

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

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**Financial Statements**

**Independent Auditor's Report And Supplemental Information**

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**For the years ended September 30, 2007 and 2006**

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

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September 30, 2007

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Guam Memorial Hospital Authority:

I 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, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the GMHA's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my 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 of America. Those standards require that I 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 the GMHA's internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinions.

In my report dated March 23, 2007, I expressed a qualified opinion on the 2006 financial statements subject to the effect of the adjustments, if any, had it been determined for: (1) the propriety of accounts receivable, bad debt expense, the related allowance for bad debts and contractual adjustments in comparison to amounts confirmed by the third-party payer; and (2) the propriety of capital assets net of accumulated depreciation and related depreciation expenses, had physical count of capital assets been performed and reconciliation of control accounts have been made.

At September 30, 2007, GMHA has made an adjustment to increase its estimates for contractual allowances and provision for bad debts based on the management analysis of existing conditions of its self-pay accounts, and confirmation of accounts obtained from its major third-party payors. I have evaluated the adequacy of the evidence supporting those estimates and adjustments, and have reviewed and evaluated the facts supporting management's judgments based on conditions existing at the time of the audit. I consider

those estimates and adjustments to be reasonable and adequate, in the light of GMHA's historical experience and conditions existing at the time of my audits. However, because the accuracy of management's assumptions will not be known until future events occur, the ultimate uncollectible balances may differ from the amounts provided. As discussed in Notes 5 and 17 GMHA conducted physical count of its fixed assets and reconciled its fixed assets subsidiary ledger and the general ledger at September 30, 2007. As a result of the physical count and reconciliation, GMHA restated its 2006 financial statements to correct the misstatements pertaining to prior years in order to conform with accounting principles generally accepted in the United States of America. Accordingly, my present opinion on the 2006 financial statements, as presented herein, is different from that expressed in my previous report.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GMHA as of September 30, 2007 and 2006, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 4 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of GMHA's management. I have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information (Schedule of Expenses, Operating Encumbrances, and Full-time Employee Count) on pages 60 through 62 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 68 is presented for purposes of additional analysis, as required by the U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which is not a required part of the basic financial statements. These schedules are the responsibility of the management of Guam Memorial Hospital Authority. Such information has been subjected to the auditing procedures applied in my audits of the basic financial statements and, in my opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 13, 2008 on my consideration of GMHA's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my 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 my audits.

The accompanying financial statements have been prepared assuming that the 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 recovery 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.

*J. Scott Magliani & Company*

Hagåtña, Guam  
May 13, 2008



**Guam Memorial Hospital Authority**  
Management Discussion & Analysis  
Year Ending September 30, 2007



The management discussion and analysis is a section of the audit report in which the Guam Memorial Hospital Authority (the Hospital) is given the opportunity to provide the reader an insight into the internal workings of the Hospital. Hopefully, the reader will come away with an understanding and gain an appreciation for the demanding, complex but noble profession of health care that is found at this Hospital. The audit itself along with the financial statements presents a picture of hospital operations. It reveals the results of operations, financial burdens and constraints faced by the hospital. As a necessity, the Hospital is a recipient of federal funds and is accountable for the proper and appropriate usage of the all funds. There is the “people” aspect of the Hospital that may not be revealed but is often the focus of concerns about the care provided as well as contributing to the perception the patient and family will develop and is an integral part of the patient’s recovery.

The Hospital is a component unit of the Government of Guam and where the core business is the delivery of quality healthcare. Our mission statement states very simply our commitment to excellence in healthcare.<sup>1</sup> The doors of the Hospital are open twenty-four hours a day, three hundred and sixty-five days a year to all who are in need of medical care despite one’s financial ability and or inability to render payment.<sup>2</sup> The Hospital is a full service medical facility capable to accommodate emergency, ancillary outpatient, acute inpatient, and long-term care medical services. The Hospital delivers medical care via two excellent Medicare certified facilities; one in Tamuning, the Hospital, and the other located in Barrigada, known as, “the Skilled Nursing Unit” (SNU). The Hospital is Medicare certified for one hundred forty-five acute beds, while SNU is certified for thirty-two Skilled Nursing beds. The Hospital is staffed with over nine hundred employees, all playing a vital part in the process of the direct delivery of patient care.

Although the Hospital is part of the Government of Guam, there is a significant difference between it and other Government of Guam agencies and departments. Other agencies and departments can and are allowed to refuse service if payment is not provided. Power, water, renewal of car registration, or obtaining a police clearance can be denied if the consumer is unable to provide payment for the services it receives. The Hospital however, is mandated to provide medical services and may not refuse providing medical care to anyone because of their inability to pay for such services. The Hospital is a unique and essential part of the community as healthcare touches everyone’s life from conception to end-of-life.

The audit validates to all Guam stakeholders the Hospital’s ability to be responsible and forthright with the funds it receives. Are the proper internal controls in place? Does management along with the Board of Trustees (BOT) provide governance towards the vision of the Hospital? Is the Hospital maintaining financial stability? These are just a few of the questions that can be answered by the audit. Along with this is the community’s expectation about the progress being made towards attaining recognition from the gold standard in healthcare, Joint Commission (JC).

An “All Hands on Deck” approach is resonating throughout the Hospital. A team of consultant surveyors from the Joint Commission Resources Incorporated visited the Hospital in early 2008. The results of the Operational Assessment/mock survey provided a snapshot in time of the Hospital’s progress

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<sup>1</sup> “We are committed to the healing and caring for the people of our Community”

<sup>2</sup> P.L. 7-102 § 6



**Guam Memorial Hospital Authority**  
 Management Discussion & Analysis  
 Year Ending September 30, 2007



towards attaining accreditation. It is important that the BOT and the Hospital at large are able to demonstrate to the community that quality medical care is provided here at the island’s only civilian healthcare facility when compared with other institutions using the same nationally accepted standards.

During FY 2007, the Hospital continued its mission of providing quality healthcare services to the people of Guam and other visitors despite the growing constraints on the Hospital’s capacity. The Hospital saw an increase of two thousand four hundred seventy-seven (2,477) patients in overall patient types with 60% (1,514) being seen at the emergency room. Putting into perspective the growing phenomenon of emergency room visits at the Hospital, it should be noted that nationwide, 65% of urban hospitals and 47% of all hospitals reported that their emergency department were at or over capacity in 2007.<sup>3</sup>

This increased number of patients also translated into a greater demand for acute hospital beds. Very frequently because of the shortage of inpatient acute hospital beds, the Emergency Department will continue to provide care to patients waiting for a bed to become available and before that patient can be transferred to the appropriate unit or ward. The shortage of beds is attributable to several factors that are interdependent. First, there is a physical limitation on the actual number of beds in any given unit. Secondly, there are only so many beds that can be made available because the Hospital is limited by the number of available staff that can be assigned to work there. The respective inpatient unit staffing level requirements is based on patient acuity, and Guam like other parts of the world, faces a shortage of nursing personnel.

Guam Memorial Hospital Authority Patient Admission by Patient Type FY2001 to FY2007							
	<u>Inpatient</u>		<u>Outpatient</u>		<u>ER</u>		<u>Total</u>
FY07	11,951	26%	6,418	14%	27,480	60%	45,849
FY06	11,361	26%	6,045	14%	25,966	60%	43,372
FY05	11,413	27%	5,120	12%	25,442	61%	41,975
FY04	12,066	27%	6,295	14%	25,798	58%	44,159
FY03	11,699	25%	8,005	17%	27,708	58%	47,412
FY02	12,672	25%	7,803	15%	30,634	60%	51,109
FY01	13,491	24%	10,096	18%	31,549	57%	55,136

<sup>3</sup> American Hospital Association Hospital Facts to Know. <http://www.aha.org/aha/content/2008/pdf/08-issue-facts-to-know-.pdf>



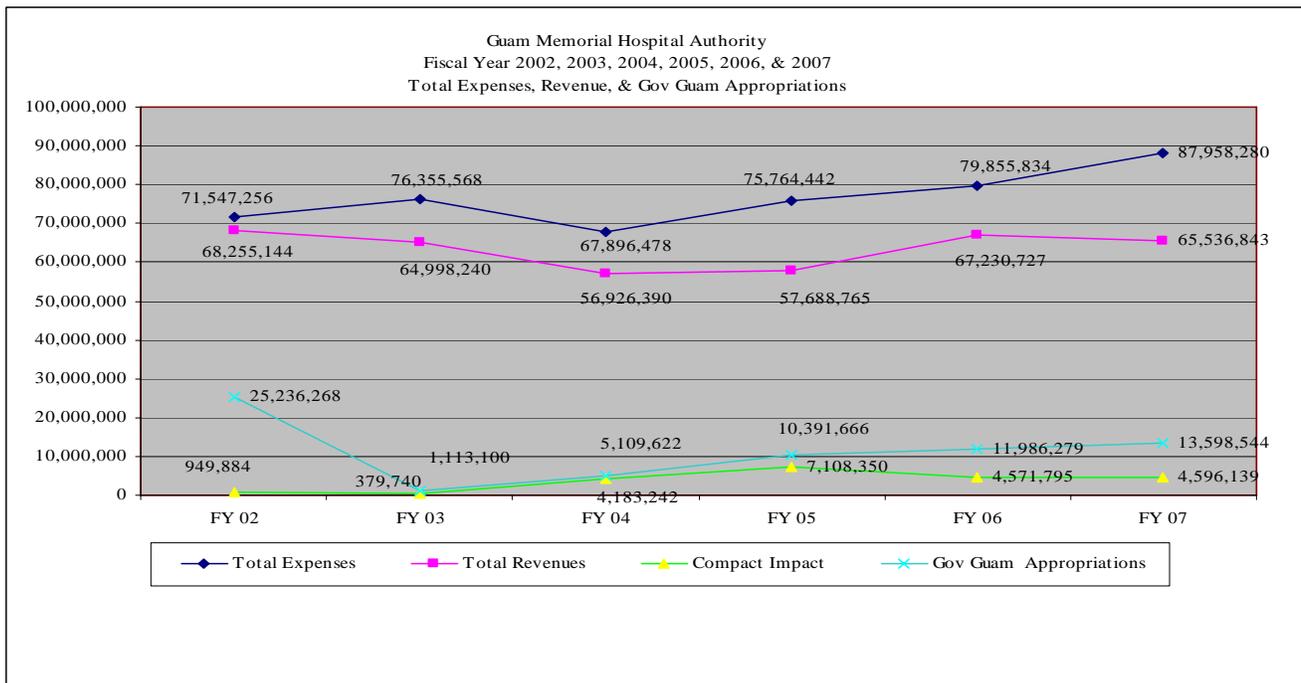
**Guam Memorial Hospital Authority**  
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In order to address the bed shortages that arise from time to time, the Hospital instituted a *Patient Flow Management Plan*<sup>4</sup> in an effort to address those times when there is a surge in the number of inpatients. In these instances, because of the increase in the number of patients needing to be admitted, it is likely that you will encounter a wait for a room to become available. The average length of stay for inpatient admissions is 4.5 days.

Financially, it was challenging in fiscal year 2007. Although the Hospital saw an increase in the number of patients, the Hospital recorded over \$2 million less in patient revenues from last fiscal year. This decrease is largely attributable to the type of medical services provided that is captured during the charge recognition process. Despite the decrease, the Hospital realized over \$66 million in cash from reimbursements from and on behalf of patients, a \$7 million increase from FY 2006. This is could be ascribed to the Hospital’s collection efforts on outstanding patient accounts receivable. The overall affect was that the Hospital patient accounts receivable were reduced by \$1.8 million.

As noted in the FY 2006 audit, non-operating revenues provided the additional financial support for hospital operations. Both the Pharmaceutical Fund (locally funded) and Compact Impact funds (federally funded) positively augmented the Hospital medical supplies, medical equipment, and pharmaceutical/medicine needs for FY 2007.



In FY 2006, the Hospital was legislatively appropriated \$7,800,000 which was encumbered for capital outlays, equipments purchases, facility repairs, renovation and improvements on a reimbursement basis under the Advance Appropriation (legislatively appropriated in FY2006 under P.L. 28-68). This

<sup>4</sup> Administrative Policy 6400-36, adopted on October 4, 2007



**Guam Memorial Hospital Authority**  
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appropriation was reduced to \$4,200,000 in FY 2007 under P.L. 29-02. The Hospital expended a total of \$3,813,133 for both FY 2006 and FY 2007. The Hospital received reimbursements totaling \$1,225,029, leaving \$2,588,104 un-reimbursed. It is important to note that the Hospital had not factored this into its FY 2007 operational budget and had to use monies collected from patient billings to pay for those un-reimbursed expenditures.

The stream of cash into the Hospital was bolstered with the unanticipated recovery of Medicare funds. The Hospital had requested the reopening of the Medicare Cost Reports for fiscal years 2003, 2004, and 2005 resulting in the Hospital receiving over \$9 million. This had a major impact on the Hospital's ability to meet its operational needs during the fiscal year. The Hospital was able to meet growing payroll needs amounting to over \$55M, which represents 67% of total operating expenses for the year. This is an 11% growth from FY 2006 salary expenditures that amounted to just over \$50 million.

Although the receipt of non-operating funds and the recovery from Medicare relieved the financial burdens, the Hospital still ended the fiscal year 2007 with a reduction of net assets of over \$5M (total loss of over \$11M from FY06 to FY07). Seizing the opportunity to make good use of available funds, the Hospital opted to settle the note payable to Guam Power Authority. A payment of over \$460K was made in June 2007 to settle the balance due. This cost-saving move resulted in the Hospital reducing the amount recognized for interest and penalties for the year.

The Hospital also worked to reduce its liability to the Government of Guam Retirement Fund (GGRF). Hospital employees being able to retire is a positive reflection of the current portion of the Hospital's payable to GGRF as this liability was reduced by over \$1 million. In ensure that employees are able to retire, the Hospital and GGRF have agreed the Hospital must make a payment on the employee's entire unpaid retirement liability. This is a one time lump sum payment to GGRF.

The Hospital's relationship with suppliers and vendors is crucial to its continued operations. There are the transparent Hospital related supplies, needles, oxygen, pharmaceuticals, but there are other medical needs that are not so transparent but are essential, such as the cost to maintain a Hospital Information System, timely, accurate medical transcription services, bio-waste removal, linen and laundry services. The Hospital averaged \$5.5 million monthly in outstanding vendor payments throughout FY 2007. At the end of the year, the reader can see that the Hospital was conscientious of the need to remit consistent vendor payments as there was over a \$2 million reduction in vendor payables ending at approximately \$6.4 million for FY 2007.

The reader will also note that the financial statements for FY 2006 have been restated. This reflects both the results of a physical inventory of fixed assets and a reconciliation of the fixed assets subsidiary and general ledger at September 30, 2007. This is an exceptional achievement on the part of the Hospital as the last physical inventory was conducted in FY 2000. This should be noted as a having an impact on the financial representation of fixed assets in the Statement of Net Assets. A one-time adjusting entry of nearly \$2 million was effectuated to realign the ending balance of the general ledger to the subsidiary ledger (the general ledger was understated in comparison to the subsidiary ledger). This amount was determined by Hospital management to be irreconcilable.



**Guam Memorial Hospital Authority**  
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The ability to collect on patient billings has been and continues to be the most prominent and pressing challenge for the Hospital. There are facts that must be stated in order to understand some of these challenges, especially not being able to collect on 100% of what is billed. The bottom line is that the Hospital does not get paid a dollar for every dollar that it bills. Over 50% of all patients seen at the

Hospital are eligible via the Medically Indigent Program (MIP) (100% locally funded); Medicare (100% federally funded) and patients under the federally and locally funded (under a matching arrangement) health insurance sponsored program, Medicaid (MAP) and reimbursement to the Hospital for those eligible, is on a **per diem** basis. The balance of the patient's bill for any of these payor classes is considered as a contractual adjustment and is non-collectible.

Local insurance companies comprise 8% to 10% of total monthly patient billings and reimburse the Hospital on a **fee-for-service** basis. A portion of these billings is recognized as contractual adjustment and is also non-collectible. Patients in the category of "Self-Pay" make up the remaining portion of those receiving services, approximately 20%. Previously, the Self-Pay patient was expected to pay "a dollar for every dollar billed". However, this is not equitable and the Hospital instituted a discount for this group of payors with the understanding that the entire bill must be paid in-full. The gross monthly Self-Pay billings average \$2 million. Collections on these billed claims result in about \$500,000 in reimbursement per month leaving \$1.5 million as outstanding to the Hospital each month. Consequently, the unpaid balance each month can easily accumulate to a significant amount of Self-Pay receivables in one fiscal year.

The Hospital has begun efforts to better define what makes up patients classified as Self-Pay. The Hospital understands that Self-Pay should be classified into two categories, true Self-Pay (patients without any health insurance coverage) and insured Self-Pay (patients with insurance but must meet their health insurance deductible). True Self-Pay, can be further defined to determine how many are employed, how many are not employed, etc. Preliminary reports indicate that the delineation between true and insured Self-Pay is about 55% to 45%. The Hospital is working to further understand that 55% of true Self-Pay.

The Hospital deals with two types of uncompensated care, bad debt and charity care. The Hospital makes monthly provisions, based on historical trends for bad debt allowance. The Hospital is developing what "Charity care" will mean for itself. The Hospital understands that there will be a portion of our patients who are truly unable to render payment for medical services provided. It is the responsibility of the Hospital to identify such patients, determine alternative funding sources, such as a charity care fund, or resolve the account as truly being charity care. Nation-wide, it is estimated that total amount of uncompensated care over the last twenty six (26) years amounts exceeds \$31 billion.<sup>5</sup>

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<sup>5</sup> Health Forum, AHA Annual Survey Data 1980-2006



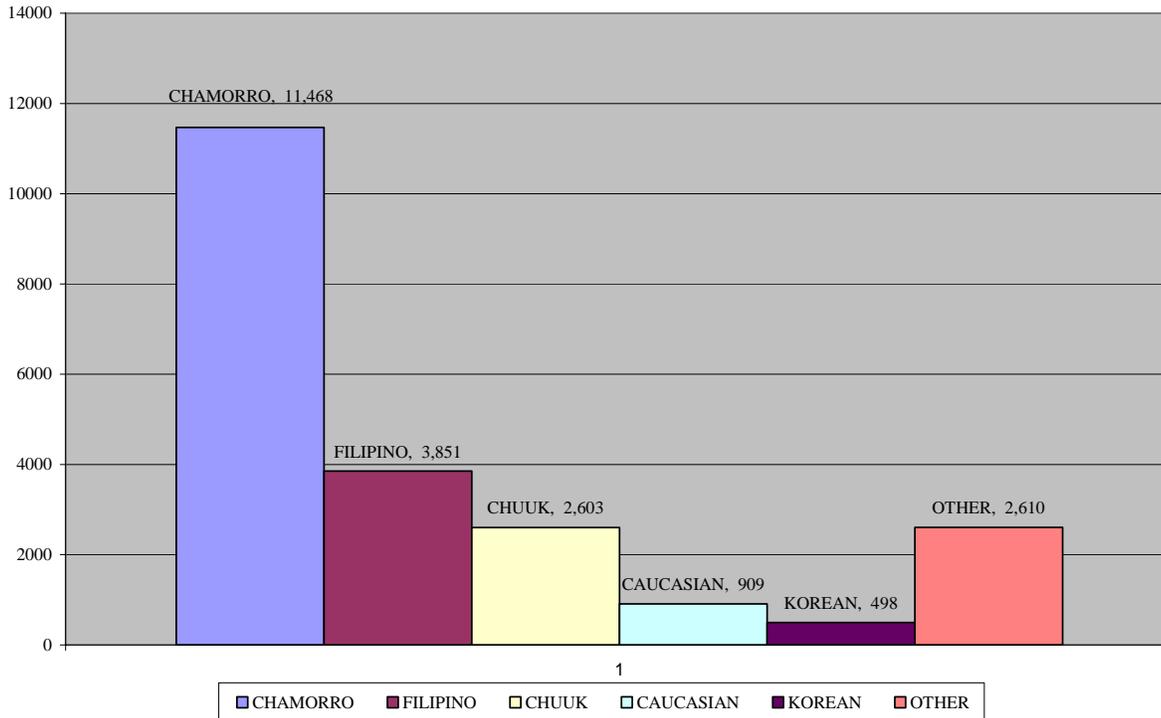
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One particular collection effort that has been effective for the Hospital is the tax garnishment program with the Department of Revenue and Taxation (DRT). At the end of FY 2007, the Hospital had over \$40 million of outstanding patient accounts with DRT. Shown below are the amounts the Hospital has been able to collect under the tax garnishment program.

Fiscal Year	Total Amount Collected
FY 2005	\$ 546,339
FY 2006	\$ 89,855
FY 2007	\$ 2,061,752
FY 2008 (as of May 2008)	\$ 2,218,913

Guam Memorial Hospital Authority  
 FY2007  
 Self-Pay Admissions by Ethnicity



Payors	Chamorro	Filipino	Chuukese	Caucasian	Korean	Other	Total
MIP	1,378	412	1,226	44	40	1,698	4,798
MAP	9,077	1,105	968	217	40	294	12,101
Medicare	486	278	5	32	14	83	898
Local Insurance	1,731	772	35	152	14	235	2,939
Self Pay	11,468	3,851	2,603	909	498	2,610	21,939



**Guam Memorial Hospital Authority**  
 Management Discussion & Analysis  
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The Hospital continues to explore and execute all appropriate collection efforts that will enhance the inflow of much needed cash. The Hospital’s FY 2009 fiscal budget<sup>6</sup> increased by \$2 million over the FY 2008 fiscal budget<sup>7</sup> bottom line figure which the Hospital expects to be \$72 million in order to break even. This is a \$5 million increase from the FY 2008 Board of Trustees approved budget in which the Hospital is expected to collect \$67 million, solely from patient billings. The cost involved in the delivery of care is expensive from the timely procurement and availability of medical supplies/equipment/pharmaceuticals, to retaining and recruiting competent medical staff, coupled with compliance with the federal and local mandates codes/laws/regulations governing a safe and secure hospital environment.

Internally, the Hospital has made significant strides to address and correct prior year audit findings. The simple table below exemplifying the number of audit findings the Hospital was cited for through out the six fiscal years. The Hospital received a “qualified” audit opinion citing major deficiencies that barred the auditors from issuing an unqualified “clean” opinion on the Hospital’s financial statements from FY 2002 through 2006. All four (4) of the qualifying findings from the FY 2006 audit were successfully corrected to the satisfaction of our auditors earning the Hospital an “**UNQUALIFIED**” audit status.

Fiscal Year	Number of Findings	Audit Status
FY 2002	24	QUALIFIED
FY 2003	45	QUALIFIED
FY 2004	39	QUALIFIED
FY 2005	22	QUALIFIED
FY 2006	19	QUALIFIED
<b>FY 2007</b>	<b>6</b>	<b>UNQUALIFIED</b>

It is imperative that the Hospital continue existing efforts implemented to correct deficiencies and take appropriate action as needed to expand and enhance internal controls and monitoring procedures. Reconciling accounts receivable account balances with insurance companies, improving our estimation of allowance for patient receivables, reconciling fixed assets accounts between the subsidiary and the general ledger, completely conducting the inventory on pharmaceuticals to arrive at the fair representation of its ending balance are just a few “housekeeping” items on our “To Do” agenda, all the while continuing to provide quality medical care and service. The Hospital truly is a place where healing happens everyday. With the Hospital working on attaining the “gold standard” of medical services and safety from the health industry standard setting organization Joint Commission, our community can be assured that “GMH” no longer means “get me to Hawaii” but rather **GREAT MEDICINE HERE**”.

All in all, the Hospital has made tremendous strides in improving not only financially, but overall. Despite sluggish collection from Self-Pay accounts; rising cost of healthcare; shortage of nurses; and capacity constraints, the Hospital continued to service the community. The Hospital continues implement initiatives that make a difference to the lives of the people of Guam. The Heart Valley Association (HVA) from Modesto, California visited the Hospital three times in FY 2007 performing open heart

<sup>6</sup> BOT Resolution #07-71, approving the FY 2008 Hospital financial plan at \$87,678,433  
<sup>7</sup> BOT Resolution #08-18, approving the FY 2008 Hospital financial plan at \$89,924,742



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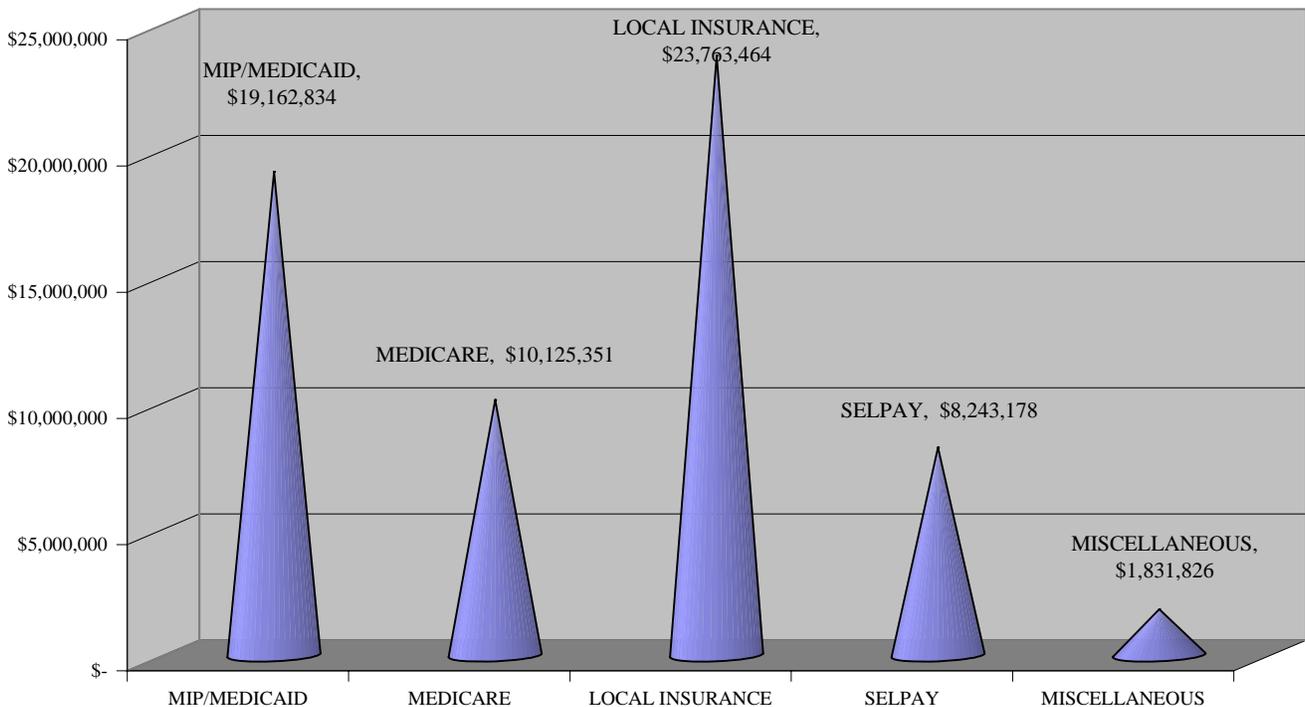


surgeries during two of their visits. Fourteen well deserving employees were able to retire because they wanted to. Two thousand six hundred ninety-nine (2,690) newborns took in their first breath at the Hospital, the attainment of a “clean” unqualified audit report, Joint Commission recognition and certification on the horizon, are just a few of the great things happening at the Hospital.

This report is designed to provide our citizens, taxpayers, patients, and stakeholders with a general overview of GMHA’s finances and demonstrate GMHA’s stewardship and accountability for the money it collects and its proper usage. Exhibits following the MD&A are provided to illustrate the progress of the Hospital and are shown for the reader’s convenience. To gain additional historical perspective and other Hospital relevant information, one can refer to the FY 2006 MD&A. If you have questions about this report or need additional information, please contact GMHA CEO/Hospital Administrator’s Office at 647-2418/2367 or the GMHA Chief Financial Officer’s Office at 647-2934/2190, Monday thru Friday, 8 am to 5 pm, closed Saturday, Sunday, and Government of Guam Holidays. You may also refer to the Hospital’s website at [www.ghma.org](http://www.ghma.org) if you wish to contact any one of the Hospital’s Board of Trustees.

**Exhibit 1**

Guam Memorial Hospital Authority  
 FY 2007  
 Patient Collections



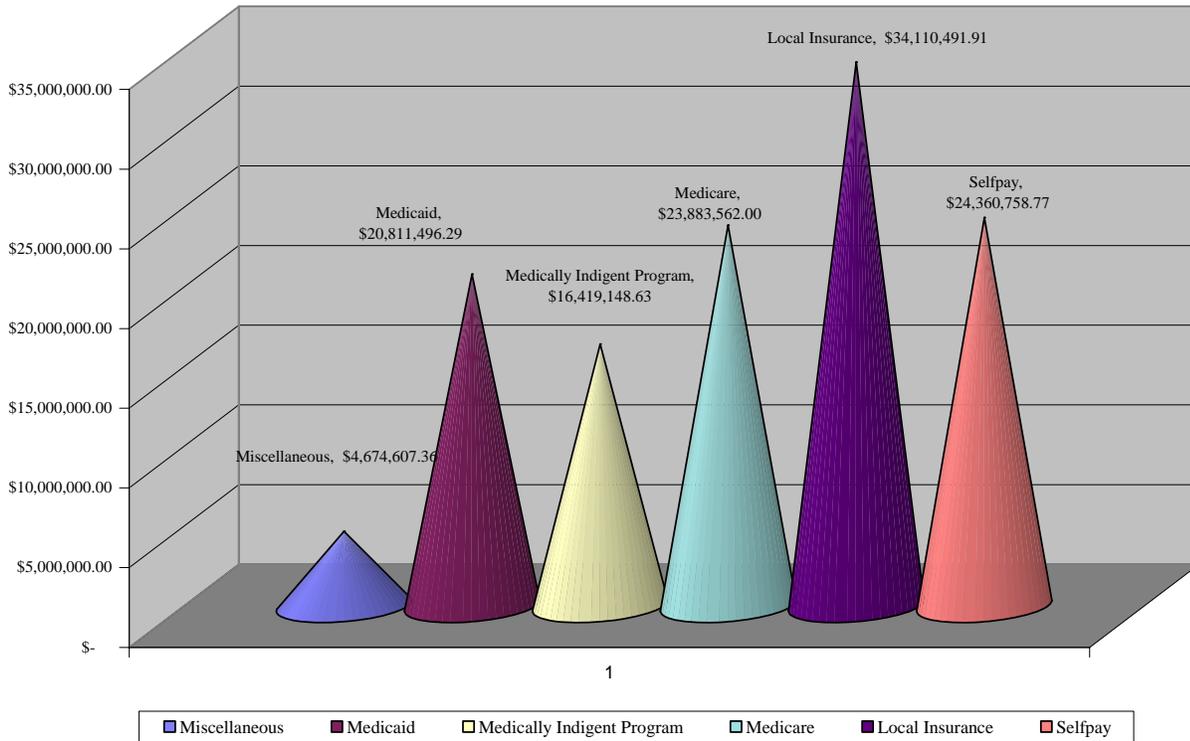


**Guam Memorial Hospital Authority**  
**Management Discussion & Analysis**  
**Year Ending September 30, 2007**



**Exhibit 2**

Guam Memorial Hospital Authority  
 FY 2007  
 Gross Patient Billings



**Exhibit 3**

Current ratios

FY 07	1.14
FY 06	1.26
FY 05	1.21
FY 04	1.14

Recommended ratio to be around 1. Illustrates the Hospital is just meeting its current financial obligations.

Working Capital

FY 07	\$4,964,397
FY 06	\$9,677,582
FY 05	\$5,882,239
FY 04	\$3,959,380

Represents how much cash the Hospital would have if it liquidated all of its current assets to satisfy current liabilities. Note that current assets include Patient Accounts Receivable.

Quick Ratio

FY 07	.017
FY 06	.014
FY 05	.051
FY 04	.023

Recommended ratio to be around 1. As it stands, it shows the Hospital could not rely on its cash on-hand to satisfy current liabilities.



**Guam Memorial Hospital Authority**  
**Management Discussion & Analysis**  
**Year Ending September 30, 2007**



**Exhibit 3 Continued**

Accounts Receivable Turn Over

FY 07	163 days
FY 06	156 days
FY 05	169 days
FY 04	182 days

This ratio determines how quickly the Hospital is able to turn its patient accounts receivable into cash. The Hospital realizes the importance on reducing the number of days outstanding as it greatly affects the cash flow of the Hospital.

**Exhibit 4**

**Guam Memorial Hospital Authority**  
**Statements of Cash Flows**  
**September 30, 2007, 2006, 2005**

	<u>2007</u>	Restated <u>2006</u>	<u>2005</u>
Cash flow used in operating activities	\$ (14,501,297)	\$ (11,719,821)	\$ (16,170,945)
Cash flow from non-capital financing activities	10,385,801	10,017,547	9,556,661
Cash flows from capital and related financing activities	<u>4,230,336</u>	<u>793,142</u>	<u>7,390,381</u>
Net increase (decrease) in cash	114,840	(909,132)	776,097
Cash at beginning of year	<u>498,202</u>	<u>1,407,334</u>	<u>631,237</u>
Cash at end of year	<u>\$ 613,042</u>	<u>\$ 498,202</u>	<u>\$ 1,407,334</u>
Reconciliation of operating loss to net cash provided by operating activities			
Operating Loss	\$ (22,421,438)	\$ (12,092,748)	\$ (18,075,677)
Adjustments to reconcile operating loss to net cash provided by operating operating activities:			
Depreciation	4,760,228	3,897,223	3,494,095
(Increase) decrease in assets	6,562,992	( 9,319,196)	(1,612,583)
Increase (decrease) in liabilities	<u>(3,403,079)</u>	<u>5,794,900</u>	<u>23,220</u>
Net cash used in operating activities	<u>\$ (14,501,297)</u>	<u>\$ (11,719,821)</u>	<u>\$ (16,170,945)</u>



**Guam Memorial Hospital Authority**  
**Management Discussion & Analysis**  
**Year Ending September 30, 2007**



**Exhibit 5**

**Guam Memorial Hospital Authority**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**September 30, 2007, 2006, 2005**

	<u>2007</u>	<u>Restated 2006</u>	<u>2005</u>
Operating revenues	\$ 65,536,843	\$ 67,230,727	\$ 57,688,765
Operating expenses	<u>87,958,280</u>	<u>79,323,475</u>	<u>75,764,442</u>
Operating loss	(22,421,437)	12,092,748	18,075,677
Non-operating revenues (expenses), net	<u>10,797,463</u>	<u>9,597,120</u>	<u>10,099,505</u>
Excess of expenses over revenue	(11,623,974)	(2,495,628)	(7,976,172)
Capital grants from the Gov. Guam general fund	-	2,431,878	-
Federal award capital grants and contribution	<u>5,870,903</u>	<u>5,363,506</u>	<u>8,076,205</u>
Increase (decrease) in net assets	(5,753,071)	5,305,756	100,033
Net assets beginning of the year	48,287,412	41,605,948	41,505,915
Restatement	<u>-</u>	<u>1,375,708</u>	<u>-</u>
Net assets end of the year	\$ <u><u>42,534,341</u></u>	\$ <u><u>48,287,412</u></u>	\$ <u><u>41,605,948</u></u>



**Guam Memorial Hospital Authority**  
Management Discussion & Analysis  
Year Ending September 30, 2007



**Exhibit 6**

**Guam Memorial Hospital Authority**  
**Statements of Net Assets**  
**September 30, 2007, 2006, 2005**

<u>ASSETS</u>	<u>2007</u>	<u>Restated</u> <u>2006</u>	<u>2005</u>
Current Assets:			
Total current assets	\$ 40,635,132	\$ 46,208,777	\$ 33,480,430
Capital assets, net	<u>41,459,602</u>	<u>43,239,160</u>	<u>40,619,500</u>
Total assets	\$ <u>82,094,734</u>	\$ <u>89,447,937</u>	\$ <u>74,099,930</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current liabilities	\$ 35,670,735	\$ 36,531,195	\$ 27,598,181
Long Term Liabilities	<u>3,889,658</u>	<u>4,629,330</u>	<u>4,895,801</u>
Total liabilities	<u>39,560,393</u>	<u>41,160,525</u>	<u>32,493,982</u>
Net assets:			
Invested in capital assets, of related debt	41,459,602	43,239,160	40,619,500
Unrestricted	<u>1,074,739</u>	<u>5,048,252</u>	<u>986,448</u>
Total net assets	<u>42,534,341</u>	<u>48,287,412</u>	<u>41,605,948</u>
Total liabilities and net assets	\$ <u>82,094,734</u>	\$ <u>89,447,937</u>	\$ <u>74,099,930</u>

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

Statements of Net Assets  
September 30, 2007 and 2006

	<u>ASSETS</u>	
	<u>2007</u>	<u>2006</u> <u>Restated</u>
Current assets:		
Cash	\$ 613,042	\$ 498,202
Patient accounts receivable, net	28,305,251	30,187,231
Due from the Government of Guam	6,935,972	6,061,465
Other receivables, net	782,371	47,387
Due from third - party payor (Medicare)	-	4,938,554
Inventory	3,786,197	4,105,934
Prepaid expenses	<u>212,299</u>	<u>370,004</u>
Total current assets	40,635,132	46,208,777
Capital assets, net	<u>41,459,602</u>	<u>43,239,160</u>
Total assets	<u>\$ 82,094,734</u>	<u>\$ 89,447,937</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current portion of long-term debt	\$ 5,977,637	\$ 6,704,969
Accounts payable - trade	6,449,237	8,957,387
Accounts payable - retirement fund	10,107,521	11,199,860
Accrued payroll and benefits	2,069,089	1,631,156
Current portion of accrued annual and sick leave	2,052,326	1,991,299
Estimated third-party payor settlement (Medicare)	684,200	-
Other accrued liabilities	1,990,568	2,517,284
Deferred revenue	<u>6,340,157</u>	<u>3,529,240</u>
Total current liabilities	<u>35,670,735</u>	<u>36,531,195</u>
Long-term liabilities:		
Unfunded retirement liability	1,137,683	2,102,345
Note payable, net of current portion	40,000	261,767
Accrued annual leave, net of current portion	1,209,407	1,049,024
Accrued sick leave, net of current portion	<u>1,502,568</u>	<u>1,216,194</u>
Total long-term liabilities	<u>3,889,658</u>	<u>4,629,330</u>
Total liabilities	<u>39,560,393</u>	<u>41,160,525</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets net, of related debt	41,459,602	43,239,160
Unrestricted	<u>1,074,739</u>	<u>5,048,252</u>
Total net assets	<u>42,534,341</u>	<u>48,287,412</u>
Total liabilities and net assets	<u>\$ 82,094,734</u>	<u>\$ 89,447,937</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 Assets  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u> <u>Restated</u>
Operating revenues:		
Net patient service revenue	\$ 64,788,271	\$ 66,664,787
Other operating revenues:		
Cafeteria food sales	481,676	463,943
Other revenue	<u>266,896</u>	<u>101,997</u>
Total operating revenues	<u>65,536,843</u>	<u>67,230,727</u>
Operating expenses:		
Nursing	39,884,916	34,479,270
Professional support	20,626,227	19,693,317
Administrative support	10,744,105	10,271,543
Fiscal services	6,794,515	6,447,329
Depreciation	4,760,228	3,897,223
Administration	2,811,490	2,596,724
Medical staff	<u>2,336,799</u>	<u>1,938,069</u>
Total operating expenses	<u>87,958,280</u>	<u>79,323,475</u>
Operating loss	<u>(22,421,437)</u>	<u>(12,092,748)</u>
Non-operating revenues (expenses):		
Transfers from the Government of Guam	12,391,695	11,986,279
Contributions	92,456	79,484
Federal program expenditures of subrecipient	(136,399)	-
Loss from disposal of fixed assets	(459,908)	-
Interest and penalties	<u>(1,090,381)</u>	<u>(2,468,643)</u>
Total non-operating revenues, net	<u>10,797,463</u>	<u>9,597,120</u>
Excess of expenses over revenues before capital grants and contributions	(11,623,974)	(2,495,628)
Capital grant from the Government of Guam general fund	-	2,431,878
Federal capital grants and contributions	<u>5,870,903</u>	<u>5,369,506</u>
Increase (decrease) in net assets	(5,753,071)	5,305,756
Net assets, beginning of the year	48,287,412	41,605,948
Restatement (Note 17)	<u>-</u>	<u>1,375,708</u>
Net assets, end of the year	<u>\$ 42,534,341</u>	<u>\$ 48,287,412</u>

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, 2007 and 2006

	<u>2007</u>	<u>2006</u> <u>Restated</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 66,670,252	\$ 58,762,966
Payments to suppliers and contractors	(27,157,431)	(20,996,733)
Payments to employees	(59,650,459)	(48,787,085)
Third-party payor settlements receipts (payments) (Medicare Program), net	5,622,754	(1,264,909)
Other receipts and payments, net	<u>13,587</u>	<u>565,940</u>
Net cash used in operating activities	<u>(14,501,297)</u>	<u>(11,719,821)</u>
Cash flows from noncapital financing activities:		
Transfers from the Government of Guam	12,391,695	11,986,279
Repayment of notes payable, net of proceeds	(1,292,533)	(661,407)
Interest paid	(805,817)	(1,386,809)
Contributions	<u>92,456</u>	<u>79,484</u>
Net cash provided by non-capital financing activities	<u>10,385,801</u>	<u>10,017,547</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(3,440,578)	(5,141,175)
Receipts (payments ) from grantor agency, net	1,936,410	564,811
Transfers to federal program subrecipient	(136,399)	-
Capital grants and contributions (Federal)	<u>5,870,903</u>	<u>5,369,506</u>
Net cash provided by capital and related financing activities	<u>4,230,336</u>	<u>793,142</u>
Net increase (decrease) in cash	114,840	(909,132)
Cash at beginning of year	<u>498,202</u>	<u>1,407,334</u>
Cash at end of year	<u>\$ 613,042</u>	<u>\$ 498,202</u>

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, 2007 and 2006

	<u>2007</u>	<u>2006</u> <u>Restated</u>
Reconciliation of operating loss to net cash provided		
by operating activities:		
Operating loss	\$ (22,421,438)	\$ (12,092,748)
Adjustments to reconcile operating loss to net cash provided		
by operating activities:		
Depreciation	4,760,228	3,897,223
(Increase) decrease in assets:		
Patient accounts receivable	1,881,980	(2,342,631)
Other receivables	(734,984)	(53,797)
Due from third- party payor (Medicare)	4,938,554	(4,938,554)
Inventory	319,737	(2,307,072)
Prepaid expenses	157,705	322,858
Increase (decrease) in liabilities:		
Accounts payable	(2,508,150)	5,379,739
Accrued payable - retirement fund	(1,033,469)	(375,940)
Accrued payroll and benefits	437,933	(36,071)
Accrued annual leave and sick leave	507,785	483,614
Estimated third-party payor settlement (Medicare)	684,200	(1,264,909)
Other accrued liabilities	(526,716)	2,140,826
Unfunded retirement liability	<u>(964,662)</u>	<u>(532,359)</u>
Net cash used in operating activities	<u>\$ (14,501,297)</u>	<u>\$ (11,719,821)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Guam Memorial Hospital Authority (GMHA) was created on July 26, 1977 under Public Law 14-29 as an autonomous agency of the Government of Guam. The law provides for control of GMHA to be vested with the Board of Trustees of the Hospital consisting of nine (9) members, all of whom are appointed by the Governor of Guam with the advice and consent of the Guam Legislature. A Trustee serves a term of five years. GMHA may not arrange loans without the consent and approval of the Governor of Guam. For this reason, the GMHA is considered to be a component unit of the Government of Guam and is included as a discretely presented component unit in the basic financial statements of the Government of Guam.

Use of 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.

Measurement Focus, Basis of Presentation and Basis of Accounting

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with accounting principles for healthcare organization generally accepted in the United States of America and are presented in accordance with the reporting model as prescribed in the Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*", as amended by GASB Statement No. 37, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*" and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*". GMHA follows the business-type activities requirements of GASB Statement No. 34. This approach requires the following components of GMHA's financial statements:

- Management's discussion and analysis
- Basic financial statements, including a statement of net assets, statement of revenues, expenses and changes in net assets and a statement of cash flows using the direct method, and
- Notes to financial statements

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

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Presentation and Basis of Accounting, continued

GASB Statement No 34 established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- *Invested in capital assets, net of related debt:* Capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvements of those assets.
- *Restricted net assets – expendable:* Net assets whose use by GMHA is subject to externally imposed constraints that can be fulfilled by actions of GMHA pursuant to those constraints or release of those constraints by the passage of time.
- *Unrestricted:* Net assets are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Accounting Standards

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), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Presentation and Basis of Accounting, continued

Accounting Standards, continued

In April 2004, GASB issued Statement No. 43, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*”. This Statement establishes uniform financial reporting for other postemployment benefit plans by State and Local governments. The provisions of GASB Statement No. 43 are effective for reporting periods beginning after December 15, 2007. The GMHA’s Management does not believe that the implementation of this Statement will have a material effect on its financial statements.

In June 2004, GASB issued Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of State and Local governmental employers. The provision of this Statement is not effective until December 15, 2008. The GMHA’s Management does not believe that the implementation of this Statement will have a material effect on its financial statements.

In December 2004, GASB issued Statement No. 46, “*Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*”, which was effective for GMHA beginning with its fiscal year ending September 30, 2007. The provisions of this Statement clarifies that a legally enforceable enabling legislation is on that a party external to a government, such as citizens, public interest groups or the judiciary, can compel a government to honor. The implementation of this pronouncement did not have a material impact on the accompanying financial statements.

In September 2006, GASB issued Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*”. This Statement establishes the criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting components. The provisions of this Statement are effective for periods beginning after December 15, 2006. The implementation of this pronouncement did not have a material impact on the accompanying financial statements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, continued

Measurement Focus, Basis of Presentation and Basis of Accounting, continued

Accounting Standards, continued

In November 2006, the GASB issued Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*”. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009. The GMHA’s Management does not believe that the implementation of this Statement will have a material effect on its financial statements.

In May 2007, the GASB issued Statement No. 50, “*Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*”. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is not effective until June 30, 2008. The GMHA has not determined its effect on the financial statements.

In June 2007, the GASB issued Statement no. 51, “*Accounting and Financial Reporting for Intangible Assets*”. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010. The GMHA’s Management does not believe that the implementation of this Statement will have a material effect on its financial statements.

Budget process

In accordance with the Guam Code, the Board of Trustees of the Guam Memorial Hospital Authority adopts an annual budget and submits to the Governor of Guam every 30th of January for legislative approval. GMHA prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget and GAAP bases are that depreciation is not recorded as an expenditure on the budget basis and capital expenditure and debt service are recorded on the budget basis.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, continued

Cash

For purposes of the statements of net assets and the statements of cash flows, GMHA considers cash to be cash on hand and cash on deposits in banks.

Patient Accounts Receivable

Patient accounts receivable are primarily due from individuals and businesses located within the Territory of Guam, the Federated States of Micronesia and from Medicare.

The allowance for uncollectible accounts receivable is determined based on management estimates. While management believes the amount is adequate, the ultimate uncollectible balance may differ from the amounts provided.

Due from the Government of Guam

Amounts due from the Government of Guam are recorded when reimbursable expenditures from Federal grant awards are incurred or when supplemental appropriations are measurable and are scheduled to be collected in the subsequent year.

Other Receivables

Other receivables primarily consist of other operating charges such as catering services and general store supplies provided to the Government of Guam's component units.

Inventory

Inventory is recorded at the lower of cost or market value, with cost being derived through an average historical cost. Inventory is shown net of provisions for obsolescence commensurate with known or estimated exposures.

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

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, continued

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. Subsequent additions are primarily valued at cost. GMHA generally capitalize all expenditures of property and equipment that equal or exceed \$500 with a minimum useful life of at least three years. Subsequent to September 30, 2006, 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 provided over the estimated useful lives of the respective assets through use of the straight-line method. 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

Operating Revenues and Expenses

GMHA's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is GMHA's principal activity. Nonexchange revenues, supplemental subsidies from the Government of Guam, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. At September 30, 2007 and 2006, GMHA federal award reimbursements received (pass-through from the Government of Guam) comprise both capital awards and financial resources for specific purposes and are reported after the nonoperating revenues. Operating expenses are expenses incurred to provide health care services other than financing costs.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, continued

Net Patient Service Revenue

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 adjustments under reimbursement agreements with third-party payors. 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.

Transfers from the Government of Guam

Transfers from the Government of Guam are used to record measurable supplemental appropriations and subsidies from the General Fund and Special Fund Revenues of the Government of Guam.

During the fiscal years 2007 and 2006, 6.19% and 5.61%, respectively, of Gross Receipts Taxes collected by the Government of Guam was appropriated to GMHA to subsidize pharmaceutical, drug and medicine purchases. The appropriation of the pharmaceutical subsidy from the Government of Guam is continuous and contingent on the annual submission of a GMHA detailed budget every 30<sup>th</sup> of January to the Governor of Guam. At September 30, 2007 and 2006, the pharmaceutical subsidies received were \$9,996,884 and \$8,421,521, respectively, (See Note 11) and are reported as -Transfers from the Government of Guam in the accompanying financial statements.

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 Bio-Terrorism Hospital Preparedness Program, and the U.S. Department of the Interior (Compact Impact) passed-through the Government of Guam 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 after nonoperating revenues in the accompanying financial statements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, continued

Compensated Absences

For fiscal years 2007 and 2006, employees were credited vacation leave at rates of 104, 160, and 208, hours depending upon their length of service with GMHA. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours except for registered nurses for which the accumulation of annual leave remains unchanged. Any annual leave earned by eligible employees in excess of 320 hours but did not exceed 100 hours as of February 28, 2003 was credited to employees' sick leave. Pursuant to Public Law 27-106, employees with accumulated annual leave in excess 320 hours at February 28, 2003 may carry over their excess and use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave is credited and the remainder of the excess leave, if any, shall be lost.

GMHA recognizes all vested vacation leave benefits accrued by its employees as a long-term liability in the statements of net assets. Amounts to be paid during the next fiscal year based on management's estimate are reported as a current liability. When employees use vacation leave benefits, the liability account is reduced. At September 30, 2007 and 2006, vacation leave taken was \$1,670,570 and \$1,737,560, respectively.

Except for the provision under Public Law 26-86, as disclosed in the following paragraph, GMHA records the cost of sick leave in accordance to the policy of the Government of Guam, that is, when leave is actually taken and a liability is actually incurred. Sick leave is paid only when an employee is absent from duty on account of illness or injury, medical treatment or related-family death.

Pursuant to Public Law 26-86, upon the retirement of the employees under the Defined Contribution Retirement System (DCRS) plan, such employees will be paid by its employer, a lump sum payment of their unused sick leave hours up to one-half of their accumulated sick leave. At September 30, 2007 and 2006, GMHA's estimated liability of unused sick leave for members under the DCRS plan was \$1,581,651 and \$1,351,326, respectively. At September 30, 2007 and 2006, GMHA's management estimate of the current portion of this accrued sick leave was \$79,083 and \$135,132, and long-term liability of \$1,502,568 and \$1,216,194, respectively, in the accompanying statements of net assets. However, these amounts are estimates and actual payout could be materially different than estimated.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, continued

Deferred Revenues

GMHA reports deferred revenues on the statement of net assets. Deferred revenues arise when money received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting. In the subsequent period, when it has legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets, and the revenue is recognized.

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. GMHA is self-insured for medical malpractice claims and judgments, as discussed in Note 12.

(2) Cash and Investments

GASB Statement No. 40, “*Deposit and Investment Risk Disclosures*”, an amendment of GASB No. 3, addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASBS No. 40 also requires disclosure of formal policies related to deposit and investment risks.

The deposit and investment policies of GMHA are governed by 5 GCA 21, *Investments and Deposits*. Legally authorized investments include securities issued or guaranteed by the U.S. Treasury or agencies of the United States government; demand and time deposits in or certificates of deposit of, or bankers’ acceptance issued by, and any eligible institution; corporate debt obligations, including commercial paper; certain money market funds; state and local government securities, including municipal bonds; and repurchase and investment agreements. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody’s.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(2) Cash and Investments, continued

Cash

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the GMHA or its agent in the GMHA's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in GMHA's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in GMHA's name and noncollateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2, but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, GMHA's deposits may not be recovered. Such deposits are not covered by depository insurance and are either uncollateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. GMHA does not have a deposit policy for custodial credit risk.

For credit risk in the case of deposits, there is the risk that in the event of a bank failure, GMHA's deposits may not be returned to it. At September 30, 2007 and 2006, the carrying amount of GMHA's total cash and cash equivalents was \$613,042 and \$498,202, respectively, and the corresponding bank balances were \$2,121,167 and \$1,179,299, respectively, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC). Of the bank balance of \$2,121,167 and \$1,179,299, bank deposits in the amount of \$210,312 and \$182,562, respectively, were FDIC insured. GMHA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

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(2) Cash and Investments, continued

Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the deposits fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the GMHA or its agent in the GMHA's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the GMHA's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in GMHA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2 and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 retained and expanded the element of custodial risk in GASB Statement No. 3.

At September 30, 2007 and 2006, the GMHA did not have any investments subject to GASB Statement No. 40.

(3) Due from Government of Guam

At September 30, 2007 and 2006, amounts due from the Government of Guam consisted of the following:

	2007	2006
Capital expenditures appropriation from enabling legislation (Public 28-68, §25)	\$ -	\$ 2,431,878
Health Security Trust Fund	-	( 183,130)
Federal award program expended	595,815	283,476
Federal award program deferred revenues	6,340,157	3,529,241
	\$ 6,935,972	\$ 6,061,465

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(3) Due from Government of Guam

The fiscal year 2006 Government of Guam Budget Act (Public Law 28-68, §25) had appropriated for GMHA the amount of \$7,800,000 in advance from the 2007 General Fund revenues for its capital outlays, equipment purchases, facility repairs, renovations and improvements on a reimbursement basis. In fiscal year 2007, Public Law 29-02 reduced the appropriation to \$4,200,000. At September 30, 2007 and 2006, GMHA incurred expenditures related to this appropriation totaling \$1,381,255 and \$2,431,878, respectively. As of September 30, 2007, the accumulated expended amount for this appropriation was \$3,813,133, of which \$1,225,029 was reimbursed by the Government of Guam during fiscal year 2007.

During fiscal year 2007, GMHA incurred capital expenditures of \$2,588,104 originally funded by appropriations due from the Government of Guam but were not reimbursed as of September 30, 2007. Therefore, this amount was off-set against total fund transfers received by GMHA from the Government of Guam for financial statement reporting purposes in the accompanying statements of revenues, expenses and changes in net assets. See Note 11 for additional disclosure.

(4) Inventory

Inventory is recorded at the lower of cost or market, with cost being derived through an average historical cost. Inventory comprises of medical and pharmaceutical supplies, blood, pharmaceutical drugs, and dietary food supplies. At September 30, 2007 and 2006, inventory is as follows:

	2007	2006
Medical & pharmaceutical supplies	\$ 1,757,885	\$ 1,692,946
Pharmaceuticals, drugs & medicine	2,246,937	2,750,248
Dietary food supplies	81,849	-
	4,086,671	4,443,194
Less: Allowance for obsolescence	( 300,474)	( 337,260)
Inventory, net	\$ 3,786,197	\$ 4,105,934

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(5) Capital Assets

A summary of capital asset additions, retirements and transfer balances for the years ended September 30, 2007 and 2006 is as follows:

<u>For Fiscal Year 2007:</u>	<u>Balance</u> <u>October 1,</u> <u>2006</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Balance</u> <u>September 30,</u> <u>2007</u>
<u>Capital assets, being</u>				
<u>depreciated:</u>				
Building and land improvements	\$ 57,525,134	\$ 825,708	(\$ 931,275)	\$ 57,419,567
Long-term care facility	10,825,988	113,378	-	10,939,366
Movable equipment	<u>30,550,638</u>	<u>2,487,082</u>	<u>( 9,594,013)</u>	<u>23,443,707</u>
Total capital assets	98,901,760	3,426,168	( 10,525,288)	91,802,640
Less: Accumulated depreciation and amortization	<u>55,865,341</u>	<u>4,760,228</u>	<u>( 10,065,379)</u>	<u>50,560,190</u>
Total net capital assets being depreciated	43,036,419	( 1,334,060)	( 459,909)	41,242,450
<u>Capital assets, not being</u>				
<u>depreciated:</u>				
Construction in progress	<u>202,741</u>	<u>933,029</u>	<u>( 918,618)</u>	<u>217,152</u>
Total capital assets, net	<u>\$ 43,239,160</u>	<u>(\$ 401,031)</u>	<u>(\$ 1,378,527)</u>	<u>\$ 41,459,602</u>

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(5) Capital Assets, continued

<u>Fiscal Year 2006:</u>	Balance October 1, 2005	Transfers and Additions	Transfers and Deletions	Balance September 30, 2006 ( Restated )
<u>Capital assets, being depreciated:</u>				
Building and land improvements	\$ 56,563,716	\$ 961,418	\$ -	\$ 57,525,134
Long-term care facility	10,660,987	165,001	-	10,825,988
Movable equipment	<u>26,868,986</u>	<u>4,603,007</u>	( <u>921,355</u> )	<u>30,550,638</u>
 Total capital assets	 94,093,689	 5,729,426	 ( 921,355 )	 98,901,760
 Less: Accumulated depreciation and amortization	 <u>52,873,581</u>	 <u>3,897,223</u>	 ( <u>905,463</u> )	 <u>55,865,341</u>
 Total net capital assets being depreciated	 41,220,108	 1,832,203	 ( 15,892 )	 43,036,419
 <u>Capital assets, not being depreciated:</u>				
Construction in progress	<u>775,100</u>	<u>462,646</u>	( <u>1,035,005</u> )	<u>202,741</u>
 Total capital assets, net	 <u>\$ 41,995,208</u>	 <u>\$ 2,294,849</u>	 ( <u>\$ 1,050,897</u> )	 <u>\$ 43,239,160</u>

During 2007, GMHA conducted a physical count of its fixed assets and reconciled its fixed assets subsidiary ledger and the general ledger at September 30, 2007. Of the deletion of \$10,525,288 in the capital assets at September 30, 2007, \$6,128,228 of the recorded cost, and \$5,905,166 of related accumulated depreciation (net book value of \$223,062) had been accounted for as no longer existing in the hospital. Management believes that these assets have been surveyed/disposed during the past six years. However, the general ledger control accounts were not properly updated until September 30, 2007, which as a result of this reconciliation, GMHA restated the previously issued 2006 financial statements, increasing the beginning unrestricted net assets by \$1,375,708 (See Note 17).

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(6) Accounts Receivable and Payable

Patient accounts receivable and accounts payable reported as current assets and liabilities by GMHA at September 30, 2007 and 2006 consisted of the following:

Patient Accounts Receivable

	<u>2007</u>	<u>2006</u>
Current Receivable-Subsidiary Ledger:		
Self-pay patients	\$ 44,311,017	\$ 48,208,645
Local Third-Party Payor & Other	15,253,707	9,795,941
Medicaid Assistance Program	13,215,818	17,534,750
Medically Indigent Program	10,644,027	14,511,265
Medicare	<u>7,049,433</u>	<u>6,155,571</u>
	<u>90,474,002</u>	<u>96,206,172</u>
Bad Debt Receivable (Account referrals):		
Collection agencies and other	728,890	9,779,667
Department of Revenue and Taxation	<u>48,993,432</u>	<u>24,790,667</u>
	<u>49,722,322</u>	<u>34,570,334</u>
Total per Subsidiary Ledger	140,196,324	130,776,506
General ledger's related patient receivable:		
Referral to Revenue and Taxation	-	93,142
Accounts receivable-unmatched cash receipts	<u>( 263,808)</u>	<u>( 334,103)</u>
Total patient accounts receivable	<u>139,932,516</u>	<u>130,535,545</u>
Less: Allowance for bad debts and contractual adjustments	<u>( 111,627,265)</u>	<u>( 100,348,314)</u>
Patient accounts receivable, net	<u>\$ 28,305,251</u>	<u>\$ 30,187,231</u>

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September 30, 2007 and 2006

(6) Accounts Receivable and Payable, continued

The changes in allowance for bad debts and contractual adjustments are as follows:

	2007	2006
Beginning of year, allowance for bad debts and contractual adjustments	\$100,348,314	\$ 66,764,749
Add: Provision for bad debts and contractual adjustments	55,973,455	44,164,349
Less: contractual write-offs and bad debts, net	( 44,694,504)	( 10,580,784)
Balance, end of year	<u>\$111,627,265</u>	<u>\$100,348,314</u>

Accounts Payable- trade

	2007	2006
Payable to vendors	\$ 6,073,513	\$ 8,728,952
Government of Guam Agencies:		
Guam Water Works	57,248	81,248
Guam Power Authority	313,533	131,420
Other	<u>4,943</u>	<u>15,767</u>
	<u>\$ 6,449,237</u>	<u>\$ 8,957,387</u>

Accounts payable-Retirement Fund

At September 30, 2007 and 2006, GMHA had amounts due to Government of Guam Retirement Fund (GGRF) included in its accounts payable and notes payable consisting of employer and member contributions under the Defined Benefit Plan (DB) for payroll periods from fiscal years ended, September, 1998 through September, 2005. GMHA assessed interest and penalties on these unpaid contributions in accordance with Section 8137(c) of 4 Guam Code Annotated Chapter 8, Retirement of Public Employees.

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(6) Accounts Receivable and Payable, continued

At September 30, 2007 and 2006, the accounts payable due to GGRF reported as current liabilities consisted of the following:

	2007	2006
Unpaid employer and member contributions of prior years (DB Plan)	\$ 5,911,063	\$ 7,000,579
Government unfunded liability	150,308	125,758
Employer and member contribution of current fiscal year (DCRS Plan)	197,977	166,480
FY 2002 Supplemental/COLA annuities for retirees	1,507,004	1,507,004
Interest and penalties	2,341,169	2,400,039
Total	\$10,107,521	\$11,199,860

At September 30, 2007 and 2006, amounts due to GGRF for supplemental benefits for GMHA's retirees who retired prior to October 1, 1995 and COLA benefits for those employees who retired prior to October 1, 2001 totaled \$1,507,004, in each year respectively. The recognition of this obligation was pursuant to Fiscal Year 2002 Budget Act (PL 26-35) and as amended by Public Law 26-49. GMHA was among various autonomous agencies required to remit certain supplemental benefits to its employees.

In June 2005, the Government of Guam Legislature passed Public Law 28-38, which authorized the Treasurer of Guam to pay "interest only" payments in monthly installments of \$190,501 on behalf of the Guam Memorial Hospital Authority for its deficiency of \$16,860,142 balance due to the Government of Guam Retirement Fund as of the law enactment date. The "interest only" payments shall continue until the deficiency is fully satisfied. If the deficiency is not satisfied within ten (10) years following the enactment of PL 28-38 and as amended by Public 29-19 which extended the terms from 5 years to 10 years, payments for GMHA's principal shall resume as provided in 4 GCA §8137 for Retirement of Public Employees.

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September 30, 2007 and 2006

(6) Accounts Receivable and Payable, continued

As of September 30, 2007 and 2006, the balances of the outstanding deficiencies in retirement contributions referred above consist of the following:

	<u>2007</u>	<u>2006</u>
Classified in current accounts payables:		
Unpaid members and government contributions	\$ 5,911,063	\$ 7,000,579
Interest and penalties	<u>2,341,169</u>	<u>2,400,039</u>
	<u>8,252,232</u>	<u>9,400,618</u>
Classified in notes payable:		
Unpaid members and government contributions	4,205,619	4,838,430
Interest and penalties	<u>1,712,018</u>	<u>1,368,583</u>
	<u>5,917,637</u>	<u>6,207,013</u>
Total	<u>\$ 14,169,869</u>	<u>\$ 15,607,631</u>

(7) Third-Party Rate Adjustments, Revenues, and Concentrations of Credit Risk

Third Party Rate Adjustments

GMHA has various third-party payor agreements that provide for payments to be made to the hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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 current interim rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology.

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September 30, 2007 and 2006

(7) Third-Party Rate Adjustments, Revenues, and Concentrations of Credit Risk, continued

Third Party Rate Adjustments, continued

GMHA is reimbursed for cost reimbursable items at a tentative rate with the final settlement determined after submission of annual cost reports by GMHA and any audits performed by the Medicare fiscal intermediary.

During 2006, GMHA made an appeal to the Centers for Medicare and Medicaid Services (CMS) to address certain operating expenses disallowed by the Program in its determination of interim rates, which resulted in poor reimbursement rates from the Medicare program for fiscal years 2004 and 2005. The appeal was substantiated by the resubmission of the annual Cost Medicare Report for 2004 and 2005 and resulted in a favorable redetermination of final settlement rates. The total adjustments of program reimbursements for the years appealed aggregated \$6,378,546, of which GMHA partially received \$1,457,016 during fiscal year 2006 and the final settlement of \$4,921,530 was received in fiscal year 2007.

At September 30, 2007, the estimated amount due to third-party payor settlement (Medicare) was \$684,200, resulting from a CMS review of interim rates for the period covering from October 1, 2006 to September 30, 2007.

Medicaid Program and Medically Indigent Program (MIP)

GMHA is reimbursed for the cost of inpatient and outpatient services rendered under the programs administered by the Government of Guam Department of Public Health and Social Services. During each fiscal year, GMHA is reimbursed on the basis of interim rates with the final settlement determined after submission of annual cost reports prepared in accordance with the agency requirement.

Laws and regulations governing Medicare and Medicaid Programs are extremely complex and are 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.

Local Insurance Carriers and Other Third Party Payors

GMHA also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to GMHA under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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Notes to Financial Statements  
September 30, 2007 and 2006

(7) Third-Party Rate Adjustments, Revenues, and Concentrations of Credit Risk, continued

Net Patient Service Revenue

A summary of Patient Service Revenue at September 30, 2007 and 2006 is as follows:

<u>Fiscal Year 2007</u>	<u>Gross Patient Service Revenue</u>	<u>Less: Estimates for Contractual Adjustments and Bad Debts</u>	<u>Net Patient Service Revenue</u>
<u>Inpatient and outpatient acute care services:</u>			
Local Third-Party Payor & Other	\$ 37,218,592	\$ 7,970,163	\$ 29,248,429
Medicare	24,306,534	11,342,824	12,963,710
Self-Pay	29,009,314	21,091,133	7,918,181
Medicaid	13,873,396	8,791,647	5,081,749
Medically Indigent Program	<u>9,959,504</u>	<u>6,777,688</u>	<u>3,181,816</u>
Total inpatient and outpatient acute care services	<u>114,367,340</u>	<u>55,973,455</u>	<u>58,393,885</u>
<u>Inpatient and outpatient support services:</u>			
Medicare	\$ 2,559,707	\$ -	\$ 2,559,707
Self-Pay	1,377,469	-	1,377,469
Local Third-Party Payor & Other	1,313,213	-	1,313,213
Medically Indigent Program	854,212	-	854,212
Medicaid	<u>289,785</u>	<u>-</u>	<u>289,785</u>
Total inpatient and outpatient support services	<u>6,394,386</u>	<u>-</u>	<u>6,394,386</u>
Total	<u>\$120,761,726</u>	<u>\$ 55,973,455</u>	<u>\$ 64,788,271</u>

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(7) Third-Party Rate Adjustments, Revenues, and Concentrations of Credit Risk, continued

Net Patient Service Revenue, continued

<u>Fiscal Year 2006</u>	<u>Gross Patient Service Revenue</u>	<u>Less: Estimates for Contractual Adjustments and Bad Debts</u>	<u>Net Patient Service Revenue</u>
<u>Inpatient and outpatient</u>			
<u>acute care services:</u>			
Local Third-Party Payor & Other	\$ 32,006,516	\$ 7,054,510	\$ 24,952,006
Medicare	24,449,260	7,041,344	17,407,916
Medically Indigent Program	10,519,951	3,122,927	7,397,024
Medicaid	13,833,839	8,332,376	5,501,463
Self-Pay	<u>23,944,606</u>	<u>18,613,192</u>	<u>5,331,414</u>
 Total inpatient and outpatient acute care services	 <u>104,754,172</u>	 <u>44,164,349</u>	 <u>60,589,823</u>
 <u>Inpatient and outpatient</u>			
<u>support services:</u>			
Medicare	\$ 2,559,707	\$ -	\$ 2,559,707
Local Third-Party Payor & Other	1,279,308	-	1,279,308
Medically Indigent Program	1,163,082	-	1,163,082
Self-Pay	608,724	-	608,724
Medicaid	<u>231,418</u>	<u>-</u>	<u>231,418</u>
 Total inpatient and outpatient support services	 <u>6,074,964</u>	 <u>-</u>	 <u>6,074,964</u>
 Total	 <u>\$110,829,136</u>	 <u>\$ 44,164,349</u>	 <u>\$ 66,664,787</u>

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(7) Third-Party Rate Adjustments, Revenues, and Concentrations of Credit Risk, continued

Net Patient Service Revenue, continued

In 2007 and 2006, management wrote-off approximately \$14,400,000 and \$0 patient receivables comprising uncollectible accounts from collection agencies, uncollectible MAP and MIP and various receivables other than contractual adjustments. During fiscal years 2007 and 2006, GMHA had recoveries of bad debts approximating \$333,000 and \$890,000, respectively.

Concentrations of Credit Risk

GMHA grants credit without collateral to its patients, most of whom are residents of the Territory of Guam and are uninsured. The mix of receivables from patients and third-party payors, net of management's estimates of allowance for contractual adjustments and uncollectible accounts at September 30, 2007 and 2006, are as follows:

	2007	2006
Self-pay patients	31%	24%
Local Third-Party Payor and Other	24%	21%
Medicaid Assistance Program	21%	25%
Medically Indigent Program	13%	21%
Medicare	11%	9%
	100%	100%

(8) Employees' Retirement Plan

Plan Description

Defined Benefit Plan (DB)

The Defined Benefit Plan (DB) provides for retirement, disability, and survivors benefits to members of the plan prior to October 1, 1995 (all government employees are required to participate in the Defined Contribution Retirement System Plan after October 1, 1995). Under this plan, retirement benefits are based on age and/or years of credited service and an average of the three (3) highest annual salaries received by a member during the years of credited service, or \$6,000, whichever is greater.

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(8) Employees' Retirement Plan

Plan Description, continued

Defined Contribution Retirement System Plan (DCRS)

The Defined Contribution Retirement System (DCRS) was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed in the Government of Guam whose employment commenced on or after October 1, 1995. Existing members of the DB Plan with less than twenty (20) years of service credit may, upon written election, voluntarily elect membership in the DCRS. This option was available for sixty-five (65) months after enactment of the legislation, and between March 1 and May 31, of every year, beginning in the year 2002. After making the election to transfer, the employee may not change the election or again become a member of the DB plan.

Contributions

Contributions under both the DB and DCRS Plans are set by law and are administered by the Government of Guam Retirement Fund. For the years ended September 30, 2007 and 2006, the statutory contribution rates for employers and employees under the DB Plan was 22.94% and 9.5%, and 21.81% and 9.5%, respectively. For the year ended September 30, 2005, the statutory contribution rate for employer and employee contributions was 20.81% and 9.5%.

As a result of the actuarial valuation performed as of September 30, 2005, 2004 and 2003, the annual actuarially required contribution rates for the years ended September 30, 2007, 2006 and 2005, respectively, have been determined as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Normal Cost (as % of expected Defined Benefit Plan payroll)	18.21%	17.83%	18.30%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal cost (% of DB Plan Payroll)	<u>8.71%</u>	<u>8.33%</u>	<u>8.80%</u>
Employer portion of normal cost (% of total payroll)	6.81%	4.64%	4.96%
Unfunded liability costs, as % of total payroll	<u>20.67%</u>	<u>21.36%</u>	<u>19.93%</u>
Government contribution as % of DB Plan payroll	<u>27.48%</u>	<u>26.00%</u>	<u>24.89%</u>

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September 30, 2007 and 2006

(8) Employees' Retirement Plan, continued

Contributions, continued

The Defined Benefit Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 7%, an assumed payroll increase of 3.5%, and an assumed salary scale increase of 4.0% - 8.5% per annum. The unfunded liability is being amortized as a level percentage of total payroll through May 1, 2031. The most recent actuarial valuation performed as of September 30, 2005, 2004 and 2003, did not provide a breakdown of the actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GMHA as a separate sponsor, the accrued unfunded liability at September 30, 2007 and 2006 may be materially different than that recorded in the accompanying financial statements.

Contributions in the DCRS 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 annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2007 and 2006 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited in the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Retirement expense for the years ended September 30, 2007 and 2006 was \$7,805,957 and \$6,928,976, respectively. At September 30, 2007 and 2006, the accrued unfunded liability to the retirement fund was \$1,137,683 and \$2,102,345, respectively.

For additional information on the Government of Guam Retirement Fund, inquiries may be addressed to the Director of the Government Retirement Fund, 424 A Route 8, Maite, Guam, 96950.

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(9) Long-Term Liabilities

At September 30, 2007 and 2006, long-term liabilities consist of the following:

	2007	2006
Promissory note payable due to the Government of Guam Retirement Fund, payable in equal quarterly installments of \$366,064 beginning March 1998, later revised to \$401,330 beginning March 2002, including interest at the Bank of Hawaii's prime rate plus 1% (8% interest at September 30, 2007 and 2006. The note was due in March 2003 and is uncollateralized. (See Note 6).	\$ 5,917,637	\$ 6,207,013
Promissory note payable due to the Medical Defenders, LLC for legal services, payable in monthly installments of \$5,000, due April 2009, uncollateralized and bears no interest.	100,000	-
Promissory note due to the Guam Power Authority for balances payable for electrical service payable in total monthly installments of \$43,483, beginning October 2005, including interest at 4.47% per annum, due April 2007, uncollateralized.	-	<u>759,723</u>
Total notes payable	6,017,637	6,966,736
Less current portion	<u>5,977,637</u>	<u>6,704,969</u>
Long-term debt	<u>\$ 40,000</u>	<u>\$ 261,767</u>

Future maturities of long-term debt as follows:

Year-end September 30,

2008	\$ 5,977,637
2009	<u>40,000</u>
	<u>\$ 6,017,637</u>

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Notes to Financial Statements  
September 30, 2007 and 2006

(9) Long-Term Liabilities, continued

As discussed in Note 6, the Government of Guam Legislature passed Public Law 28-38 in fiscal year 2005 to address special retirement provisions for GMHA and GPSS, and for the purpose of permitting eligible employees to retire. Pursuant to Public Law 28-38, beginning July 2005, monthly interest payments of \$190,501 are to be remitted directly to GGRF from the Government of Guam's general fund to compensate GMHA's contribution deficiencies. The provisions of monthly payment of interest of \$190,501 to GGRF by the Government of Guam will continue until the outstanding balances are fully paid from general obligation bonds or alternate means.

Changes in the long-term liabilities:

At September 30, 2007 and 2006, the changes in the long-term liabilities are as follows:

<u>2007</u>	<u>Outstanding Balance 09/30/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding Balance 09/30/07</u>	<u>Current</u>	<u>Noncurrent</u>
Government of Guam Retirement Fund note payable	\$ 6,207,013	\$ -	(\$ 289,376)	\$ 5,917,637	\$ 5,917,637	\$ -
Note payable-other	-	100,000	-	100,000	60,000	40,000
Guam Power Authority note payable	759,723	-	( 759,723)	-	-	-
Unfunded retirement liability	2,102,345	-	( 964,662)	1,137,683	-	1,137,683
Accrued annual leave	2,905,190	1,948,030	(1,670,570)	3,182,650	1,973,243	1,209,407
Accrued sick leave of employees under DCRS Retirement Plan	<u>1,351,327</u>	<u>230,324</u>	<u>-</u>	<u>1,581,651</u>	<u>79,083</u>	<u>1,502,568</u>
	<u>\$13,325,598</u>	<u>\$2,278,354</u>	<u>(\$3,684,331)</u>	<u>\$11,919,621</u>	<u>\$ 8,029,963</u>	<u>\$ 3,889,658</u>

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(9) Long-Term Liabilities, continued

Changes in the long-term liabilities, continued

2006	Outstanding Balance 09/30/05	Increases	Decreases	Outstanding Balance 09/30/06	Current	Noncurrent
Government of Guam Retirement Fund note payable	\$ 6,528,514	\$ -	(\$ 321,501)	\$ 6,207,013	\$ 6,207,013	\$ -
Guam Power Authority note payable	782,032	411,150	( 433,459)	759,723	497,956	261,767
Unfunded retirement liability	2,634,704	-	( 532,359)	2,102,345	-	2,102,345
Accrued annual leave	2,604,555	2,038,195	(1,737,560)	2,905,190	1,856,166	1,049,024
Accrued sick leave of employees under DCRS Retirement Plan	<u>1,168,347</u>	<u>182,980</u>	<u>-</u>	<u>1,351,327</u>	<u>135,133</u>	<u>1,216,194</u>
	<u>\$13,718,152</u>	<u>\$2,632,325</u>	<u>(\$3,024,879)</u>	<u>\$ 13,325,598</u>	<u>\$ 8,696,268</u>	<u>\$ 4,629,330</u>

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Notes to Financial Statements  
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(10) Related Party Transactions from Government Agencies

At September 30, 2007 and 2006, a summary of related party receivables, payables and expenses transactions with the Government Agencies included in the various financial accounts of the accompanying statements of net assets and statements of revenues, expenses and changes in net assets are as follows:

Receivables

	2007	2006
Department of Public Health and Social Services (DPHSS) for the following:		
Medicaid, net of estimated allowance for contractual adjustments of \$7,159,075 and \$9,994,808 for 2007 and 2006, respectively.	\$ 6,056,743	\$ 7,539,942
MIP, net of estimated allowance for contractual adjustments of \$6,939,794 and \$8,271,421 for 2007 and 2006, respectively.	<u>3,704,233</u>	<u>6,239,844</u>
Total due from DPHSS	<u>9,760,976</u>	<u>13,779,786</u>
Due from Government of Guam for Federal program expenditures and deferred revenue balance (see Note 3).	<u>6,935,972</u>	<u>6,061,465</u>
Catering services and supplies issuances: Department of Mental Health and Substance Abuse, Fire Department and DPHSS, net of \$620,637 and \$560,130 allowance for bad debts	<u>550,145</u>	<u>3,805</u>
Total	<u>\$ 17,247,093</u>	<u>\$ 19,845,056</u>

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Notes to Financial Statements  
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(10) Related Party Transactions from Government Agencies, continued

<u>Payables</u>	<u>2007</u>	<u>2006</u>
Government of Guam Retirement Fund for unpaid retirement contributions, promissory note, and unfunded retirement liability	\$ 17,162,841	\$ 19,509,218
Guam Power Authority promissory note and current electric service	313,533	891,144
Government of Guam for deferred revenues from Federal program appropriations	6,340,157	3,529,240
Department of Revenue and Taxation for employee withholding taxes	274,677	2,189,071
Guam Waterworks Authority	<u>57,248</u>	<u>81,248</u>
Total	<u>\$ 24,148,456</u>	<u>\$ 26,199,921</u>

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Notes to Financial Statements  
September 30, 2007 and 2006

(10) Related Party Transactions from Government Agencies, continued

Expenses

For the fiscal years ended September 30, 2007 and 2006, utilities expense incurred for electrical services with Guam Power Authority was \$2,331,567 and \$1,428,278, respectively.

For the fiscal years ended September 30, 2007 and 2006, water services incurred with Guam Waterworks Authority was \$461,315 and \$259,151, respectively.

For the fiscal years ended September 30, 2007 and 2006, related parties interest expense and penalties included in the nonoperating expenses of the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

	<u>2007</u>	<u>2006</u>
Guam Retirement Fund	\$1,068,142	\$2,148,569
Department of Revenue and Taxation	-	274,676
Guam Power Authority	<u>18,710</u>	<u>43,901</u>
Total	<u>\$1,086,852</u>	<u>\$2,467,146</u>

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Notes to Financial Statements  
September 30, 2007 and 2006

(11) Transfers from the Government of Guam

During the fiscal years ended September 30, 2007 and 2006, the Government of Guam passed supplemental appropriations in public laws from its general fund and special revenue fund for certain specific programs and financial assistance for GMHA operations. Measurable supplemental subsidies and expended appropriations are recorded as Transfers from the Government of Guam in the accompanying statements of revenues, expenses, and changes in net assets, and are summarized below:

Fiscal Year 2007

<u>Specific Purpose Program</u>	<u>Appropriation</u>	<u>Expended (Revenue) (Realized)</u>	<u>Cash received from GovGuam</u>	<u>Unexpended Appropriation Balance</u>
Public Law 29-02, Chp. IV, Sections 4 & 23, from the Pharmaceutical Fund.	\$ 9,996,884	\$ 9,996,884	(\$ 9,996,884)	\$ -
Public Law 29-02, Chp. IV, Section 3, from the General Fund, for the operations of the hospital.	3,601,660	3,601,660	( 3,601,660)	-
Public Law 28-68, Chp. II, Section 3, amended by Public Law 29- 02, from the General Fund, net of \$2,431,878 expended in 2006.	1,768,122	1,381,255	-	386,867
Unreimbursed General Fund appropriations expended for capital projects.	-	( 2,588,104)	-	-
Total	<u>\$ 15,366,666</u>	<u>\$ 12,391,695</u>	<u>(\$13,598,544)</u>	<u>\$ 386,867</u>

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Notes to Financial Statements  
September 30, 2007 and 2006

(11) Transfers from the Government of Guam, continued

Fiscal Year 2006

<u>Specific Purpose Program</u>	<u>Appropriation</u>	<u>Expended (Revenue) (Realized)</u>	<u>Cash received from GovGuam</u>	<u>Unexpended Appropriation Balance</u>
Public Law 28-68, Chapter II, (2006 Budget Law), from the Special Fund Pharmaceutical Fund.	\$ 8,421,521	\$ 8,421,521	(\$ 8,421,521)	\$ -
Public Law 28-68, Section 23, from the Special Fund – Health Securities Trust for pharmaceutical support and education program of the hospital.	283,130	283,130	( 283,130)	-
<u>Financial Assistance</u>				
Public Law 28-66, Section 4, an authority to directly pay the Retirement Fund from the General Fund for the GMHA's 2005 retirement contributions payable and for outstanding retirement contributions of employees who applied for retirement as of September 30, 2005.	1,460,000	1,460,000	( 1,460,000)	-
Public Law 27-106, Section 22, (2005 Budget Act), from General Fund, final balance continuing in 2006, used for payment of GMHA's outstanding retirement fund payable for employees who applied for retirement as of September 30, 2004.	<u>600,000</u>	<u>600,000</u>	<u>( 600,000)</u>	<u>-</u>
Sub-total, carry forward	<u>\$ 10,764,651</u>	<u>\$ 10,764,651</u>	<u>(\$ 10,764,651)</u>	<u>\$ -</u>

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Notes to Financial Statements  
September 30, 2007 and 2006

(11) Transfers from the Government of Guam, continued

Fiscal Year 2006, continued:

<u>Specific Purpose Program</u>	<u>Appropriation</u>	<u>Expended (Revenue) (Realized)</u>	<u>Cash Received from GovGuam</u>	<u>Unexpended Appropriation Balance</u>
<u>Financial Assistance, continued</u>				
Sub-total, brought forward	\$ 10,764,651	\$10,764,651	(\$10,764,651)	\$ -
Public Law 28-68, Section 32, appropriation from the General Fund for the continued funding of 2005 appropriation subsidy for bad debt losses of GMHA.	1,027,527	1,027,527	( 1,027,527)	-
Supplemental assistance on Financial Improvement Management Plan and other.	<u>194,101</u>	<u>194,101</u>	<u>(30,000)</u>	<u>-</u>
Total	<u>\$ 11,986,279</u>	<u>\$ 11,986,279</u>	<u>(\$ 11,822,178)</u>	<u>\$ -</u>

Capital Expenditures

Public Law 28-68 Advance Appropriation for 2007, Capital Expenditures. Public Law 28-68, Chapter II, Section 25.	<u>\$ 7,800,000</u>	<u>\$ 2,431,878</u>	<u>\$ -</u>	<u>\$ 5,368,122</u>
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Notes to Financial Statements  
September 30, 2007 and 2006

(12) Commitments and Contingencies

Commitments

Purchase Commitments

At September 30, 2007, the GMHA had purchase commitments of approximately \$4,272,000 obligated for the acquisitions of various capital equipment, equipment modernization, information technology upgrade and pharmaceutical and medical supplies, all expected to be received in 2007.

Operating Leases

GMHA has entered into lease agreements to lease office equipment expiring through December, 2008. The scheduled future minimum payments under the lease are as follows:

Year Ending September 30,	<u>Amount</u>
2008	\$ 190,270
2009	<u>45,336</u>
	<u>\$ 235,606</u>

Contingencies

Self-Insurance

GMHA is self-insured for malpractice. GMHA's exposure under malpractice claims is limited to \$300,000 per claim by the Government Claims Act.

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Notes to Financial Statements  
September 30, 2007 and 2006

(12) Commitments and Contingencies

Contingencies, continued

*Medical Malpractice Claims and Employment/Personnel Matter Claims*

GMHA is the defendant in several malpractice claims including several claims for employment and personnel matters that 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. GMHA's known maximum exposure under these claims is approximately \$2.9 million of asserted and unasserted claims. For all other malpractice claims asserted and unasserted, GMHA is unable to estimate the actual monetary damages. Therefore, no liability for these contingencies has been made in the accompanying financial statements.

*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.

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Notes to Financial Statements  
September 30, 2007 and 2006

(12) Commitments and Contingencies, continued

Contingencies, continued

*Federal Award Programs*

GMHA received Federal award grants that pass-through the Government of Guam for specific purposes that are subject to review and audit by grantor agencies. Although GMHA has been audited in accordance with the provisions of OMB Circular A-133, these programs are also subject to financial and compliance audits by the grantor or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant.

At September 30, 2007, of the \$1,681,734 unresolved questioned costs in the Summary Schedule of Unresolved Questioned Costs (page 107), \$1,268,121 represents accumulated questioned costs arising from the prior years' Single Audits.

(13) Concentrations in the available sources of Pharmaceuticals and Medical Supplies

GMHA has five major suppliers that accounted for approximately 65% and 59% of the total pharmaceutical and general stores supplies as of September 30, 2007 and 2006, respectively. Two of the major suppliers which account for 36% and 21% for 2007 and 2006, respectively, of the pharmaceutical and supplies purchases were from outside of Guam, and three major suppliers which account for 29% and 38% for 2007 and 2006, respectively, were locally procured. GMHA is dependent on the ability of its local and off-island suppliers to provide pharmaceuticals and medical supplies on a timely basis and on a favorable pricing terms. The loss of certain principal suppliers or a significant reduction in product availability from principal suppliers could have a material adverse effect on the operations of GMHA.

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Notes to Financial Statements  
September 30, 2007 and 2006

(13) Concentrations in the available sources of Pharmaceuticals and Medical Supplies, continued

Additionally, a failure to maintain a satisfactory relationship to these suppliers in meeting required terms of payments on products purchased could also negatively effect the operations of GMHA.

At September 30, 2007 and 2006, the enabling legislations of Public Law 28-68, Chapter II, Section 22, and Public Law 29-02, Chapter IV, Sections 1 and 2, provides for 6.19% and 5.61%, respectively, of the gross receipts tax collected by the Government of Guam be earmarked for GMHA's Pharmaceutical Fund to fund for all pharmaceutical, drug, medical supplies, equipment, blood products and medicine requirements of the Guam Memorial Hospital Authority.

(14) Economic Dependency

The Statement of Financial Accounting Standard (SFAS) No. 14 requires disclosure in the financial statements of a situation where one entity provides more than 10% of an entity's revenues. At September 30, 2007 and 2006, GMHA has the following major third-party payor agencies that account for 75% and 78%, respectively, of its gross patients revenues as follows:

	<u>2007</u>	<u>2006</u>
Government of Guam Department of Public Health and Social Services, administering Medicaid and Medically Indigent Program	21%	23%
U.S. Department of Health and Human Services administering the Medicare Program	22%	25%
Local Third-Party Payor & Other	<u>32%</u>	<u>30%</u>
	<u>75%</u>	<u>78%</u>

At September 30, 2007 and 2006, GMHA also received supplemental subsidies for the patient care operations which accounted for approximately 11% in each year of its gross patient revenues.

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Notes to Financial Statements  
September 30, 2007 and 2006

(15) Typhoon and Earthquake Damages and Related Insurance Claims

The main facility of the GMHA was severely damaged by a super typhoon that struck the island of Guam on December 8, 2002. The actual incurred damage from the super typhoon was \$2.8 million. GMHA received \$1 million partial settlement claim for damages from its insurance carrier during the fiscal year ended 2003, and approximately \$730,000 that was accrued at September 30, 2004 was received in 2005. Of the \$2.8 million typhoon damages, approximately \$1 million was recovered from the FEMA in public assistance and hazard mitigation programs from 2003 through 2007. At September 30, 2007 and 2006, expenditures approximately \$161,464 and \$321,036, respectively was incurred for on-going FEMA hazard mitigation programs related to the above typhoon damages.

(16) Going Concern

GMHA has incurred recurring losses from operations of \$22,421,437 and \$12,092,748 and negative cash flows from operations of \$14,501,297 and \$11,719,821 for the years ended September 30, 2007 and 2006, respectively. At September 30, 2007 and 2006, GMHA's deficiencies on unpaid retirement contributions in arrears with the Government of Guam Retirement Fund (see Note 6) were \$14,169,869 and \$15,607,631, respectively. At September 30, 2007 and 2006, management estimates of uncollectible accounts mainly from the Self-pay patient's accounts were \$90,326,457 and \$78,062,185, which negatively impact the operations and cash flows of the hospital. As a result of these conditions, GMHA's management expects to continue experiencing negative operating losses and cash flows, as well as receiving continued subsidies from the Government of Guam to accomplish its mission and continue as going concern entity.

The Government of Guam has taken several actions through various enabling legislation to ensure that the hospital will continue as a going concern and addressed the issue of GMHA's deficiencies with the Government of Guam Retirement Fund as discussed in Notes 6 and 9. Public Law 28-68, Chapter II, Section 23, mandated GMHA to submit an Annual Budget on 30<sup>th</sup> of January which will be the budget for all of its operations for the succeeding fiscal year and for seeking appropriation approval by the Governor of Guam. During the fiscal year 2007 and 2006, GMHA received funds from various enabling legislation for specific programs, and financial assistance totaling \$13,598,544 and \$11,986,279, respectively, and \$5,870,903 and \$5,369,506 in federal program assistance for 2007 and 2006, respectively. For the fiscal year 2008, the Government of Guam appropriated GMHA approximately \$22,000,000 from the General Fund and Special Fund Revenues to fund various specific programs, and financial assistance earmarked for all pharmaceutical, drug medical supplies, medical equipment, blood products and medicine requirements for GMHA. GMHA's management believes that the continuing appropriations from the Government of Guam will enable the hospital to continue as a going concern.

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Notes to Financial Statements  
September 30, 2007 and 2006

(16) Going Concern, continued

There is no assurance, however, that the Government of Guam will be able to fund such appropriations. The accompanying financial statements do not include any adjustments that might be necessary if GMHA is unable to continue as a going concern.

(17) Restatement

GMHA has restated its previously issued 2006 financial statements as discussed in Note 5, which consequently affects the following previously reported items: building and improvement, long term care facility, movable equipment, depreciation and accumulated depreciation of prior years. The financial statements for 2006 have been restated to reflect the corrections.

The following is a summary of the restatements for 2006:

To record the accumulated prior years' understatement of Movable equipment's costs recorded in the general ledger	\$ 1,879,814
To record the accumulated prior years' understatement of Building and attachment's costs recorded in the general ledger	38,284
To record the related depreciation of prior years understated recorded costs of capital assets	( <u>542,390</u> )
Net increase in previously issued net assets	<u>\$ 1,375,708</u>

The effect of the abovementioned restatements to the previously issued September 30, 2006 balance sheet is summarized as follows:

	<u>Previously Reported</u>	<u>As restated</u>	<u>Restatement</u>
Capital assets, net	<u>\$41,863,452</u>	<u>\$43,239,160</u>	<u>\$ 1,375,708</u>
Net assets, end of year	<u>\$46,911,704</u>	<u>\$48,287,412</u>	<u>\$ 1,375,708</u>

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Notes to Financial Statements  
September 30, 2007 and 2006

(18) Reclassifications

Expense allocation and presentation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Revenues, Expenses and Changes in Net Assets. Certain 2006 functional class/object have been reclassified to conform to the 2007 presentation. Additionally, the functional expenses presented in the 2006 Statement of Revenues and Expenses, and Changes in Net Assets as “Ancillary” and “General Services”, have been renamed to Professional Support and Administrative Support, respectively, to conform to the functional description presented in the 2007 Annual Budget of GMHA. These reclassifications and renaming of account classifications had no effect on previously reported results of operations.

(19) Subsequent event

Declaratory Judgment on the interpretation of the effective date of the implementation of “Nurses and Other Professional Incentive Act”

In April 2008, GMHA acknowledged the Superior Court of Guam’s declaratory judgment on the interpretation of the effective date of implementation of the “Nurses and Other Healthcare Professional Incentive and Retention Act” rendered in October 2006. The liability arising from this claim approximates \$1,519,000 base pay and is included in the financial statements at September 30, 2007. The employer share on the retirement benefits and applicable FICA taxes associated with the claim have not been determined at September 30, 2007 and will record such upon settlement of the base pay liability.



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Supplemental Information  
Schedule of Expenses, Operating Encumbrances, and Full-Time Employees (FTE) Count  
Years Ended September 30, 2007 and 2006

	Approved Budget (Modified)	2007	Actual	2006	Functional Department															
					Encumbrance Balance at 9/30/07	Laundry Services	Central Supply	Purchasing	Safety	Security	Housekeeping	Facilities	Communication Center	Guest Relations	Planning					
<b>ADMINISTRATIVE SUPPORT</b>																				
Salaries-regular	\$ 3,444,157	\$ 3,466,719	\$ 3,341,659																	
Salaries-overtime	368,513	368,383	185,879																	
Other pay	474,843	475,363	338,845																	
Fringe benefits	1,207,371	1,104,452	987,848																	
Total personnel costs	5,494,884	5,414,917	4,854,231	\$ 1,939	\$ -	\$ -	\$ 228	\$ 1,711	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utilities, water and telephone	2,094,833	2,126,712	1,817,290	18,070																
Supplies and materials	907,103	1,496,736	1,428,451	5,065	1,320			2,528	270											
Contractual services	2,363,538	1,410,297	1,542,544	33,000		907	24,318	1,467			2,594	1,710	2,004							181
Capital outlay	98,750	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous-Bad debts	-	-	327,537	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	88,825	295,443	301,490	7,000		228	2,684	1,094			450	2,374								
	\$ 11,047,933	\$ 10,744,105	\$ 10,271,543	\$ 65,074	\$ 1,320	\$ 1,135	\$ 29,758	\$ 4,331	\$ 270	\$ 3,139	\$ 22,593	\$ 2,177	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FTE count		133		119		10	19	3	7	42	38	9	2	3						
FTE count						11	10	19	4	8	16	9	1	3						

	Approved Budget (Modified)	2007	Actual	2006	Functional Department									
					Encumbrance Balance at 9/30/07	Data Processing	General Accounting	Patient Affairs	Patient Registration	Medical Records				
<b>FISCAL SERVICES</b>														
Salaries - regular	\$ 3,072,419	\$ 3,062,999	\$ 3,060,176											
Salaries - overtime	145,239	145,242	124,296											
Other pay	197,969	197,974	197,282											
Fringe benefits	1,003,165	896,249	860,551											
Annual leave lump sum pay	-	493,027	419,796											
Sick leave (DC plan)	-	232,384	226,986											
Total personnel costs	4,418,792	5,027,875	4,889,087	\$ 9,478.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Supplies and materials	140,370	172,515	162,779	5,212	31	3,717	228	349	887					
Contractual services	1,231,195	1,448,469	1,301,313	19,986	3,691	5,067	131	72	11,025					
Capital outlay	125,000	-	-	653										
Miscellaneous	83,586	145,656	94,150	1,967	1,091	691	98		87					
	\$ 5,998,943	\$ 6,794,515	\$ 6,447,329	\$ 37,296	\$ 5,466	\$ 9,475	\$ 457	\$ 421	\$ 21,477					
FTE count		98		100		10	17	27	22	22	22	21	21	
FTE count						10	18	30	21	30	21	21	21	

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Supplemental Information  
Schedule of Expenses, Operating Encumbrances, and Full-Time Employees (FTE) Count  
Years Ended September 30, 2007 and 2006

	Approved Budget (Modified)	Actual		Encumbrance Balance at 9/30/07	Functional Department			Equal Employment
		2007	2006		Administration	Personnel	Med Staff-Admin	
<b>ADMINISTRATION</b>								
Salaries - regular	936,690	\$ 927,395	\$ 899,823					
Salaries - overtime	885	7,937	695					
Other pay	4,309	4,307	2,820					
Fringe benefits	279,459	306,601	229,614					
Total personnel costs	1,221,343	1,246,240	1,132,952	\$ 765	\$ -	\$ 101	\$ 664	
Contractual services	1,113,357	722,481	423,314	435,360	428,002	5,773	1,585	-
Insurance (Property)	636,826	645,373	892,958	-	-	-	-	-
Miscellaneous	201,179	197,396	147,500	21,293	8,888	7,387	5,018	-
	\$ 3,172,705	\$ 2,811,490	\$ 2,596,724	\$ 457,418	\$ 436,890	\$ 13,160	\$ 6,704	\$ 664

FTE count 21  
FTE count 26

11 8 1  
12 9 4

	Approved Budget (Modified)	Actual		Encumbrance Balance at 9/30/07	Functional Department			Utilization Mgmt
		2007	2006		Anesthesia	Employee Health	Infection control	
<b>MEDICAL STAFF</b>								
Salaries - regular	1,809,855	\$ 1,809,559	\$ 1,480,674					
Salaries - overtime	-	296	-					
Other pay	52,596	52,598	60,397					
Fringe benefits	411,171	360,485	298,249					
Total personnel costs	2,273,622	2,222,938	1,839,320	\$ -	\$ -	\$ -	\$ -	-
Contractual services	4,268.00	3,346	100	852	-	-	-	852
Supplies	-	99,091	-	-	-	-	-	-
Miscellaneous	105,509	11,424	98,649	1,778	1,081	-	-	697
	\$ 2,383,399	\$ 2,336,799	\$ 1,938,069	\$ 2,630	\$ 1,081	\$ -	\$ -	\$ 1,549

FTE count 17  
FTE count 17

8 8 1  
8 1 1

Total expenses \$ 83,198,052  
Total FTE count 897

75,426,252  
933