided to Medicaid patients. GMHA applied the remaining \$2,159,002 to billing for services provided to "charity care" patients.

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

During the years ended September 30, 2012 and 2011, 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>2012</u>	<u>2011</u>
General Fund – Bond Proceeds	\$ 12,299,633	\$ -
Guam Memorial Hospital Authority		
Pharmaceuticals Fund	8,636,007	7,961,349
Healthy Futures Fund	2,706,308	4,228,474
Tobacco Bond Proceeds	320,000	-
General Fund	2,060,918	-
General Fund – on-behalf payments	<u>1,938,983</u>	<u>2,170,712</u>
	<u>\$ 27,961,849</u>	<u>\$ 14,360,535</u>

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 \$8,936,007 from the Guam Memorial Hospital Authority Pharmaceutical Fund, \$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.

In accordance with Public Law 30-196, GovGuam appropriated \$7,961,349 from the Guam Memorial Hospital Authority Pharmaceutical Fund and \$3,435,707 from the Healthy Futures Fund for the year ended September 30, 2011.

In accordance with Public Law 30-80, GovGuam appropriated 12% of tobacco taxes collected and deposited to the Healthy Futures Fund for operating expenses for the year ended September 30, 2011. GMHA received \$792,767 during the year ended September 30, 2011 pursuant to this appropriation.

In accordance with Public Law No. 29-132, appropriations from the Guam Memorial Hospital Authority Pharmaceuticals Fund were recorded in Net Patient Service Revenue.

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

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(15) 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, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Self-Pay Patients	47%	48%
Local Third-Party Payor and Other	32%	32%
Medically Indigent Program	6%	6%
Medicaid Assistance Program	9%	6%
Medicare	<u>6%</u>	<u>8%</u>
	<u>100%</u>	<u>100%</u>

(16) Commitments and Contingencies

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$8,393,807 at September 30, 2012. During fiscal year 2012, the Hospital began a \$7.4 million capital project to renovate its ICU and Emergency Departments. The project will be substantially completed in fiscal year 2013.

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

The Hospital 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.

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 calculate or pay any bonuses pursuant to the law from 1991 through 2002. In 2003, GMHA adopted a merit system similar to the GovGuam merit system. As of September 30, 2012, GMHA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2002. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

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(16) Commitments and Contingencies, Continued

Unpaid Taxes

GMHA has not made required payments of withholding taxes for certain quarters of tax year 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.

Federal Award Programs

The Hospital has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2012 and prior year audits amounted to \$2,201,988. If the questioned costs are ultimately disallowed, the Hospital 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, the Hospital 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.

(17) Dependency on the Government of Guam

The Hospital has incurred losses from operations of \$17,878,633 and \$35,935,464 and negative cash flows from operations of \$4,314,333 and \$16,183,908 for the years ended September 30, 2012 and 2011, respectively. At September 30, 2012 and 2011, the Hospital's deficiencies on delinquent and unpaid retirement contributions, including interest and penalties, with the GovGuam Retirement Fund were \$2,577,793 and \$15,052,276, respectively. The Hospital recorded contractual adjustments and provisions for uncollectible accounts of \$64,223,700 and \$77,651,869 for the fiscal years ended September 30, 2012 and 2011, respectively. 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 Medically Indigent Program, the collection of long outstanding patient receivables, and/or improvements in operations.

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Schedule of Expenses  
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
NURSING:		
Salaries	\$ 28,585,178	\$ 28,692,346
Overtime	1,258,796	1,465,041
Other pay	4,428,086	4,329,672
Fringe benefits	<u>9,647,788</u>	<u>8,991,996</u>
Total personnel costs	43,919,848	43,479,055
Contractual services:		
Registry nurses	46,963	951,145
Others	1,289,052	1,131,210
Supplies and materials	4,103,773	3,412,665
Miscellaneous	<u>19,756</u>	<u>14,633</u>
	<u>\$ 49,379,392</u>	<u>\$ 48,988,708</u>

	<u>2012</u>	<u>2011</u>
PROFESSIONAL SUPPORT:		
Salaries and leave pay	\$ 8,100,439	\$ 8,538,993
Overtime	690,309	744,771
Other pay	1,327,904	1,235,287
Fringe benefits	<u>3,042,404</u>	<u>3,017,317</u>
Total personnel costs	13,161,056	13,536,368
Supplies and materials	10,502,410	10,545,910
Utilities	19,211	10,808
Contractual services	989,784	806,442
Miscellaneous	<u>73,065</u>	<u>78,533</u>
	<u>\$ 24,745,526</u>	<u>\$ 24,978,061</u>

See accompanying independent auditors' report.

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Schedule of Expenses, Continued  
Years Ended September 30, 2012 and 2011

	2012	2011
<b>ADMINISTRATIVE SUPPORT:</b>		
Salaries	\$ 4,150,423	\$ 4,296,051
Overtime	327,161	290,695
Other pay	269,307	401,310
Fringe benefits	1,698,340	1,689,114
Total personnel costs	6,445,231	6,677,170
Supplies and materials	2,489,806	1,997,270
Utilities	3,273,178	3,378,203
Contractual services	604,085	738,832
Miscellaneous	242,653	288,026
	\$ 13,054,953	\$ 13,079,501

	2012	2011
<b>FISCAL SERVICES:</b>		
Salaries	\$ 3,002,276	\$ 3,022,678
Overtime	98,206	60,758
Other pay	191,333	167,228
Fringe benefits	1,197,960	1,147,080
Annual leave lump sum pay	275,232	402,945
Sick leave (DC plan)	249,391	400,737
Total personnel costs	5,014,398	5,201,426
Supplies and materials	280,807	347,570
Contractual services	1,583,335	1,613,075
Miscellaneous	80,712	92,684
	\$ 6,959,252	\$ 7,254,755

See accompanying independent auditors' report.

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Schedule of Expenses, Continued  
Years Ended September 30, 2012 and 2011

	2012	2011
<b>ADMINISTRATION:</b>		
Salaries	\$ 985,437	\$ 1,130,174
Overtime	2,463	297
Other pay	59,436	57,838
Fringe benefits	426,087	421,882
Total personnel costs	1,473,423	1,610,191
Supplies and materials	29,497	37,529
Contractual services	398,891	119,725
Insurance (Property)	521,313	638,774
Miscellaneous	(539,068)	923,270
	\$ 1,884,056	\$ 3,329,489
	2012	2011
<b>MEDICAL STAFF:</b>		
Salaries	\$ 773,397	\$ 767,806
Overtime	42	331
Other pay	58,155	63,994
Fringe benefits	298,726	276,856
Total personnel costs	1,130,320	1,108,987
Supplies and materials	5,060	14,942
Miscellaneous	1,923	7,470
	\$ 1,137,303	\$ 1,131,399
Total actual expenses, without depreciation and retiree healthcare costs, GAAP basis	\$ 97,160,482	\$ 98,761,913
Total actual expenses, without depreciation and retiree healthcare costs, budgetary basis	\$ 96,839,614	\$ 98,023,172
Total budgeted expenses, without depreciation and retiree healthcare costs	\$ 112,695,965	\$ 113,240,122

See accompanying independent auditors' report.

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Notes to Schedule of Expenses  
Years Ended September 30, 2012 and 2011

GMHA's annual budget has been prepared on a basis that differs from GAAP. Budgeted expenses include outstanding encumbrances as a budgetary expense. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

GMHA recognizes annual leave lump sum pay and certain sick leave expenses as the benefits accrue to the employees. GMHA's budget does not reflect such expenses on the modified accrual basis. For the years ended September 30, 2012 and 2011, the total of annual leave sum pay and sick leave expenses amounted to \$524,623 and \$803,682, respectively.

The following table reconciles expenses between GAAP and budgetary bases:

	<u>FY 2012</u>	<u>FY 2011</u>
Expenses, without depreciation and retiree healthcare costs, GAAP basis	\$ 97,364,237	\$ 98,761,913
Annual leave lump sum pay	(275,232)	(402,945)
Sick leave (DC Plan)	(249,391)	(400,737)
Change in encumbrances	<u>                  -</u>	<u>          64,941</u>
Expenses, without depreciation and retiree healthcare costs, budgetary basis	\$ <u>96,839,614</u>	\$ <u>98,023,172</u>
Budgeted expenses	\$ <u>112,695,965</u>	\$ <u>113,240,122</u>

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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Gross Patient Service Revenue:		
Medicaid patients	\$ 23,587,362	\$ 18,906,018
Medicare patients	32,350,799	32,999,609
MIP patients	14,424,804	16,584,240
Other patients	46,905,910	45,673,727
Self-pay patients	<u>31,033,273</u>	<u>32,627,585</u>
	<u>\$ 148,302,148</u>	<u>\$ 146,791,179</u>
Contractual Adjustments and Provision for Uncollectible Accounts:		
Contractual adjustments:		
Medicaid patients	\$ 14,627,129	\$ 11,430,718
Medicare patients	18,653,983	18,943,720
MIP patients	8,803,621	8,529,578
Other patients	5,154,508	13,859,563
Provisions for uncollectible accounts:		
Self-pay patients	<u>16,984,459</u>	<u>24,888,290</u>
	<u>\$ 64,223,700</u>	<u>\$ 77,651,869</u>
Net Patient Service Revenue:		
Medicaid patients	\$ 8,960,233	\$ 7,475,300
Medicare patients	13,696,816	14,055,889
MIP patients	5,621,183	8,054,662
Other patients	41,751,402	31,814,164
Self-pay patients	<u>14,048,814</u>	<u>7,739,295</u>
	<u>\$ 84,078,448</u>	<u>\$ 69,139,310</u>

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, 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				
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	\$ 1,599,692	\$ 148,302,148	
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			
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	\$ 2,091,703	\$ 146,791,179	
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			
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	(5,292,016)	146,691,202	
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			
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, 2012 and 2011

<u>Department</u>	<u>2012</u>	<u>2011</u>
Actual FTE count:		
Nursing	462	477
Professional Support	192	190
Administrative Support	163	171
Fiscal Services	81	85
Administration	12	9
Medical Staff	<u>57</u>	<u>67</u>
	<u>967</u>	<u>999</u>
Budgeted FTE count	<u>1,104</u>	<u>1,244</u>

See accompanying independent auditors' report.