

GUAM MEMORIAL HOSPITAL AUTHORITY

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

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

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Memorial Hospital Authority:

We have audited the accompanying statement of net assets of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 2008, and the related statements of revenues and expenses, changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of GMHA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of GMHA for the year ended September 30, 2007, before the restatement described in Note 20, were audited by other auditors whose report, dated May 13, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GMHA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

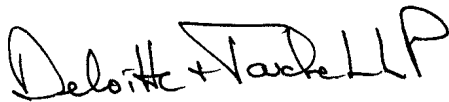
In our opinion, the accompanying 2008 financial statements present fairly, in all material respects, the financial position of the Guam Memorial Hospital Authority as of September 30, 2008, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We also reviewed the adjustments described in Note 20 that were applied to restate beginning net assets. In our opinion, such adjustments are appropriate and have been properly applied.

The Management's Discussion and Analysis on pages 1 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of GMHA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of GMHA taken as a whole. The accompanying schedules on pages 29 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements of GMHA. These schedules are the responsibility of GMHA's management. Such 2008 information has been subjected to the auditing procedures applied in our audit of the basic financial statements as of September 30, 2008 and for the year then ended and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The 2007 additional information was subjected to auditing procedures by other auditors whose report, dated May 13, 2008, referred to above, stated that such information is fairly stated in all material respects when considered in relation to the basic 2007 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2009, on our consideration of GMHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

April 8, 2009

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

Management Discussion and Analysis
September 30, 2008 and 2007

INTRODUCTION

The following Management's Discussion & Analysis (MD&A), of the Guam Memorial Hospital Authority's (the Hospital or GMHA), activities and financial performance will serve as an introduction and overview to the reader of the audited financial statements of the Hospital for the fiscal years ended September 30, 2008 and September 30, 2007. The information contained in the MD&A has been prepared by management and should be considered with the financial statements and the notes thereto, which follow this section. The notes are essential to thoroughly understand the data contained in the financial statements.

The statements of net assets and the statements of revenues, expenses and changes in net assets indicate whether the Hospital's financial position has improved as a result of the year's activities. The statements of net assets presents information on all of the Hospital's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Hospital is improving or deteriorating. The statements of revenues, expenses and changes in net assets show how the Hospital's net assets changed during the year. These changes are reported as the underlying events occur regardless of the timing of related cash flows.

Statements of Net Assets

<u>Assets</u>	<u>2008</u>	<u>2007 (As Restated)</u>	<u>2006 (As Restated)</u>
Current assets	\$ 41,632,117	\$ 33,512,604	\$ 46,208,777
Note receivable	298,884	-	-
Capital assets, net	<u>41,003,267</u>	<u>41,824,643</u>	<u>43,239,160</u>
Total assets	\$ <u>82,934,268</u>	\$ <u>75,337,247</u>	\$ <u>89,447,937</u>
<u>Liabilities and Net Assets</u>			
Current liabilities	\$ 30,446,412	\$ 30,351,295	\$ 36,531,195
Long-term liabilities	<u>22,691,593</u>	<u>19,437,496</u>	<u>18,911,235</u>
Total liabilities	<u>53,138,005</u>	<u>49,788,791</u>	<u>55,442,430</u>
Net assets:			
Invested in capital assets	41,003,267	41,824,643	43,239,160
Unrestricted	<u>(11,207,004)</u>	<u>(16,276,187)</u>	<u>(9,233,653)</u>
Total net assets	<u>29,796,263</u>	<u>25,548,456</u>	<u>34,005,507</u>
Total liabilities and net assets	\$ <u>82,934,268</u>	\$ <u>75,337,247</u>	\$ <u>89,447,937</u>

Long term liabilities grew over amounts previously presented for FY2006 and FY2007 as a result of restatement as required by GASB 27 – recognition of unfunded retirement liability. The Hospital had previously under-reserved for the unfunded retirement liability. Essentially the additional allowance sets up the recognition of liability in the event every single employee of the Hospital decided to retire on the same day. Upon the recommendation of our current auditors, the Hospital made the additional adjustment to bridge the gap. The Hospital does not foresee the need to make additional adjustments for the unfunded retirement liability.

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Statements of Revenue, Expenses, and Changes in Net Assets

	<u>2008</u>	<u>2007 (As Restated)</u>	<u>2006 (As Restated)</u>
Operating revenues	\$ 89,178,514	\$ 74,751,358	\$ 67,230,727
Operating expenses	<u>93,446,613</u>	<u>89,879,889</u>	<u>80,916,374</u>
Operating loss	(4,268,099)	(15,128,531)	(13,685,647)
Non-operating revenues (expenses), net	<u>6,595,599</u>	<u>5,669,345</u>	<u>9,597,120</u>
Excess of revenue over expenses (expenses over revenue)	2,327,500	(9,459,186)	(4,088,527)
Capital grants from the Gov. Guam general fund	-	-	2,431,878
Federal award capital grants and contributions	<u>1,920,307</u>	<u>1,002,135</u>	<u>5,369,506</u>
Increase (decrease) in net assets	4,247,807	(8,457,051)	3,712,857
Net assets beginning of year	<u>25,548,456</u>	<u>34,005,507</u>	<u>30,292,650</u>
Net assets end of the year	\$ <u>29,796,263</u>	\$ <u>25,548,456</u>	\$ <u>34,005,507</u>

The Hospital receives a significant portion of its revenues from the uncollateralized credit given through providing patient care services without consideration of the patient's financial status or essentially their ability to pay. Uncollected gross revenues reflected 75% to 80% of the Hospital's asset base. The Hospital continues to increase the amount of revenue every year. This is due in part to the continual increase in the number of patients treated by the Hospital. The Hospital treated over forty seven thousand patients in FY2007 and over forty eight thousand in FY2008. Half of the patients seen are treated via the Emergency Room where medical conditions from toothache to injury from a motor vehicle accident to a heart attack are attended to with quality medical services. Over half of the patients seen at the Hospital are either covered medically under the Medically Indigent Program, the Medicaid Program, or are non-insured. Access to preventative health services is limited resulting in visits to the emergency room of a serious medical nature. The amount of medical services, pharmaceuticals, and possible admission as an inpatient ensue. This is enforced by the shortage of available hospital beds in accordance to the required level of medical care illustrated daily in the local newspaper.

Proper accounting practices require the Hospital to provide estimations against gross AR shown in the financial statements as Net AR. The Hospital performs the estimation through a historical lag analysis of what was billed, what was collected, and what was deemed uncollectible and thus written off. The Hospital recorded net receivables with allowance ratios that differentiated between current (by financial class) and long term. The lag analysis for the financial class, self pay was somewhat skewed in FY2008 due to the collection of outstanding self pay accounts resulting from the Federal Stimulus rebate program. The Hospital had referred over sixty million dollars (\$60,000,000) in outstanding accounts to the Department of Revenue and Taxation. Refunds redirected to the Hospital in payment of outstanding referred accounts totaled over five million dollars (\$5,000,000) in FY 2008. This was in addition to the four million dollars (\$4,000,000) the Hospital collected on its own for outstanding self pay accounts. The Hospital contends that this was a one time event and was excluded in the formulation of the lag analysis for self pay. This event was not taken into account when formulating the lag analysis for self pay accounts resulting in a one time adjustment to the allowance for self pay.

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The proper estimation of Net Receivables has been directed by the Board of Trustees to be management's first and foremost function. Inconsistent and untimely performance of the lag analysis can essentially misrepresent the amount of what is collectible. Consequently, it may lead the users of the financial statements to misjudge the ability of the Hospital to be properly reimbursed. The timing as to when the Hospital shall be reimbursed is unpredictable. Reimbursement from Medicare (in accordance with the result of the annual Medicare Cost Report) and the local insurance companies (in accordance with agreed upon contractual terms) have proven to be steady. Reimbursement from the other major payors, the Medically Indigent Program (MIP), Medicaid Assistance Program, (MAP) and Self Pay remain unsettled.

In response to the Hospital's desire to address outstanding Hospital accounts, the Chairman for the Committee on Health Human Services and Homeland Security for the 29th I Liheslaturan Guahan, Senator Frank Blas, Jr., introduced bill 503. The intent of the bill was to recognize appropriated Pharmaceutical funds (11GCA Finance & Taxation, CH. 26 Business Privilege Tax Law, Article 2 Business Privilege Taxes, §60120) as funding for outstanding Self Pay accounts. The Hospital began receiving the appropriation in FY 2006 and continues to do so through 2010. The passage of the bill into P.L. 29-132 (signed by the Governor of Guam on January 8, 2009) was modified for received Pharmaceutical funding to be applied against outstanding MIP accounts first and MAP accounts second.

The effect of P.L. 29-132 on the Hospital's financial statements essentially reduces the gross AR by the total amount of pharmaceutical funds received since FY 2006, FY 2007 and FY 2008. Contractual allowances previously recognized are also reduced for those accounts affected. The Hospital recognized over eleven million dollars (\$11,000,000) in FY 2008 and over nine million dollars (\$9,000,000) in FY 2007 in additional patient revenues for qualifying outstanding AR accounts. The Hospital is capped to receive over twelve million dollars (\$12,000,000) in appropriated Pharmaceutical funds in FY2009.

Originally, the Hospital had proposed the bill to assist the segment of the community for whom access to adequate health insurance does not exist for reasons beyond the control of the Hospital – equating to over 60% of the total gross AR (current and long term). The likelihood of accessing consistent preventative health services is often times challenging resulting in many of the encounters at the Hospital to be medically serious in nature (This is evident in the consistent number of encounters at the Emergency Room, which generally represents over half of the number of total admissions at the Hospital each year). As the accounts age, they are referred for either tax garnishment or for further collection by a collection agency. The return on these efforts is either minimal or no effect. Either way, the patient would be penalized – not receiving their tax refund or being reported to a credit bureau. It remains to be seen how the Hospital can reconcile this growing group of patient encounters.

Lastly, the Hospital's financials were significantly affected by GASB 27. The Government of Guam recognized the effects of GASB 27 starting in FY2002. It was noted that the Hospital under reserved for GASB 27 in previous years. With the recommendation of our current auditors, the Hospital recognized an additional unfunded retirement liability of over sixteen million dollars (\$16,000,000). This adjustment was brought forward from FY2006 to FY2008, thus absorbing the additional liability over several fiscal years.

This unforeseen additional liability is a setback to the Hospital. The explicit effect of P.L. 29-132 in allowing the Hospital to recognize additional patient revenues as opposed to an appropriated subsidy was diminished with the required recognition of retirement liability. The Hospital is exploring the option of obtaining funding from the bond market to address the additional number of beds needed to properly serve our community. In FY2008, the infusion of additional collection as a result of the Federal Stimulus Rebate Program, the receipt of Medicare underpayment of over one million dollars (\$1,000,000) in May 2009, and receipt of federal funds (Compact Impact and Hospital Preparedness Program) all assisted in meeting the Hospital's operational needs.

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Capital Assets and Debt Administration

Cash out flows from capital asset acquisitions were \$3,365,889 and \$3,440,579, respectively, during the years ended September 30, 2008 and 2007. These payments reflect the Hospital's commitment to facilities improvement. For additional information concerning capital assets, please refer to note 7 to the accompanying financial statements.

It was the receipt of non-operating revenues of federal grants and legislatively appropriated funding that supported Hospital operations. Federal funding from both the United States Department of the Interior (DOI) and Homeland Security (HHS) enables the Hospital make improvements on the physical plant infrastructure and procure medical equipment/supplies. A recent example of the use of federal funds is the front lobby and stairwell enclosure project funded by FEMA and DOI funds at a total cost of one million five hundred thousand (\$1.5 million) that significantly improves the safety of our patients, visitors, and employees in the event of typhoon in the extreme or inclement weather on a normal day.

Federally-Funding Projects Completed in 2008

<u>PROJECT</u>	<u>AMOUNT</u>	<u>FUNDING SOURCE</u>
Front Lobby & Stairwell Enclosure	\$ 1,500,000	FEMA/DOI
Five (5) Surgical & Delivery Tables	200,455	DOI
AC for Neo Natal Intensive Care Unit	79,878	DOI
Automated Microbiology System	161,582	HHS
Eight (8) Vital Check Monitors	33,514	DOI
Security Surveillance	550,000	HHS
Converged Phone System	150,000	HHS
Surgical Light System	179,197	DOI
Trauma Stretchers	<u>25,200</u>	DOI
TOTAL	\$ <u>2,879,826</u>	

Federally-Funded Projects Pending Completion

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>FUNDING SOURCE</u>
Upgrade HVAC for Pediatrics	\$ 199,030	HHS
Portable Ventilators	97,600	HHS
Fire Alarm System	1,000,000	DOI
Medical Gas Outlets & Medical Gas Monitoring System	190,000	DOI
Chiller Replacement	600,000	DOI
Roof Insulation Phase I	135,000	DOI *
3 rd & 4 th Floor A-Wing Wall Hardening	700,000	DOI
Replacement of Fire-Rated Doors	<u>500,000</u>	DOI
TOTAL	\$ <u>3,421,630</u>	

**The Hospital to absorb an additional \$83,000 from operational funds.*

Source: Completed and pending Federally-Funded projects, GMHA Planning Department

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No additional long-term debt was recorded during either of the years ended September 30, 2008 and 2007. For additional information concerning long-term debt, please refer to note 8 to the accompanying financial statements.

Economic Outlook

The cost of quality health care is growing nationwide – growing numbers of uninsured patients, newer and more costly medically advanced equipment, recruitment and retention costs of qualified medical personnel, coupled with the decreasing pool of qualified medical personnel, compulsory medical standards- are just some of the challenges that continue to exist. Our Hospital is no exception. The cost of providing medical services from FY2007 to FY2008 grew over four million dollars (\$4,000,000). Accounts payable averaged about six to seven million dollars a month (\$6,000,000 to \$7,000,000) throughout the year. Payroll costs represented over 60% of the Hospital's total annual budget. Realistic collection forecast based on the projected patient mix does not lend the Hospital a clear flow of cash. The availability of cash from both the Government of Guam and our patients is the mainstay of continued Hospital services.

How the economic turmoil in the United States will affect our island maybe deterred with the expected swell of military and auxiliary personnel to our island in 2014. The impact will be with the auxiliary personnel in which there maybe a call for use of our Hospital. The Hospital has been assessing the impending impact on our capabilities. It is the priority of Hospital Management and the Board of Trustees to ensure continued quality care and safety despite any unforeseen circumstances. The Hospital will work with the Administration, the Legislature, and the Federal Government to employ whatever possible resources that become available.

The levels of care required by the type of patients seen at the Hospital continue to be a challenge. The Hospital must be ready to treat every type of incoming medical condition. Maintaining levels of pharmaceuticals, medical supplies, retaining qualified medical personnel (from specialty physicians, specifically trained nurses, i.e. intensive care trained nurses, Radiologists, respiratory technicians, rehabilitative technicians, laboratory technologist, dieticians, patient educator), availability of a hospital room all orchestrated in an environment of patient safety is demanding. Patient admissions both to the Emergency Room and inpatient units have far exceeded the current hospital capacity and the wait time for a hospital room is long - these are the realities we face today. Notwithstanding these challenges, the Hospital staff remains committed to be ready to serve our community regardless of your ability to pay. But if you owe the Hospital, please make a payment!

Management's Discussion and Analysis for the years ended September 30, 2007 and 2006 is set forth in the Hospital's report on the audit of financial statements which is dated May 13, 2008. That Discussion and Analysis explains in more detail major factors impacting the 2007 and 2006 financial statements. A copy of that report can be obtained by contacting the Financial Controller or from the Hospital's website at the addresses noted below.

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. If you have questions about this report or need additional information, please contact the Hospital Administrator's Office at 647-2418/2367 or the 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.gmha.org if you wish to contact any one of the Hospital's Board of Trustees or find out the great things happening at your hospital.

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Statements of Net Assets
September 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u> (As restated)
Current assets:		
Cash	\$ 1,881,442	\$ 613,042
Patient accounts receivable, net of estimated uncollectibles of \$117,637,632 in 2008 and \$74,790,455 in 2007	34,496,279	28,305,251
Due from the Government of Guam	412,870	595,815
Other receivables, net of allowance for doubtful debts of \$1,670,901 in 2008 and \$1,403,008 in 2007	-	-
Inventory	4,567,232	3,786,197
Prepaid expenses	274,294	212,299
Total current assets	<u>41,632,117</u>	<u>33,512,604</u>
Note receivable	298,884	-
Capital assets, net	<u>41,003,267</u>	<u>41,824,643</u>
Total noncurrent assets	<u>41,302,151</u>	<u>41,824,643</u>
Total assets	<u>\$ 82,934,268</u>	<u>\$ 75,337,247</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Current portion of long-term debt	\$ 4,135,892	\$ 4,265,619
Interest and penalties on notes payable	1,921,826	1,712,018
Accounts payable - trade	7,369,572	6,449,237
Accounts payable -Government of Guam Retirement Fund	11,088,961	10,107,521
Accrued payroll and benefits	2,689,693	2,069,089
Current portion of accrued annual leave	1,389,968	1,973,243
Estimated third-party payor settlement (Medicare)	-	684,200
Other accrued liabilities	1,850,500	3,090,368
Total current liabilities	<u>30,446,412</u>	<u>30,351,295</u>
Long-term debt, net of current portion	-	40,000
Unfunded retirement liability	19,088,198	16,606,438
Accrued annual leave, net of current portion	1,893,513	1,209,407
Accrued sick leave	1,709,882	1,581,651
Total liabilities	<u>53,138,005</u>	<u>49,788,791</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	41,003,267	41,824,643
Unrestricted	<u>(11,207,004)</u>	<u>(16,276,187)</u>
Total net assets	<u>29,796,263</u>	<u>25,548,456</u>
Total liabilities and net assets	<u>\$ 82,934,268</u>	<u>\$ 75,337,247</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u> (As restated)
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$36,029,808 in 2008 and \$45,976,571 in 2007)	\$ 88,745,514	\$ 74,785,155
Other operating revenues:		
Cafeteria food sales	581,065	481,676
Other revenue	119,828	266,898
Uncollectible amounts	<u>(267,893)</u>	<u>(782,371)</u>
Total operating revenues	<u>89,178,514</u>	<u>74,751,358</u>
Operating expenses:		
Nursing	43,287,310	42,243,389
Professional support	23,217,442	20,875,459
Administrative support	11,812,954	10,827,182
Fiscal services	6,715,014	6,913,197
Depreciation	4,177,908	4,395,187
Administration	3,587,582	3,946,895
Medical staff	<u>648,403</u>	<u>678,580</u>
Total operating expenses	<u>93,446,613</u>	<u>89,879,889</u>
Operating loss	<u>(4,268,099)</u>	<u>(15,128,531)</u>
Nonoperating revenues (expenses):		
Transfers from GovGuam	743,437	2,394,811
Federal grants	7,605,014	4,868,768
Contributions	61,690	92,455
Federal program expenditures	(335,345)	(136,399)
Loss from disposal of fixed assets	(9,357)	(459,909)
Interest and penalties	<u>(1,469,840)</u>	<u>(1,090,381)</u>
Total nonoperating revenues (expenses)	<u>6,595,599</u>	<u>5,669,345</u>
Earnings (loss) before capital grants and contributions	2,327,500	(9,459,186)
Capital grants and contributions:		
Federal grants	<u>1,920,307</u>	<u>1,002,135</u>
Change in net assets	4,247,807	(8,457,051)
Net assets at the beginning of the year	<u>25,548,456</u>	<u>34,005,507</u>
Net assets at the end of the year	<u>\$ 29,796,263</u>	<u>\$ 25,548,456</u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u> (As restated)
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 82,004,402	\$ 82,303,479
Payments to suppliers and contractors	(26,755,445)	(30,069,019)
Payments to employees	(59,532,684)	(58,090,275)
Net cash used for operating activities	<u>(4,283,727)</u>	<u>(5,855,815)</u>
Cash flows from noncapital financing activities:		
Contributions from the Government of Guam	743,437	2,394,811
Federal grants received	7,787,959	6,805,178
Payments made under federal programs	(335,345)	(136,399)
Interest paid	(1,260,032)	(746,946)
Contributions	61,690	92,455
Net cash provided by noncapital financing activities	<u>6,997,709</u>	<u>8,409,099</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(3,365,889)	(3,440,579)
Federal grants received	1,920,307	1,002,135
Net cash used for capital and related financing activities	<u>(1,445,582)</u>	<u>(2,438,444)</u>
Net change in cash	1,268,400	114,840
Cash at beginning of year	613,042	498,202
Cash at end of year	<u>\$ 1,881,442</u>	<u>\$ 613,042</u>

See accompanying notes to financial statements.

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Statements of Cash Flows, Continued
Years Ended September 30, 2008 and 2007

	2008	2007 (As restated)
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (4,268,099)	\$ (15,128,531)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	4,177,908	4,395,187
Unfunded retirement liability	2,481,760	2,454,269
(Increase) decrease in assets:		
Patient accounts receivable	(6,191,028)	1,881,980
Note receivable	(298,884)	-
Other receivables	-	47,387
Due from third-party payor (Medicare)	-	4,938,554
Inventory	(781,035)	319,767
Prepaid expenses	(61,995)	157,705
Increase (decrease) in liabilities:		
Accounts payable - trade	920,335	(2,508,150)
Accounts payable - retirement fund	981,440	(1,092,339)
Accrued payroll and benefits	620,604	437,933
Accrued annual leave and sick leave	229,062	507,784
Estimated third-party payor settlement (Medicare)	(684,200)	684,200
Other accrued liabilities	(1,239,868)	573,084
Long-term debt	(169,727)	(3,524,645)
Net cash used in operating activities	\$ (4,283,727)	\$ (5,855,815)

See accompanying notes to financial statements.

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Notes to Financial Statements
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(1) Reporting Entity

The Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam (GovGuam), was created on July 26, 1977 under Public Law No. 14-29 as an autonomous agency of the Government of Guam. GMHA owns and operates the Guam Memorial Hospital (the Hospital). The Hospital is located on the island of Guam and is licensed for 159 general acute care beds, 16 bassinets, and 33 long-term beds. The Hospital provides all customary acute care services and certain specialty services primarily to the residents of Guam. These include adult and pediatric medical services; inpatient and outpatient surgery; intensive care (neonatal, pediatric and adult); skilled nursing care; laboratory and comprehensive blood bank services; radiology, nuclear medicine and CT scan diagnostic services; pharmacy, respiratory care; renal dialysis; physical, occupational, speech, language pathology and recreational therapy; dietetic services and 24-hour emergency services. The Hospital derives a significant portion of its revenues from third-party payors, including Medicare, GovGuam's Medically Indigent Program (MIP), Medicaid and commercial insurance organizations.

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

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

(2) Summary of Significant Accounting Policies

GMHA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, GMHA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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

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

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

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(2) Summary of Significant Accounting Policies, Continued

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

Estimates

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

Basis of Accounting

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

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 presentation.

Cash

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

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand, cash held in demand accounts, and time certificates of deposit maturing within ninety days. As of September 30, 2008 and 2007, cash is \$1,881,442 and \$613,042, respectively, and the corresponding bank balances are \$2,637,378 and \$2,121,167, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, bank deposits in the amount of \$100,000 and \$210,312, respectively, are FDIC insured. GMHA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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(2) Summary of Significant Accounting Policies, Continued

Patient Accounts Receivable

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

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

Due from GovGuam

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

Inventory

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

Capital Assets

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

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

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

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(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

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

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

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

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

Public Law No. 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. At September 30, 2008 and 2007, GMHA has accrued an estimated liability of \$1,709,882 and \$1,581,651, respectively. However, this amount is an estimate and actual payout may be materially different than estimated.

Net Patient Service Revenues

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

GovGuam Contributions

The Hospital receives financial support from GovGuam in the form of supplemental appropriations and subsidies. As these supplemental appropriations and subsidies are for noncapital purposes, regardless of restrictions, they are classified as noncapital contributions and are included as nonoperating revenues in the statement of revenues, expenses and changes in net assets. GovGuam contributions that are restricted for acquiring or improving capital assets are reported as capital grants in the statement of revenues, expenses and changes in net assets.

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(2) Summary of Significant Accounting Policies, Continued

Federal Grant Award Revenues and Contributions

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

Estimated Malpractice Costs

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

Income Taxes

As an instrumentality of GovGuam, the Hospital and all property acquired by or for the Hospital, and all revenues and income therefrom are exempt from taxation by GovGuam or by any political subdivision or public corporation thereof and from all taxes imposed under the authority of the Guam Legislature, or with respect to which the Guam Legislature is authorized to grant exemption.

Risk Management

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

New Accounting Standards

During fiscal year 2008, GMHA implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment 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 Government of Guam has determined that implementation of GASB Statement No 45 does not have a material effect on its financial statements or on the financial statements of its component units.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

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(3) Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are Guam residents and are insured under third-party payor agreements. Patient accounts receivable at September 30, 2008 and 2007, consist of:

	<u>2008</u>	<u>2007</u>
Account referrals - Department of Revenue and Taxation	\$ 63,675,865	\$ 48,993,432
Medically Indigent Program and Self-pay Patients	39,515,162	29,596,845
Local Third-Party Payor and Other	16,740,859	10,934,171
Medicaid Assistance Program	6,283,864	6,056,745
Medicare	10,802,235	7,049,433
Collection agencies and other	<u>15,115,926</u>	<u>465,080</u>
	152,133,911	103,095,706
Less allowance for uncollectible accounts	<u>(117,637,632)</u>	<u>(74,790,455)</u>
	<u>\$ 34,496,279</u>	<u>\$ 28,305,251</u>

(4) Note Receivable

In February 2008, GMHA accepted a promissory note from a collection agency in the amount of \$312,431 for outstanding collections of delinquent patient accounts. The note bears a fixed interest of 6% and matures on February 1, 2018. At September 30, 2008, the balance of the note was \$298,884.

(5) Other Receivables

The Hospital grants credit without collateral to customers primarily located on Guam for catering services and supplies issuances. Other receivables at September 30, 2008 and 2007, consist of:

	<u>2008</u>	<u>2007</u>
Government of Guam:		
Department of Mental Health and Substance Abuse	\$ 1,080,780	\$ 880,001
Guam Fire Department	318,975	289,301
Department of Public Health and Social Services	65,080	66,746
Hospital employees	76,333	79,901
Other	<u>129,733</u>	<u>87,059</u>
	1,670,901	1,403,008
Less allowance for uncollectible accounts	<u>(1,670,901)</u>	<u>(1,403,008)</u>
	<u>\$ -</u>	<u>\$ -</u>

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(6) Inventory

Inventory at September 30, 2008 and 2007, consists of the following:

	<u>2008</u>	<u>2007</u>
Pharmaceuticals, drugs and medicine	\$ 2,525,781	\$ 2,246,937
Medical and pharmaceutical supplies	2,381,526	1,757,885
Dietary food supplies	<u>68,848</u>	<u>81,849</u>
	4,976,155	4,086,671
Less: allowance for obsolescence	<u>(408,923)</u>	<u>(300,474)</u>
	<u>\$ 4,567,232</u>	<u>\$ 3,786,197</u>

(7) Capital Assets

Capital asset activity for the years ended September 30, 2008 and 2007 was as follows:

	2008			
	<u>Balance October 1,</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance September 30,</u>
Depreciable assets:				
Building and land improvements	\$ 57,419,567	\$ -	\$ -	\$ 57,419,567
Long-term care facility	10,939,366	-	-	10,939,366
Movable equipment	<u>23,443,707</u>	<u>2,201,437</u>	<u>(294,185)</u>	<u>25,350,959</u>
	91,802,640	2,201,437	(294,185)	93,709,892
Less: accumulated depreciation and amortization	<u>(50,195,149)</u>	<u>(4,177,908)</u>	<u>284,828</u>	<u>(54,088,229)</u>
	41,607,491	(1,976,471)	(9,357)	39,621,663
Non-depreciable assets:				
Construction in progress	<u>217,152</u>	<u>1,229,549</u>	<u>(65,097)</u>	<u>1,381,604</u>
Total capital assets, net	<u>\$ 41,824,643</u>	<u>\$ (746,922)</u>	<u>\$ (74,454)</u>	<u>\$ 41,003,267</u>
	2007			
	<u>Balance October 1,</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance September 30,</u>
Depreciable assets:				
Building and land improvements	\$ 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>
	98,901,760	3,426,168	(10,525,288)	91,802,640
Less: accumulated depreciation and amortization	<u>(55,865,341)</u>	<u>(4,395,187)</u>	<u>10,065,379</u>	<u>(50,195,149)</u>
	43,036,419	(969,019)	(459,909)	41,607,491
Non-depreciable assets:				
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>\$ (35,990)</u>	<u>\$ (1,378,527)</u>	<u>\$ 41,824,643</u>

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(8) Long-term Debt

At September 30, 2008 and 2007, long-term debt consists of the following:

	<u>2008</u>	<u>2007</u>
Promissory note payable due to the GovGuam Retirement Fund (GGRF), 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, 2008 and 2007). The note was due in March 2003 and is uncollateralized.	\$ 4,095,892	\$ 4,205,619
Promissory note payable due to the Medical Defenders, LLC (MD) for legal services, payable in monthly installments of \$5,000, due April 2009, uncollateralized and bears no interest.	<u>40,000</u>	<u>100,000</u>
	<u>\$ 4,135,892</u>	<u>\$ 4,305,619</u>

During the year ended September 30, 2007, GMHA repaid in full a promissory note payable to the Guam Power Authority (GPA) for delinquent outstanding utility billings.

A summary of changes in long-term debt for the years ended September 30, 2008 and 2007 is as follows:

	Balance October 1, 2007	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2008	Due Within One Year
GGRF	\$ 4,205,619	\$ -	\$ (110,000)	\$ 4,095,892	\$ 4,095,892
MD	<u>100,000</u>	<u>-</u>	<u>(60,000)</u>	<u>40,000</u>	<u>40,000</u>
	\$ <u>4,305,619</u>	\$ <u>-</u>	\$ <u>(170,000)</u>	\$ <u>4,135,892</u>	\$ <u>4,135,892</u>
	Balance October 1, 2006	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2007	Due Within One Year
GGRF	\$ 4,838,430	\$ -	\$ (632,811)	\$ 4,205,619	\$ 4,205,619
GPA	759,723	-	(759,723)	-	-
MD	<u>160,000</u>	<u>-</u>	<u>(60,000)</u>	<u>100,000</u>	<u>60,000</u>
	\$ <u>5,758,153</u>	\$ <u>-</u>	\$ <u>(1,452,534)</u>	\$ <u>4,305,619</u>	\$ <u>4,265,619</u>

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(9) Due to GovGuam Retirement Fund

In March 1998, the GovGuam Retirement Fund (GGRF) accepted a promissory note for \$9,835,720 from GMHA, which represented delinquent employer and member contributions owed to GGRF as of February 28, 1998 together with related penalties and interest. The note bears interest at the bank's prime rate plus 1%. As of September 30, 2008 and 2007, the balance owed by GMHA on this note was \$4,095,892 and \$4,205,619, respectively, with related interest and penalties of \$1,921,826 and \$1,712,018, respectively.

As of September 30, 2008 and 2007, GMHA owed GGRF employer and member contributions under the Defined Benefits Plan (DB) for payroll periods from fiscal years ended September, 1998 through September, 2004. GMHA is assessed interest and penalties on these unpaid contributions in accordance with 4 Guam Code Annotated § 8137, *Retirement of Public Employees*, which states that GGRF will impose interest at a rate equivalent to the average rate of return on its investments from the previous fiscal year and a 1% penalty for delinquent payments.

Public Law No. 28-38, passed in June 2005, as amended by Public Law No. 29-19, requires that GovGuam's general fund remit "interest-only" payments monthly to GGRF for the aforementioned liabilities. The law indicates that monthly payments, totaling \$190,501, will continue until the outstanding balance is fully paid. However, if the obligations are not paid within ten years following the enactment of Public Law No. 28-38, payments by GMHA will resume per 4 Guam Code Annotated § 8137. During the fiscal years ended September 30, 2008 and 2007, GovGuam's general fund paid interest totaling \$2,286,012 for GMHA.

At September 30, 2008 and 2007, the accounts payable due to GGRF reported as current liabilities consisted of the following:

	<u>2008</u>	<u>2007</u>
Unpaid employer and member contributions of prior years (DB Plan)	\$ 6,098,805	\$ 5,911,063
Government unfunded liability	186,674	150,308
Employer and member contributions of current fiscal year (DCRS Plan)	96,244	197,977
Supplemental annuities/COLA benefits for retirees	1,507,004	1,507,004
Interest and penalties	<u>3,200,234</u>	<u>2,341,169</u>
	<u>\$ 11,088,961</u>	<u>\$ 10,107,521</u>

At September 30, 2008 and 2007, amounts due to GGRF included an outstanding obligation of \$1,507,004 for supplemental benefits for the Hospital's retirees who retired prior to October 1, 1995 and Cost of Living Allowance (COLA) benefits for those employees who retired prior to October 1, 2001. In accordance with Public Law No. 26-35, as amended by Public Law No. 26-49, GMHA was among various autonomous agencies required to reimburse GGRF for certain supplemental benefits paid to its retirees by GGRF.

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(10) Other Long-Term Liabilities

At September 30, 2008 and 2007, the changes in other long-term liabilities are as follows:

	Balance October 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2008</u>	Due Within <u>One Year</u>
Unfunded					
Pension	\$ 16,606,438	\$ 2,481,760	\$ -	\$ 19,088,198	\$ -
Annual leave	3,182,650	564,513	(463,682)	3,283,481	1,389,968
Sick leave	<u>1,581,651</u>	<u>128,231</u>	-	<u>1,709,882</u>	-
	<u>\$ 21,370,739</u>	<u>\$ 3,174,504</u>	<u>\$ (463,682)</u>	<u>\$ 24,081,561</u>	<u>\$ 1,389,968</u>
	Balance October 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2007</u>	Due Within <u>One Year</u>
Unfunded					
Pension	\$ 14,152,169	\$ 2,454,269	\$ -	\$ 16,606,438	\$ -
Annual leave	2,905,190	1,948,030	(1,670,570)	3,182,650	1,973,243
Sick leave	<u>1,351,327</u>	<u>230,324</u>	-	<u>1,581,651</u>	-
	<u>\$ 18,408,686</u>	<u>\$ 4,632,623</u>	<u>\$ (1,670,570)</u>	<u>\$ 21,370,739</u>	<u>\$ 1,973,243</u>

(11) Medical Malpractice/Employment and Personnel Claims

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

(12) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

The GovGuam Defined Benefit (DB) Plan is single-employer defined benefit contributory pension plan administered by the GovGuam Retirement Fund (GGRF) to which all funds and agencies, including component units, as well as employees who are members of the DB Plan, contribute a fixed percentage of the payroll. The DB Plan provides retirement, disability, and survivor benefits to members and beneficiaries who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. All employees whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

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(12) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Membership in the DB Plan was mandatory for all full-time employees, except for those compensated on a fee basis, independent contractors, and persons aged 60 or over upon employment. Most employees may retire with full benefits at age 60 with at least 10 years of service, or after 25 years of service, regardless of age. Vesting of benefits is optional for employees with 3 to 19 years of service, but is mandatory for employees with 20 or more years of service. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2006, 2005, and 2004, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2008, 2007 and 2006, respectively, have been determined by the Guam Legislature as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Normal costs (% of DB Plan payroll)	17.94%	18.21%	17.83%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.44%</u>	<u>8.71%</u>	<u>8.33%</u>
Employer portion of normal costs (% of total payroll)	3.99%	4.26%	4.64%
Unfunded liability cost (% of total payroll)	<u>20.75%</u>	<u>20.66%</u>	<u>21.36%</u>
Government contribution as a % of total payroll	<u>24.74%</u>	<u>24.92%</u>	<u>26.00%</u>
Statutory contribution rates as a % of DB Plan payroll			
Employer	<u>24.07%</u>	<u>22.94%</u>	<u>21.81%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

Statutory contribution rates for the DB Plan are established annually by the Guam Legislature. GMHA's required contributions for the years ended September 30, 2008, 2007 and 2006 were \$10,113,741, \$9,044,423 and \$9,825,144, respectively, whereas the actual contributions were \$7,631,981, \$6,590,154 and \$6,129,900, respectively.

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(12) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Annual Pension Cost and Net Pension Obligation:

GMHA's annual pension cost and net pension obligation to the DB Plan for the years ended September 30, 2008, 2007 and 2006 were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual Required Contribution	\$ 10,289,543	\$ 9,194,243	\$ 9,935,845
Interest on Net Pension Obligation	1,162,451	990,652	731,985
Adjustment to Annual Required Contribution	<u>(1,338,253)</u>	<u>(1,140,472)</u>	<u>(842,686)</u>
Annual pension cost	10,113,741	9,044,423	9,825,144
Contributions made	<u>(7,631,981)</u>	<u>(6,590,154)</u>	<u>(6,129,900)</u>
Change in Net Pension Obligation	2,481,760	2,454,269	3,695,244
Net Pension Obligation, beginning of year	<u>16,606,438</u>	<u>14,152,169</u>	<u>10,456,925</u>
Net Pension Obligation, end of year	\$ <u>19,088,198</u>	\$ <u>16,606,438</u>	\$ <u>14,152,169</u>

The Annual Required Contribution for the years ended September 30, 2008, 2007 and 2006 were determined as part of the September 30, 2006, 2005 and 2004 actuarial valuations using the entry age normal actuarial cost method. The actuarial assumptions included the following:

Interest rate and rate of return	7.0%
Payroll growth	3.5%
Salary increases	4.0% - 8.5%

The assumptions did not include cost-of-living adjustments, which are funded by GMHA when required through legislation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of total payroll through May 1, 2031. The remaining amortization period at September 30, 2008 was 22.58 years.

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(12) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

The actuarial valuations performed as of September 30, 2006, 2005 and 2004, did not provide a breakdown of 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, 2008 and 2007 may be materially different than that recorded in the accompanying financial statements.

The actuarial valuations and contribution rates are based on estimates and assumptions. Changes in estimates and actuarial assumptions may result in revisions in actuarial valuations and contributions rates. The effects of such revisions are recognized in the period in which the revisions are determined.

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions into the DCRS plan for the years ended September 30, 2008 and 2007, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

(13) Net Patient Service Revenue

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

- Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. At September 30, 2008, cost reports through September 30, 2007, have been audited or otherwise final settled.

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(13) Net Patient Service Revenue, Continued

- Medicaid Assistance Program and Medically Indigent Program (MIP) - The Hospital is reimbursed for the cost of inpatient and outpatient services rendered under the programs administered by the GovGuam Department of Public Health and Social Services. During each fiscal year, the Hospital is reimbursed on the basis of interim rates with the final settlement determined after submission of annual cost reports prepared in accordance with the agency requirement.

Revenue from the Medicare, Medicaid and MIP programs accounted for approximately 27 percent, 17 percent and 11 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2008, and 36 percent, 19 percent and 14 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2007. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2007 net patient service revenue decreased approximately \$14,400,000 due to prior-year retroactive adjustments in excess of amounts previously estimated. The 2008 net patient service revenue increased approximately \$1,664,680 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

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

Net patient service revenues for the years ended September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Patient service revenues at established charge rates:		
Services provided to Medicaid patients	\$ 9,950,354	\$ 9,698,558
Medicaid payments through GMHA Pharmaceuticals Fund	4,992,629	4,464,623
Services provided to Medicare patients	27,751,119	26,866,241
Services provided to MIP patients	3,672,457	5,281,455
MIP payments through GMHA Pharmaceuticals Fund	6,079,764	5,532,261
Services provided to Self-pay patients	28,328,042	16,244,473
Services provided to Other patients	<u>44,000,957</u>	<u>52,674,115</u>
	124,775,322	120,761,726
Less contractual adjustments and provisions for uncollectible accounts	<u>(36,029,808)</u>	<u>(45,976,571)</u>
Net patient service revenue	<u>\$ 88,745,514</u>	<u>\$ 74,785,155</u>

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Notes to Financial Statements
September 30, 2008 and 2007

(14) Guam Memorial Hospital Authority Pharmaceuticals Fund

Subsequent to September 30, 2008, the Guam Legislature passed legislation, Public Law No. 29-132, which changed the application of funds appropriated from the Guam Memorial Hospital Authority Pharmaceuticals Fund. In accordance with the public law, the Hospital applied appropriated Pharmaceuticals funds as operating revenue, retroactively and prospectively. All funds received shall be applied towards payments of bills and services incurred by qualified MIP recipients involved in the program at the Hospital and any funds remaining after such payments shall then be applied to services provided to qualified recipients enrolled in the Medicaid program by the Hospital.

The financial statements as of September 30, 2008 and September 30, 2007 are presented to conform with the requirements of this public law.

In accordance with Public Law No. 29-19, GovGuam appropriated \$11,072,393 from the Guam Memorial Hospital Authority Pharmaceuticals Fund for payment of bills and services incurred by qualified MIP recipients for the year ended September 30, 2008.

In accordance with Public Law No. 28-150, as amended by Public Law No. 29-02, GovGuam appropriated \$9,996,884 from the Guam Memorial Hospital Authority Pharmaceuticals Fund for payment of bills and services incurred by qualified MIP recipients for the year ended September 30, 2007.

The effect of the application of Public Law No. 29-132 did not affect net assets as of September 30, 2006.

The effect of the application of Public Law No. 29-132 on the financial statements at September 30, 2007 is as follows:

	<u>2007</u> as Originally Presented	<u>2007</u> As revised
Net Patient Service Revenue	\$ 64,788,271	\$ 74,785,155
Transfers from the Government of Guam	\$ 12,391,695	\$ 2,394,811

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

During the years ended September 30, 2008 and 2007, GovGuam passed supplemental appropriations in public laws from the General Fund and various special revenue funds for certain specific programs and financial assistance, which are summarized as follows:

	<u>2008</u>	<u>2007</u>
Guam Memorial Hospital Authority Pharmaceuticals Fund	\$ 11,072,393	\$ 9,996,884
Health Security Trust Fund	743,437	-
General Fund	-	<u>2,394,811</u>
	<u>\$ 11,815,830</u>	<u>\$ 12,391,695</u>

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September 30, 2008 and 2007

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

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

In accordance with Public Law No. 29-19, GovGuam appropriated \$743,437 from the Health Security Trust Fund to fund the operations of the Hospital for the year ended September 30, 2008.

In accordance with Public Law No. 28-68, as amended by Public Law No. 29-02, GovGuam appropriated \$4,200,000 from the General Fund to fund the operations of the Hospital. During the year ended September 30, 2007, the Hospital received \$2,394,811 under this appropriation.

(16) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are residents of Guam and are either insured under third-party payor agreements or uninsured. The mix of receivables from patients and third-party payors at September 30, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Medically Indigent Program and Self-pay patients	68%	76%
Local Third-Party Payor and Other	21%	11%
Medicaid Assistance Program	4%	6%
Medicare	<u>7%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

(17) Commitments and Contingencies

Operating Leases

GMHA has entered into lease agreements to lease office equipment expiring through December, 2011. The scheduled future minimum payments under the leases are as follows:

<u>Year ending</u> <u>September 30,</u>	
2009	\$ 446,420
2010	126,361
2011	126,361
2012	<u>24,713</u>
	<u>\$ 723,855</u>

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Notes to Financial Statements
September 30, 2008 and 2007

(17) Commitments and Contingencies, Continued

Medicare

The Government of Guam and its component units, including GMHA, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998 for employees hired after March 31, 1986. Prior to October 1998, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the Government is found to be liable for such amounts, an indeterminate liability could result. It is the opinion of GMHA and all other component units of the Government of Guam that this health insurance component is optional prior to October 1998. Therefore, no liability for any amount, which may ultimately arise from this matter, has been recorded in the accompanying financial statements.

At September 30, 2007, GMHA recorded an estimated liability to Medicare of \$684,200. Subsequently, a revised settlement was provided and the result was a repayment to GMHA. The recovery was recognized during the year ended September 30, 2008.

Litigation

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

Federal Award Programs

The Hospital has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2008 and prior year audits amounted to \$1,140,992. If the questioned costs were ultimately disallowed, the Hospital would be liable for the return of such funds. However, no liability, which may arise from the ultimate outcome of this matter, has been provided for in the accompanying financial statements. Audits of federal program funds are also performed by various federal agencies. If the audits result in cost disallowances, the Hospital may be liable. However, management does not believe that resolution of this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

(18) Typhoon and Earthquake Damages and Related Insurance Claims

The main facility of the Hospital 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. The Hospital received \$1 million as a 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 FEMA in public assistance and hazard mitigation programs from 2003 through 2007. At September 30, 2008 and 2007, expenditures of approximately \$-0- and \$161,464, respectively, were incurred for on-going FEMA hazard mitigation programs related to the above typhoon damages.

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September 30, 2008 and 2007

(19) Dependency on the Government of Guam

The Hospital has incurred losses from operations of \$4,268,099 and \$15,128,531 and negative cash flows from operations of \$4,283,727 and \$5,855,815 for the years ended September 30, 2008 and 2007, respectively. At September 30, 2008 and 2007, the Hospital's deficiencies on delinquent and unpaid retirement contributions, including interest and penalties, with the GovGuam Retirement Fund were \$17,106,679 and \$16,025,158, respectively. Management believes that the continuation of the Hospital's operations is dependent upon the future payment of medical services underwritten by the Government of Guam, continued compensation by the Government of Guam for the cost of services provided under the Medically Indigent Program, the collection of long outstanding patient receivables, and/or continued improvements in operations.

(20) Restatement

Subsequent to the issuance of the Hospital's 2007 financial statements, Hospital management determined that the allowance for uncollectible accounts for other receivables was understated, accumulated depreciation relating to capital assets was overstated, other accrued liabilities relating to claims and judgments were understated and the unfunded retirement liability was understated. As a result, these account balances have been restated from the amounts previously reported as follows:

	2007	
	As Previously Reported	As Restated
At September 30:		
Other receivables, net	\$ <u>782,371</u>	\$ <u>-</u>
Other accrued liabilities	\$ <u>1,990,568</u>	\$ <u>3,090,368</u>
Unfunded retirement liability	\$ <u>1,137,683</u>	\$ <u>16,606,438</u>
Capital assets, net	\$ <u>41,459,602</u>	\$ <u>41,824,643</u>
Beginning net assets	\$ <u>42,534,341</u>	\$ <u>34,005,507</u>
For the year ended September 30:		
Operating revenues:		
Uncollectible amounts	\$ <u>-</u>	\$ <u>(782,371)</u>
Operating expenses:		
Administration	\$ <u>2,811,490</u>	\$ <u>3,946,895</u>
Depreciation	\$ <u>4,760,228</u>	\$ <u>4,395,187</u>
Change in net assets	\$ <u>(5,753,071)</u>	\$ <u>(8,457,051)</u>

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Expenses and Full-Time Employees Count
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
NURSING:		
Salaries	\$ 23,059,216	\$ 21,836,507
Overtime	1,845,054	2,009,025
Other pay	4,646,310	4,023,964
Retro pay	-	1,510,560
Fringe benefits	<u>7,965,435</u>	<u>5,819,163</u>
Total personnel costs	37,516,015	35,199,219
Supplies and materials	3,435,632	4,255,082
Utilities	3,559	347,573
Contractual services	2,273,530	2,384,179
Miscellaneous	<u>58,574</u>	<u>57,336</u>
	<u>\$ 43,287,310</u>	<u>\$ 42,243,389</u>
Total employees at end of year	<u>555</u>	<u>418</u>

	<u>2008</u>	<u>2007</u>
PROFESSIONAL SUPPORT:		
Salaries and leave pay	\$ 7,520,478	\$ 8,122,476
Overtime	619,910	512,895
Other pay	1,592,888	1,472,533
Retro pay	-	8,503
Fringe benefits	<u>2,724,866</u>	<u>2,136,602</u>
Total personnel costs	12,458,142	12,253,009
Supplies and materials	10,014,156	7,190,645
Utilities	26,586	10,026
Contractual services	578,561	1,184,252
Miscellaneous	<u>139,997</u>	<u>237,527</u>
	<u>\$ 23,217,442</u>	<u>\$ 20,875,459</u>
Total employees at end of year	<u>231</u>	<u>210</u>

See accompanying independent auditors' report.

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Schedule of Expenses and Full-Time Employees Count, Continued
Years Ended September 30, 2008 and 2007

	2008	2007
ADMINISTRATIVE SUPPORT:		
Salaries	\$ 3,619,265	\$ 3,466,719
Overtime	418,999	368,383
Other pay	566,458	475,363
Fringe benefits	1,373,010	1,187,529
Total personnel costs	5,977,732	5,497,994
Supplies and materials	2,181,846	1,496,736
Utilities	2,584,755	2,126,712
Contractual services	772,474	1,410,297
Miscellaneous	296,147	295,443
	\$ 11,812,954	\$ 10,827,182
 Total employees at end of year	 184	 133

	2008	2007
FISCAL SERVICES:		
Salaries	\$ 3,004,997	\$ 2,954,001
Overtime	193,562	145,242
Other pay	217,770	306,920
Fringe benefits	1,239,603	1,014,983
Annual leave lump sum pay	262,561	493,027
Sick leave (DC plan)	128,231	232,384
Total personnel costs	5,046,724	5,146,557
Supplies and materials	278,213	253,381
Contractual services	1,294,861	1,453,438
Miscellaneous	95,216	59,821
	\$ 6,715,014	\$ 6,913,197
 Total employees at end of year	 105	 98

See accompanying independent auditors' report.

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Schedule of Expenses and Full-Time Employees Count, Continued
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ADMINISTRATION:		
Salaries	\$ 834,475	\$ 896,699
Overtime	1,117	886
Other pay	37,544	42,054
Fringe benefits	<u>345,317</u>	<u>1,605,446</u>
Total personnel costs	1,218,453	2,545,085
Supplies and materials	120,398	98,714
Contractual services	496,996	502,052
Insurance (Property)	636,073	645,373
Miscellaneous	<u>1,115,662</u>	<u>155,671</u>
	<u>\$ 3,587,582</u>	<u>\$ 3,946,895</u>
Total employees at end of year	<u>21</u>	<u>21</u>
	<u>2008</u>	<u>2007</u>
MEDICAL STAFF:		
Salaries	\$ 442,973	\$ 528,571
Overtime	302	296
Other pay	22,198	14,334
Fringe benefits	<u>159,419</u>	<u>117,455</u>
Total personnel costs	624,892	660,656
Supplies and materials	<u>23,511</u>	<u>17,924</u>
	<u>\$ 648,403</u>	<u>\$ 678,580</u>
Total employees at end of year	<u>17</u>	<u>17</u>
Total expenses	<u>\$ 89,268,705</u>	<u>\$ 85,484,702</u>
Total FTE count	<u>1,113</u>	<u>897</u>

See accompanying independent auditors' report.