# GUAM MEMORIAL HOSPITAL AUTHORITY

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

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

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## YEARS ENDED SEPTEMBER 30, 2017 AND 2016 (AS RESTATED)

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# INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Memorial Hospital Authority:

## Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2017 and 2016, the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Memorial Hospital Authority as of September 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

*Going Concern*

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

*Implementation of New Accounting Standards*

As discussed in Note 2 to the financial statements, in 2017, GMHA adopted Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. As a result of adopting this standard, GMHA has elected to restate its 2016 financial statements to reflect the adoption of this standard.

Our opinion is not modified with respect to these matters.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 17 as well as the Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pensions on page 48, the Schedule of Proportional Share of the Net Pension Liability on pages 49 to 51, and the Schedule of Pension Contributions on page 52, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Financial Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenses, patient service revenues by patient classification, and billings and collections and reconciliation of billings to gross patient revenues on pages 53 to 57 are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The schedule of full time employee count on page 58 has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2018, 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 solely 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 effectiveness of GMHA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GMHA's internal control over financial reporting and compliance.

Deloitte & Touche LLP

June 30, 2018

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

## INTRODUCTION

Guam Memorial Hospital Authority ("GMHA"), a component unit of the Government of Guam ("GovGuam"), was created on July 26, 1977 pursuant Public Law 14-29 as an autonomous agency of GovGuam. GMHA owns and operates the Guam Memorial Hospital (the "Hospital"). The Hospital provides acute, outpatient, long term, urgent care and emergency care treatment to all patients who seek medical services at the Hospital. The Hospital has 161 licensed acute care beds, plus 40 beds at its long-term care Skilled Nursing Unit (SNU). GMHA was accredited by the Joint Commission, an independent body accrediting healthcare providers in the United States since 2010.

The following Management's Discussion & Analysis (MD&A) of GMHA's activities and financial performance will serve as an introduction and overview of the audited financial statements of the Hospital for the fiscal years ended September 30, 2017 and September 30, 2016. The information contained in the MD&A has been prepared by management and should be considered together with the financial statements and includes the following:

### Overview

- Payer Mix - Reimbursements of 3 M's (Medicare, Medicaid, and Medically Indigent Program)
  - TEFRA
  - History
  - Rebasing
  - Impact on Medicaid and MIP - Underpayment
  - Uncompensated Care

- Fee Schedule

- Staffing & Employment Costs

### Financial Performance

- Summarized Statements of Net Position
- Summarized Statements of Revenues, Expenses and Changes in Net Position
- Summarized Statements of Cash Flows

### Patient Census

### Economic Outlook-Looking Forward

- Online Payment /Call Center
- Family Birth Center Project
- Information Technology Upgrades
- Dedicated Funding

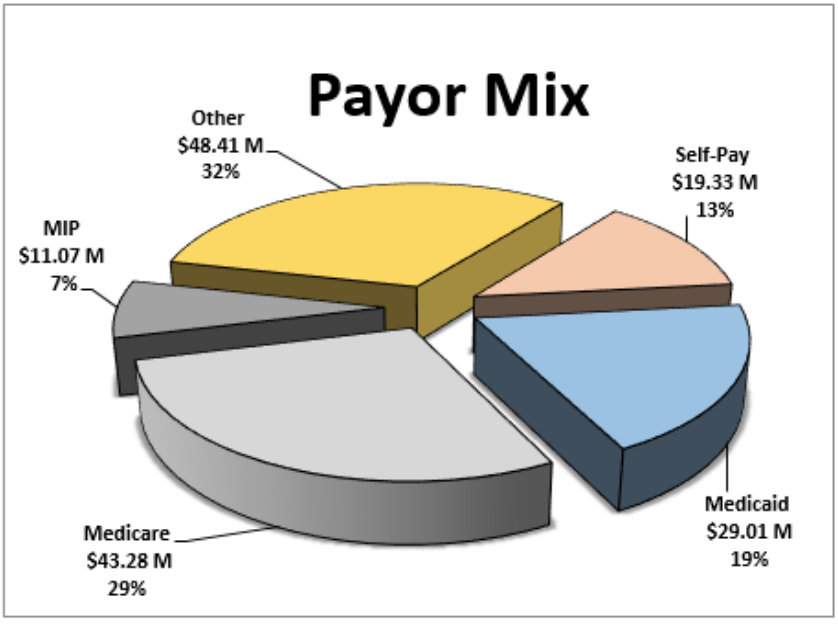
## OVERVIEW

GMHA continues to strive to provide compassionate and the best of care to the community in a safe environment. The Hospital recognizes that healthcare is a **basic human right regardless of one's coverage or ability to pay**. As the healthcare industry continues to face significant challenges as it adjusts to the changing government reimbursement levels and escalating costs, the Hospital has embarked on a mission to address decades of unsubsidized care which threatens the ability of GMHA to continue to provide that basic human right - healthcare. The legislature passed Public Law 34-87 providing a dedicated funding source to GMHA to address decades of underfunding dating back to the 70s. This long sought dedicated funding will enable the Hospital to transform and modernize its facility and provide stability in its cash flow to be able to meet basic operational requirements and plan for much needed capital improvements and equipment upgrades. It will also allow the Hospital to recruit and retain much needed specialty care based on the changing healthcare needs and requirements of the community it serves. With the dedicated subsidy, it will bridge the loss of reimbursements from underpayment from Medicare, Medicaid and Medically Indigent Program and the uncompensated care from those without insurance or who are underinsured. This will allow the Hospital to become efficient and be poised to grow its outpatient services increasing its revenue sources while decreasing costs.

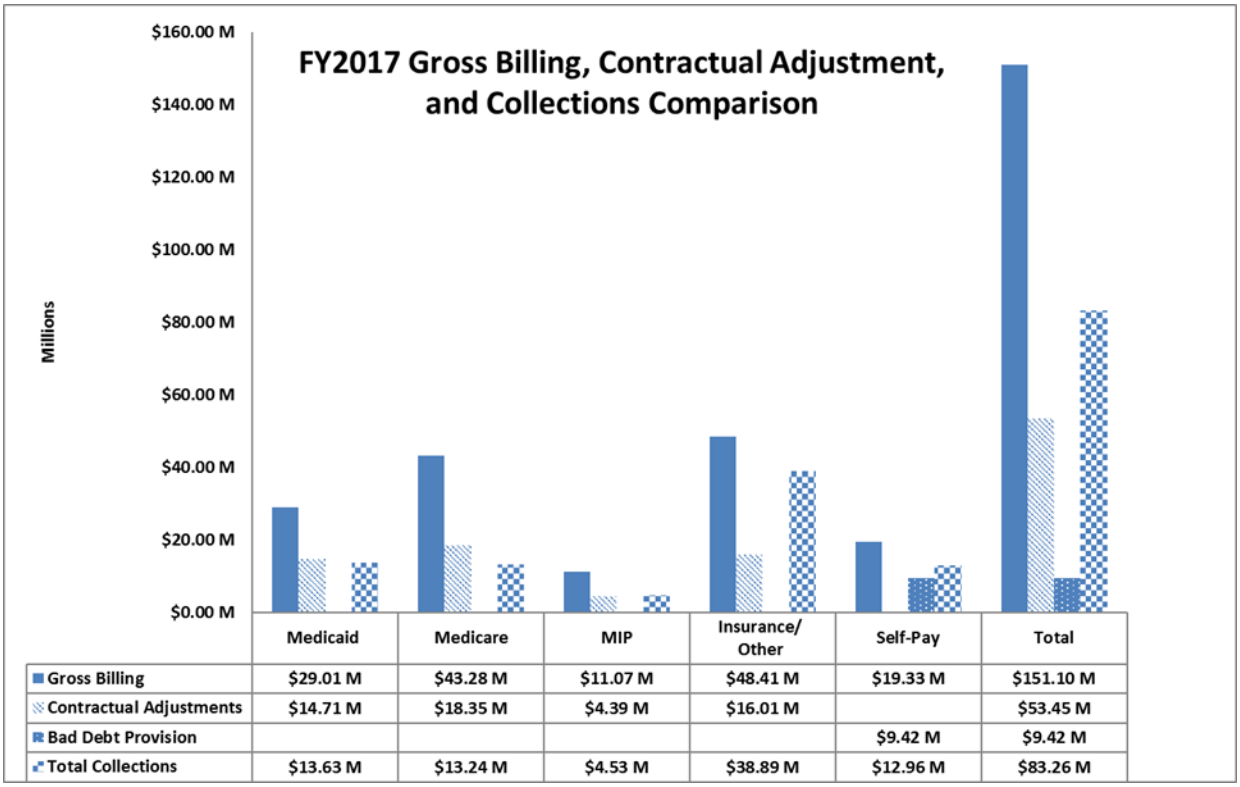
It is important that readers of these financial statements have an understanding of the environment in which the Hospital operates. Some of the issues having significant impact on the Hospital include, but are not limited to:

- Payer Mix - Reimbursements of 3 M's
- Underpayment and Uncompensated Care
- Fee Schedule

**Payer Mix - Reimbursements of 3 M's**
An understanding of GMHA's "Payer Mix" is essential to appreciating why GMHA continues to face financial challenges. The following Payer Mix chart below shows the percentage of revenue from different sources. The 3 M's constitute 55% (Medicare-$43M, 29%; Medicaid-$29M, 19%; and MIP-$11M, 7%) of the Hospital's $151M of gross patient revenues, followed by Third Party Payers and Others at 32% or $48M, and Self-Pay at 13% or $19M.

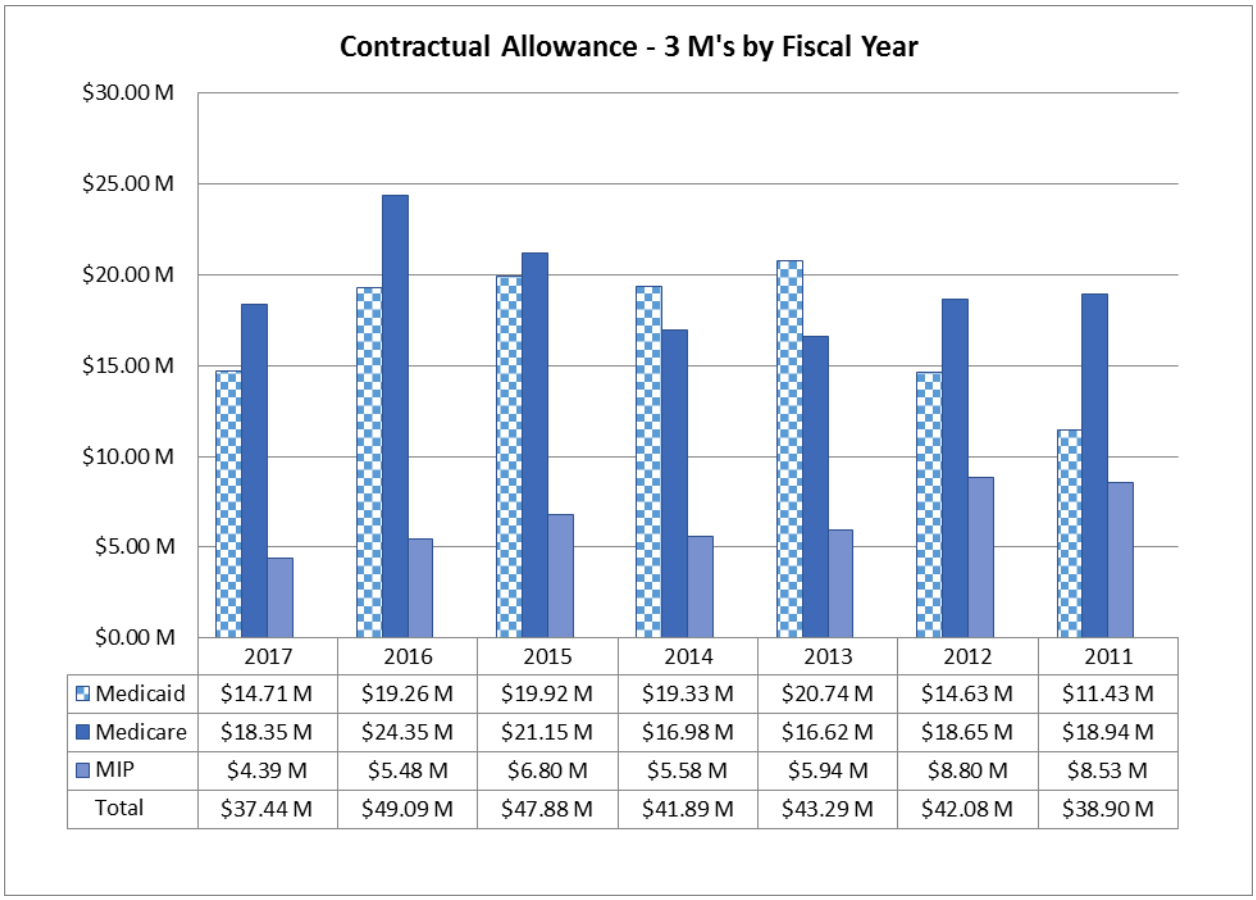


Reimbursements from the 3 M's do not increase at the same rate as the increase in the costs of providing healthcare (labor, supplies, and pharmaceutical costs). In light of reimbursement decreases brought about by changes in wage index calculations, coding adjustments, Medicare funding sequestration and other initiatives aimed at capitating payments, it is even more critical that the Medicare Rate be rebased as it also impacts payments by Medicaid and Medically Indigent Program (MIP).




| | Medicaid | Medicare | MIP | Insurance/ Other | Self-Pay | Total |
|---|---|---|---|---|---|---|
| Gross Billing | $29.01 M | $43.28 M | $11.07 M | $48.41 M | $19.33 M | $151.10 M |
| Contractual Adjustments | $14.71 M | $18.35 M | $4.39 M | $16.01 M | | $53.45 M |
| Bad Debt Provision | | | | | $9.42 M | $9.42 M |
| Total Collections | $13.63 M | $13.24 M | $4.53 M | $38.89 M | $12.96 M | $83.26 M |

If Medicare reimbursement rate is adjusted to reflect the current costs of delivering services, Medicaid and MIP (since they mirror Medicare reimbursement) will also need to be adjusted. This will help align the imbalance and bridge the gap between the 3M's revenue mix and the collection ratios, thus reducing the contractual adjustments for the 3M's which have such a significant impact on the financials as illustrated in the contractual allowance chart below. This translates to significant underpayment and a major contributing factor to GMHA's financial shortfall.



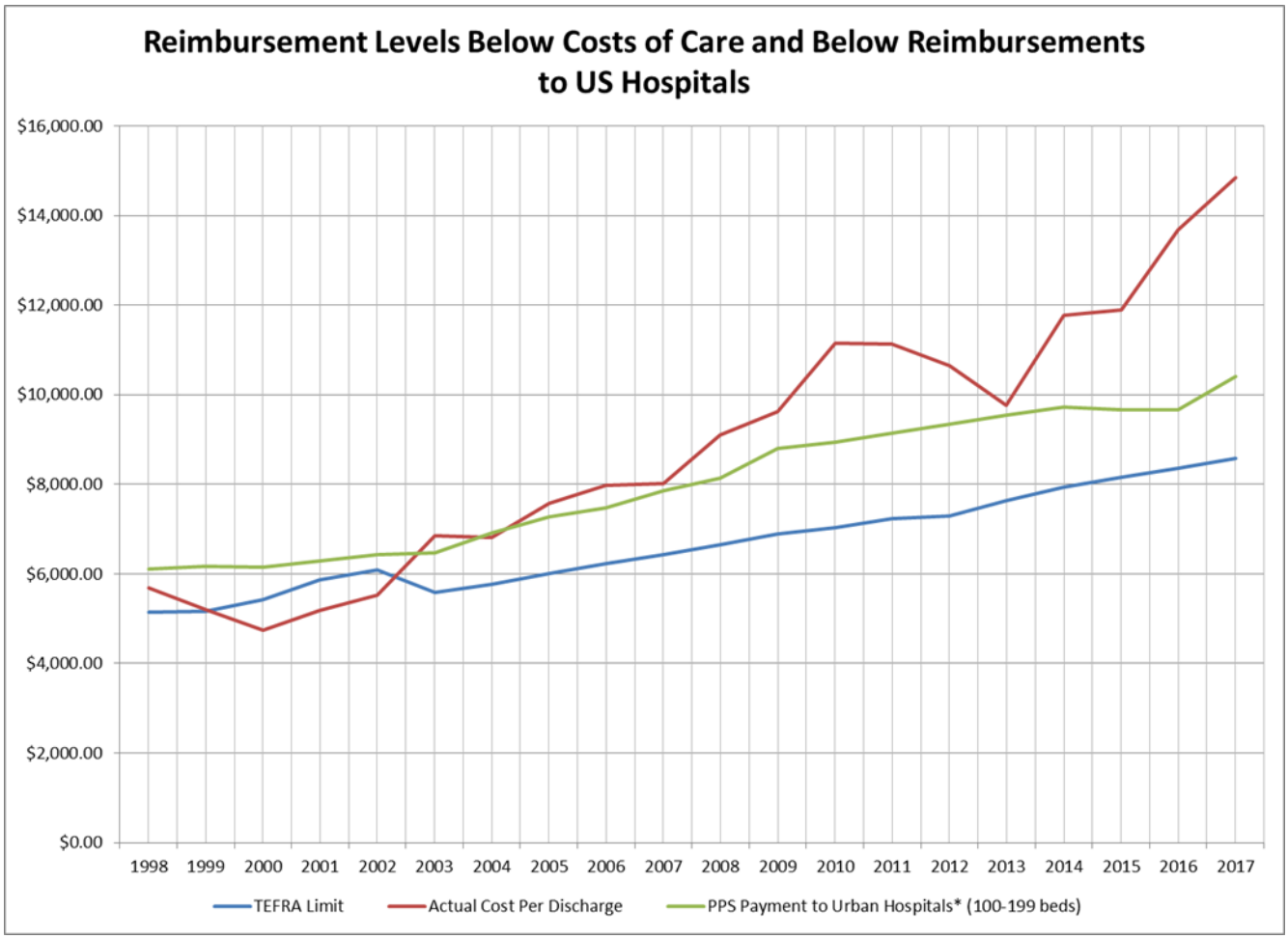

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|
| Medicaid | $14.71 M | $19.26 M | $19.92 M | $19.33 M | $20.74 M | $14.63 M | $11.43 M |
| Medicare | $18.35 M | $24.35 M | $21.15 M | $16.98 M | $16.62 M | $18.65 M | $18.94 M |
| MIP | $4.39 M | $5.48 M | $6.80 M | $5.58 M | $5.94 M | $8.80 M | $8.53 M |
| Total | $37.44 M | $49.09 M | $47.88 M | $41.89 M | $43.29 M | $42.08 M | $38.90 M |

## TEFRA

### *History*

In 1982 Congress passed the Tax Equity and Fiscal Responsibility Act (TEFRA) including changes to the Medicare program. These changes created the Prospective Payment system called Diagnostic Related Groups (DRGs) and legislated that all Medicare Hospital Inpatient Services be paid on this payment system except the following: Long Term Care Hospitals, Children's Hospitals, Rehabilitation Hospitals, and hospitals in Guam, American Samoa, Commonwealth of the Northern Marianas and Puerto Rico.

These exempted hospitals were to continue to be reimbursed based on the cost of treating Medicare patients as determined by the Medicare Cost Report with an aggregate per Discharge Limit (TEFRA Limit) that was set based on the facilities cost of care in 1982. The TEFRA limit was updated each year by the Medicare determined Hospital Market Basket Index (MBI). The graph below reflects that reimbursement to the hospital is significantly less in comparison to other hospitals in the mainland with similar bed capacity. ***The reimbursements lag industry standards and have contributed to the long term financial instability of GMHA***. The graph also shows that the actual reimbursement is significantly lower than the actual cost per discharge amount.

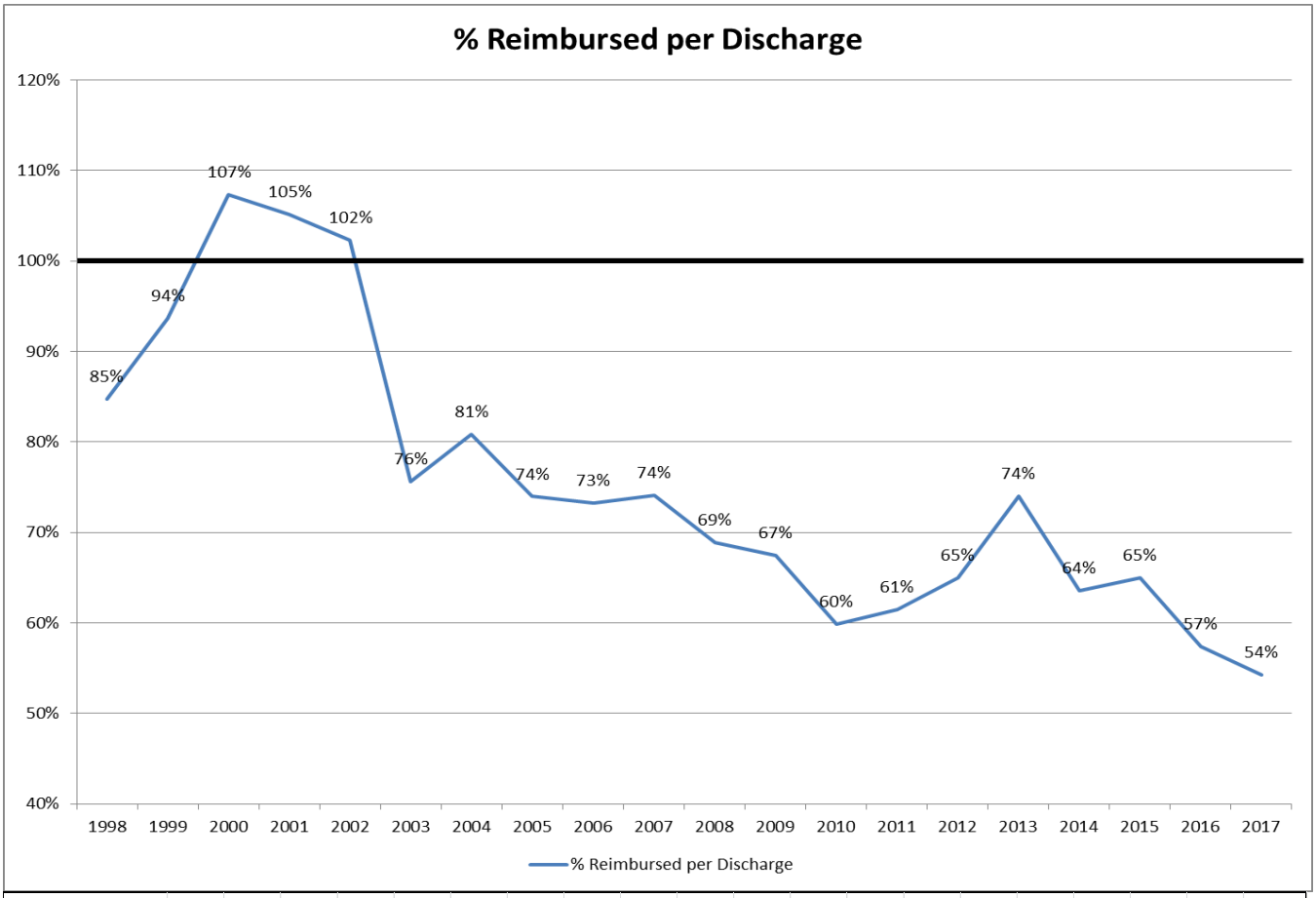



***Rebasing***

Rebasing is the process of updating the base year cost per discharge to reflect more current costs of delivering care. GMHA's current base year is 1997 which was the last time Congress allowed a one-time rebasing adjustment. Reimbursements are processed each year on a per discharge basis, including an annual update by the Market Basket Index (MBI intended to account for average inflation rates). However, ***the base rate is outdated, and the reimbursement fails to capture costs contributing to a significant underpayment in services.***

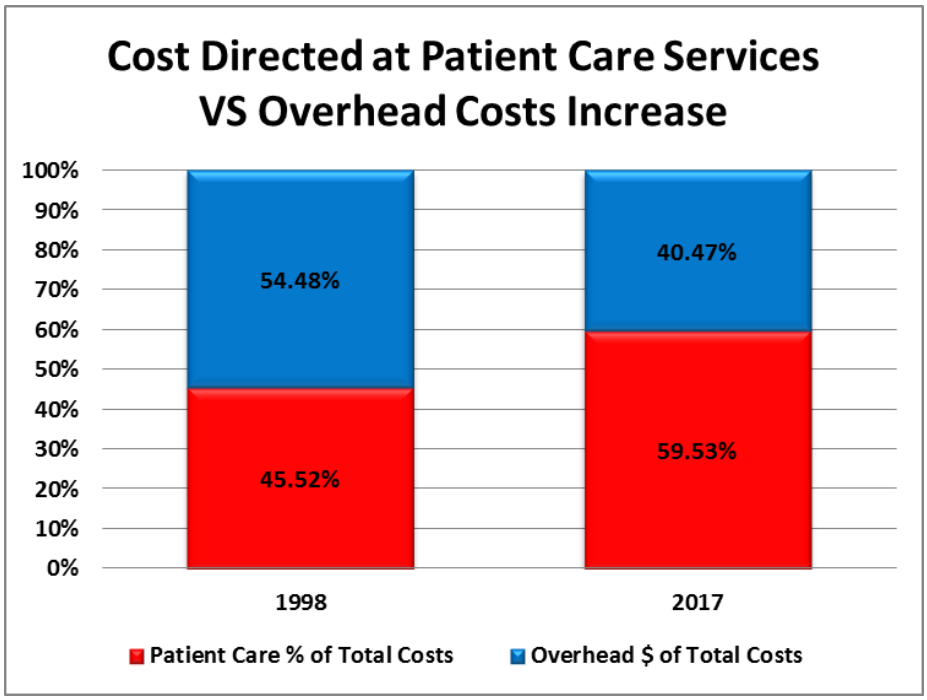
During FY2015, GMHA's FY2013 Medicare Cost Report was audited, presumably to Rebase the Hospital's Medicare rate. The audit validated the hospital's cost of delivering services to Medicare patients. However, in June 2016, the Center for Medicare and Medicaid Services (CMS) denied GMHA's application stating it can obtain additional reimbursement through the Adjustment process which must be done on an annual basis. ***The Adjustment approach delays the receipt of almost 15% of reimbursements by almost three or more years***; FY2007 and FY2008 Adjustment reimbursements were not received until September 2015. That is 8 long years that the hospital has had to wait to be reimbursed. FY2013 Adjustment reimbursement was received in July 2016. In July 2017, GMH received notice from the CMS Intermediary validating $2.5M and $3.9M of Adjustment requests for FY2014 and FY2015, respectively. CMS has 180 days to approve the Intermediary's determination, but the hospital is still waiting for approval which is now 6 months past the statutory deadline.

The graph and chart below illustrates the actual Costs Per Discharge in 1998 at $5,690 with reimbursement per discharge at $5,154 or 85% of costs. In FY2017, the actual costs per discharge was $14,839 with reimbursement per discharge at $8,051 or 54% of costs. This is a significant decline in reimbursement and the hospital must find other revenue sources to meet the Medicare underpayment. One way to increase the reimbursement is to grow the outpatient services where the reimbursement is not based on a per diem rate, but a higher percentage of reimbursement.




| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Actual Cost Per Discharge | 5,690 | 5,204 | 4,742 | 5,191 | 5,524 | 6,854 | 6,808 | 7,566 | 7,972 | 8,022 | 9,102 | 9,618 | 11,149 | 11,120 | 10,639 | 9,755 | 11,780 | 11,898 | 13,670 | 14,839 |
| % Reimbursed per Discharge | 85% | 94% | 107% | 105% | 102% | 76% | 81% | 74% | 73% | 74% | 69% | 67% | 60% | 61% | 65% | 74% | 64% | 65% | 57% | 54% |

The Hospital continues to pursue its Adjustment and Rebasing efforts and has submitted another Adjustment and Rebasing Requests on May 14, 2018 for FY2016 and FY2017 in the amount of $8.2M. Intermediary determination is expected in mid July 2018. *GMHA continues to affirm that the basis for its Rebasing request are higher costs which are the result of substantial and permanent changes in furnishing patient care services since the base period. GMHA's position is that healthcare has substantially and permanently changed across the board over the past 25 years. This position is widely accepted by the Federal and state governments, the private sector, academia, and CMS which provides data showing healthcare costs increasing upwards of 200% faster than the Market Basket Index utilized in the TEFRA reimbursement process.* The following chart illustrates the direct patient care costs in 1998 at 45.52% of total costs increasing to 59.53% in FY2017. The overhead costs in 1998 were 54.48% of total costs decreasing to 40.47% in FY2017. What this means is ***GMHA has controlled its overhead expenditures, and has invested more of its financial resources in direct patient care***.



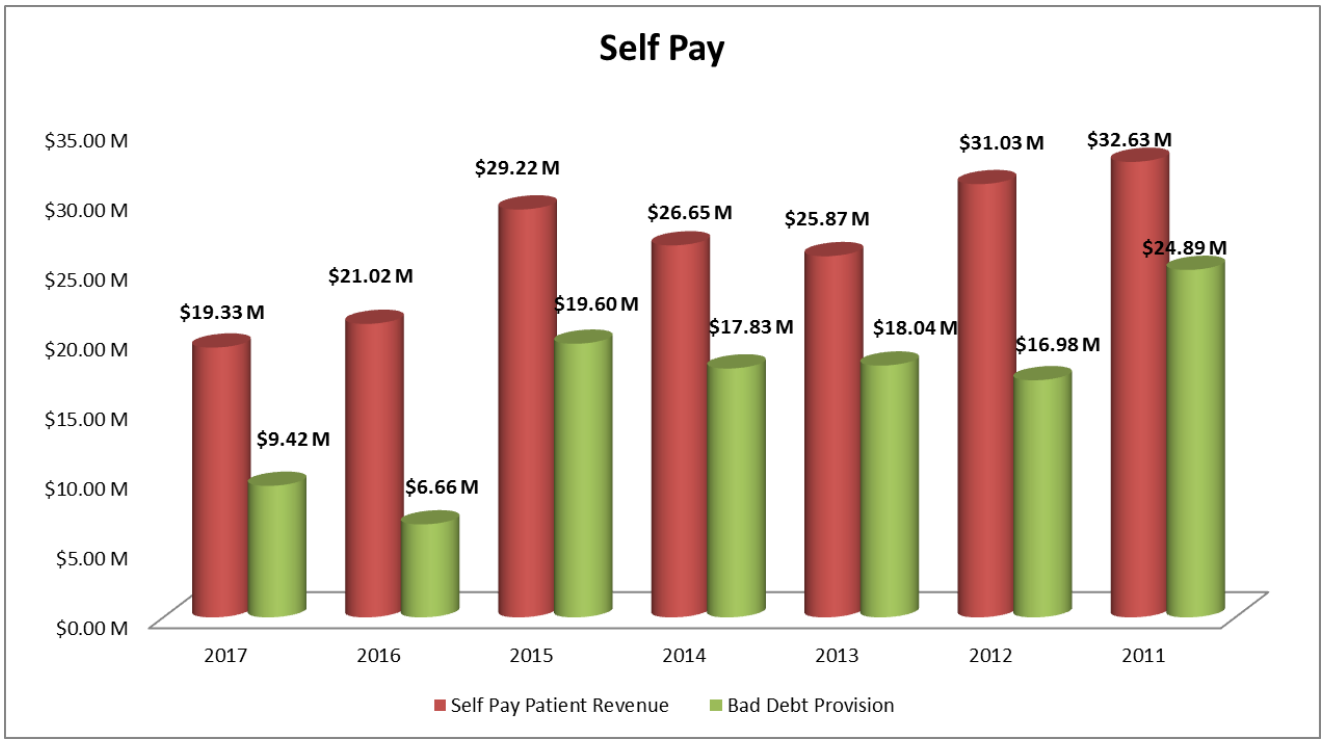

***Impact on Medicaid and MIP - Underpayment***

The Rebasing of the Medicare rate would also impact Medicaid and MIP per diem payments. Payments from these two plans will be expected to increase because Medicaid and MIP closely mirror Medicare payment methodology. In addition to the regular per diem payments by Medicare, unlike Medicaid and MIP, Medicare requires that a Medicare Cost Report be submitted each year. This cost report allows the Hospital to submit allowable costs and any resulting underpayment is paid after the Notice of Program Reimbursement is issued. However, ***Medicaid and MIP do not have such a process and consequently no method of recovering the shortfall***. This issue must be addressed with Public Health so that once CMS approves an Adjustment request for a given period, Medicaid and MIP reimbursements must be similarly adjusted. However, if the State Plan does not allow for this reimbursement, proposal to amend the Medicaid State Plan is recommended. This will help bridge the significant underpayment from the 3Ms.

**Uncompensated Care**

Another issue seriously impacting the Hospital is uncompensated care delivered to the self-pay population – i.e. patients who are underinsured or without insurance coverage – under federal and local legal mandates. For the past 5 years, self-pay patients received an average of $24M of care per year, with a provision for bad debt averaging $14M annually as reflected in the chart below. GMHA establishes a provision for bad debt when it considers that it is unlikely that the patient account balance will be collected. This issue has a significant impact on the Hospital's continued sustainability. Although considerable progress was made in 2017, GMHA continues to seek ways to improve collections, and has implemented an online payment system. GMHA is in active discussion with the Department of Public Health regarding a process to enroll individuals who qualify for Medicaid and MIP at the time that medical treatment is first provided. The goal is to have eligibility workers trained by Public Health at GMHA to process prospective patients eligible for these benefits.

GMHA's Human Resources Division is in the process of interviewing prospective applicants for three positions. This will facilitate and expedite the process of getting eligible patients who qualify for Medicaid or MIP enrolled. This will reduce the uncompensated care costs at GMHA. GMHA also issued an RFP for a Call Center and Collection Agency Services all aimed at increasing collection. However, even with all these improvements, a permanent external funding source must be identified to reimburse the Hospital for the cost of providing uncompensated care for those individuals who do not qualify for public assistance services, but continue to drain the resources of the Hospital. The Hospital is also faced with numerous social cases pertaining to patients who can be discharged, but do not have responsible parties willing to accept the discharged patient. This has been an ongoing issue for GMHA which, due to legal mandates, requires the direction from island lawmakers. This represents another reason for dedicated funding to GMHA.




## Fee Schedule

GMHA's fee schedule is below industry standards and therefore continues to negatively impact the Hospital's revenue stream. Although the Board of Trustees approved a 5% increase effective April 1, 2015 and additional 5% increases each year thereafter, GMHA's rates are still significantly outdated because most of the rates were established in the early 90s. In its December 2014 report, the Office of Inspector General recommended that GMHA "***review the fee schedule on a regularly scheduled basis and, where necessary, make adjustments to ensure costs are covered***". GMHA continues to review its charge library to identify outdated charges that must be adjusted. Legislative approval would, however, be required for any fee increase that exceeds the 5% threshold. In November 2015, the Hospital achieved a major milestone when it successfully requested and obtained legislative approval to adjust 300 fee items that were significantly below Medicare rate to equal the Medicare rate. The Hospital is continuing its efforts to review its charge library to update its fees and will go to the legislature again to obtain authorization for those fees that need to be adjusted above 5%.

## Staffing & Employment Costs

Shortages of certain physician specialists as well as specialty care nurses both locally and nationally are expected to continue to grow over the next several years, and competition from mainland hospitals as well as a local private hospital is contributing to the upward pressure on the costs of employing physicians and nurses.

## FINANCIAL PERFORMANCE

A Comparative analysis is provided between Fiscal Year ("FY") 2017, FY 2016 and FY2015 for the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows.

**SUMMARIZED STATEMENTS OF NET POSITION**

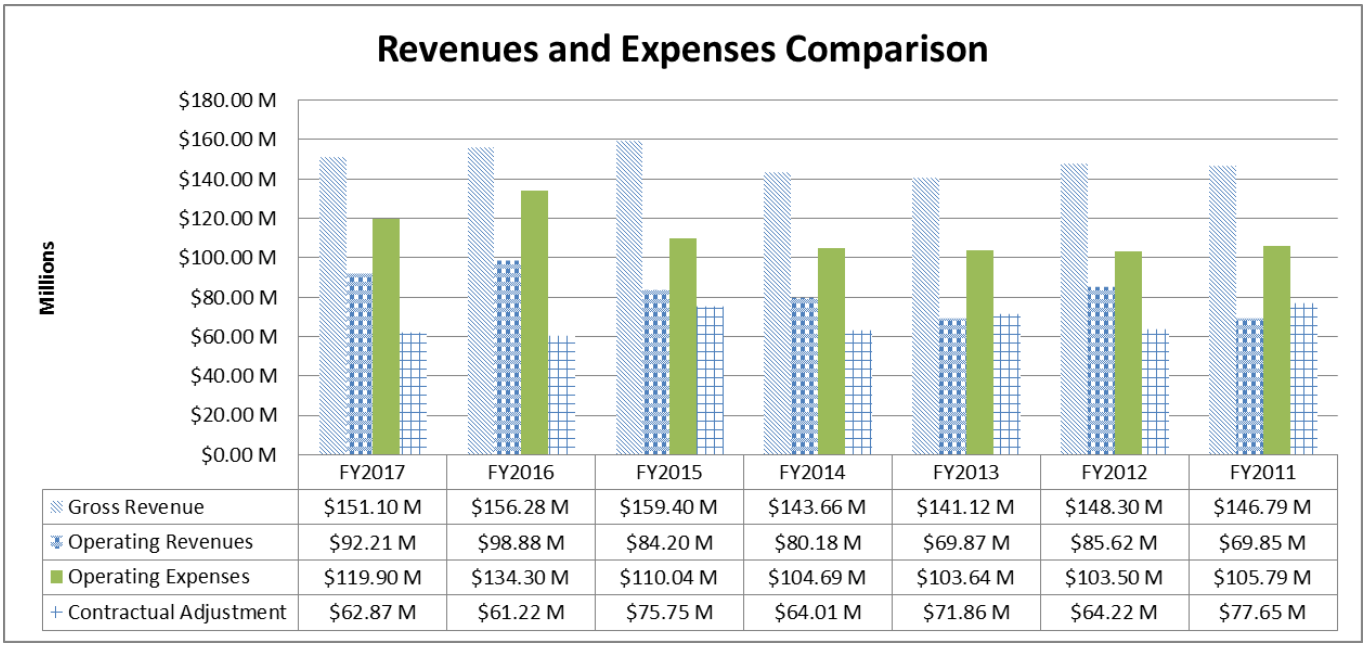
| | 2017 | 2016 As Restated | 2015 As Restated | % Change 2016 to 2017 |
|---|---|---|---|---|
| Assets: | | | | |
| Current assets | $ 34,359,657 | $ 35,622,341 | $ 25,933,469 | -3.54% |
| Noncurrent assets | 32,588,160 | 35,514,495 | 39,158,013 | -8.24% |
| Deferred outflows of resources | 14,108,364 | 20,165,044 | 15,042,073 | -30.04% |
| Total assets and deferred outflows of resources | $ 81,056,181 | $ 91,301,880 | $ 80,133,555 | -11.22% |
| Liabilities and Net Position | | | | |
| Liabilities: | | | | |
| Current liabilities | $ 11,039,281 | $ 13,507,316 | $ 35,014,278 | -18.27% |
| Noncurrent liabilities | 148,254,930 | 155,896,527 | 171,144,673 | -4.90% |
| Total liabilities | 159,294,211 | 169,403,843 | 206,158,951 | -5.97% |
| Deferred inflows of resources | 1,848,141 | 76,361 | 9,460,899 | 2320.27% |
| Net position: | | | | |
| Net investment in capital assets | 32,570,123 | 35,457,259 | 38,855,016 | -8.14% |
| Unrestricted | (112,656,294) | (113,635,583) | (152,530,079) | -0.86% |
| Total net position | (80,086,171) | (78,178,324) | (113,675,063) | 2.44% |
| Total liabilities, deferred inflows of resources and net position | $ 81,056,181 | $ 91,301,880 | $ 80,133,555 | -11.22% |

**SUMMARIZED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

| | 2017 | 2016 As Restated | 2015 As Restated | % Change 2016 to 2017 |
|---|---|---|---|---|
| Operating revenues | $ 92,205,528 | $ 98,883,247 | $ 84,200,642 | -6.75% |
| Operating expenses | 119,902,495 | 134,296,627 | 132,931,504 | -10.72% |
| Operating loss | (27,696,967) | (35,413,380) | (48,730,862) | -21.79% |
| Non-operating revenues, net | 24,808,225 | 70,380,661 | 22,839,461 | -64.75% |
| Capital grants and contributions | 980,895 | 529,458 | 1,258,956 | 85.26% |
| Change in net position | $ (1,907,847) | $ 35,496,739 | $ (24,632,445) | -105.37% |

- Assets and deferred outflows decreased by $10,245,699 or 11.22% representing decreases in Due from Government of Guam, Inventory, Prepaid expenses, Depreciable Assets, and Deferred Outflows from Pension, offset by a small increase in Cash and Patient Receivables.

- Current Liabilities decreased by $2,468,035 due to decreases in Accounts Payable to the Government of Guam Retirement Fund, Accrued Payroll, Unearned Revenues, Current Portion of Accrued Annual Leave, but offset by a $1,643,996 increase in Accounts Payable-Trade or 46%.
- Non-current liabilities reduced by $7,641,597 due primarily to a reduction in pension liability.




| | FY2017 | FY2016 | FY2015 | FY2014 | FY2013 | FY2012 | FY2011 |
|---|---|---|---|---|---|---|---|
| Gross Revenue | $151.10 M | $156.28 M | $159.40 M | $143.66 M | $141.12 M | $148.30 M | $146.79 M |
| Operating Revenues | $92.21 M | $98.88 M | $84.20 M | $80.18 M | $69.87 M | $85.62 M | $69.85 M |
| Operating Expenses | $119.90 M | $134.30 M | $110.04 M | $104.69 M | $103.64 M | $103.50 M | $105.79 M |
| Contractual Adjustment | $62.87 M | $61.22 M | $75.75 M | $64.01 M | $71.86 M | $64.22 M | $77.65 M |

- Operating revenues decreased $6,677,719 or 7%.
- Operating expenses decreased $14,394,132 or 11%, mainly due to the pension expense.
- Operating loss decreased $7,716,413 or 22%.
- Non-operating revenues decreased by $45,572,436 or 65% principally due to transfers from GovGuam funded by Section 30 bond advanced to pay off liabilities in FY2016 in the amount of $49,916,463. Subsidy decreased in FY2017.
- Change in Net Position declined by $37,404,586 or 105.37% due to restatement of FY2016 financials as a result of the revised actuarial report for the pension liability.

**SUMMARIZED STATEMENTS OF CASH FLOWS**

| | 2017 | 2016 As Restated | % Change 2016 to 2017 |
|---|---|---|---|
| Cash used for operating activities | $ (22,309,763) | $ (34,309,690) | -34.98% |
| Net cash provided by noncapital financing activities | 24,669,770 | 37,240,417 | -33.76% |
| Cash flows used by capital and related financing activities | (1,578,826) | (1,312,589) | 20.28% |
| Cash flows provided by investing activities | - | 209,267 | 100.00% |
| Net change in cash | $ 781,181 | $ 1,827,405 | -57.25% |

- Patient receipts collected in FY 2017 increased by $9,782,898 or 34% from third party payors', but offset by a sharp decrease in collections from Medicaid by $13,223,552 or 49%.
- Exceeded receipts collected in FY2016 by $10,217,165 or 12.2%.

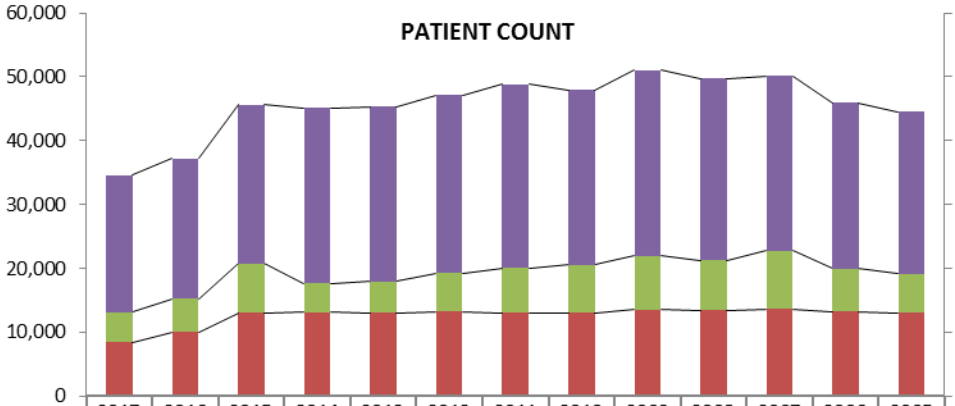
- Payments to suppliers decreased by $24,537,527 or 48%
- Non–capital contributions from GovGuam decreased by $32,967,379 or 57%.
- Capital contributions from GovGuam decreased by $436,094 or 82%.

**Capital Assets and Long-term Debt**

As of September 30, 2017, GMHA had $32.6 million invested in capital assets. Refer to Note 7 additional information. GMHA does not have long-term debt as of September 30, 2017. Refer to Note 9 for additional information.

**Patient Census**

Patient census decreased overall by 7% to 34,597. GMHA had anticipated a reduction of patient census due to the opening of the Guam Regional Medical Center in 2015. The decrease, while expected, has appeared to have tapered off. However, the decline in census does not reflect the severity of the patients' condition or length of stay, hence the cost of providing necessary medical services to these patients remains.




| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Emergency room | 21,487 | 21,979 | 24,877 | 27,559 | 27,414 | 27,939 | 28,804 | 27,416 | 29,103 | 28,481 | 27,434 | 25,963 | 25,409 |
| Outpatient | 4,752 | 5,264 | 7,739 | 4,500 | 4,913 | 6,033 | 7,004 | 7,552 | 8,496 | 7,832 | 9,095 | 6,753 | 6,109 |
| Inpatient | 8,358 | 9,959 | 12,967 | 13,117 | 12,975 | 13,168 | 13,006 | 12,993 | 13,475 | 13,420 | 13,661 | 13,173 | 12,996 |
| Total | 34,597 | 37,202 | 45,583 | 45,176 | 45,302 | 47,140 | 48,814 | 47,961 | 51,074 | 49,733 | 50,190 | 45,889 | 44,514 |

**Economic Outlook - Looking Forward**

GMHA continues to provide the best patient care despite decades of financial challenges. Its continued effort to improve efficiencies, contain costs and generate internal revenue enhancements will contribute to GMHA's sustainability. Some of those efforts include, but are not limited to:

***Online Payment/Call Center***

The Hospital negotiated with a vendor to provide online payment services to patients and has successfully launched these services in February 2017. Not only are patients able to make payments on line, they can also view their account at their own convenience and privacy. This has the potential to provide a positive impact on the Hospital's collections especially the self-payer mix. The Hospital will continue to monitor the online payment system for enhancements for better patient experience in using this portal.

GMHA has issued an RFP for a call center. It expects to have this in place this year (2018) to enhance the collection of receivables.

***Family Birth Center Project***

The US Department of Agriculture has approved a loan of $9.2M to finance the design and construction of a new Family Birth Center within the Hospital, with additional Federal grant funds of up to $3.0M to finance new equipment for this facility. The plan for this project includes a construction period of about eighteen months during which certain departmental relocations will occur after the design and procurement process has been completed. When commissioned, the new center will offer an improved delivery of care to support the approximately 250 babies born at GMHA each month with opportunities for enhanced and additional revenues from services provided in the modernized facility.

GEDA is still working with USDA to resolve the requirement of interim financing before the project could be announced for bidding. GEDA has recently issued its fourth RFP for interim financing. GMHA has included this project in its Fiscal Year 2019 Budget request should the USDA financing not materialize.

***Information Technology Upgrades and Meaningful Use***

The American Recovery and Reinvestment Act (Recovery Act) of 2009 provides incentives for eligible hospitals that are meaningful users of certified Electronic Health Record (EHR). Meaningful Use encourages eligible hospitals to switch from paper charts to electronic records while providing the best care for its patients. GMHA received Stage 1 of the Meaningful Use Medicaid incentive payment of $1.3M in May 2014.

As part of the system upgrade, in October, 2014, the first phase of the completed and certified Electronic Health Record (EHR) system migration was implemented replacing an old 1995 Patient Information ("PI") system. The AS400 PI system was migrated to the Optimum Revenue Cycle Management (RCM) system. The Optimum RCM system includes different modules such as the patient accounting, patient admissions/discharge, medical records, chart management, chart tracking, coding and reimbursement, patient billing, electronic claims and remittance, collections, payments and follow-up processing, and accounts receivable.

The Optimum General Financials System was also implemented in July 2015. This new system, promotes efficient management of the entity's business cycle by capturing financial information. The system includes financial tracking and reporting, general ledger, fixed assets, inventory management (supply chain), budgeting and accounts payable. Cost accounting is still being refined. The payroll module was brought online for the first payroll of 2017. GMHA's electronic time and attendance system is being tested for implementation in 2018. The biometric time clocking system will replace the current system reducing potential abuse, thus reducing cost.

The Optimum iMed (EHR) and Pharmacy System was converted in 2016. Optimum iMed is a web-enabled suite of clinical applications that work together to bring complete patient information directly to the point of service, improving clinical decision making, enhancing collaborative care, and reducing medical errors. This system provides a single, consolidated view of an entire patient record, anytime, anywhere — whether at the hospital, patient's bedside, physician's office, or at the clinic, thereby helping clinicians to improve the delivery of care. The Optimum iMed suite includes the following modules Optimum iMed Clinical System, Pharmacy Management, Computerized Physician Order Entry (CPOE), Electronic Medication Administration Record (EMAR), Enterprise Scheduling. The CPOE, EMAR and Enterprise Scheduling was introduced in June 2016.

Due to user dissatisfaction of the current system, GMHA seeks to upgrade the IT system to comply with regulatory standards, which integrate clinical, demographic, and financial information seamlessly. GMHA's goal is to acquire a certified EHR system from a top rated EHR solutions provider which has a fully integrated clinical system suite that is easy to use and does not require numerous costly modifications and fixes as compared to the existing problematic EHR System that GMHA currently uses. Staff satisfaction survey reveals that 85% of end users are dissatisfied with the current system because it is not user friendly and does not address major regulatory tracking and reporting requirements.

On April 2, 2018, GMHA received Stage 2 of the Meaningful Use Medicaid incentive payment of $1.041M for the 90-days reporting in 2017 from Oct. 1, 2017 to Dec. 31, 2017. This was due to the dedication and long hours that the clinical IMED team performed to get the required measures and objectives keyed into the EHR System. Since GMHA was not able to meet MU Stage 2 in 2016 due to the EHR System shortfalls and not having all of the required CPOE and EMAR functioning at that time, GMHA appealed to CMS and the Guam State Medicaid office requesting for reconsideration in not meeting the meaningful use measurements in 2016 due to the shortcomings of its IT system. The GMHA appeal was granted and GMHA was allowed to continue working on MU stage 2 in 2017 for the incentive of $1.041M which it received in 2018.

The new EHR System solution must be able to address all of the hospital's Physicians, Nursing, Ancillary and Financial issues and needs that exceed all of the existing shortfalls of the current problematic EHR System. Besides the costly and lengthy process for getting modifications and fixes to problems identified and submitted by the end–users of the current EHR System, the unstable structure and often times delayed support services of the current EHR vendor causes GMHA Clinical IMED team to work longer hours on workarounds until modifications or fixes are completed by the support vendor. This in effect also has the clinical users (physicians, nurses, ancillary and financial) working harder and longer hours on the workarounds which results in inefficient and counter productive use of the current EHR System. Some of the inefficiencies have directly and indirectly affected patient care and flow as indicated in the recent CMS Survey and the Joint Commission Survey. In late April 2018, our EHR vendor informed GMHA that up to 47 of their support staff were released including their CEO and their Vice President of Support and Development. We were informed it was as a result of numerous complaints from their hospital clients including GMHA. This change in that vendor's structure only further delayed the remaining work, modifications and fixes that GMHA is waiting on and might affect the remaining work we have to meet Meaningful Use stage #3 for 2018 which has an estimated Medicaid incentive of $750K.

GMHA urgently needs to find a better EHR System Solution to replace the existing problematic system. It needs a robust system that addresses both the clinical and nonclinical requirements of the Hospital.

**Dedicated Funding**

The passage of Public Law 34-87 will provide a much needed dedicated funding source for the Hospital to address its perennial annual shortfall due to the underpayment and uncompensated care. This subsidy is projected to generate an estimated $30 million annually for GMHA. However, several bills have been introduced to repeal this law or amend it which will reduce the subsidy. We are hopeful that the elected leaders will not allow the underfunding to continue and must identify another funding source should the repeal of Public Law 34-87 is successful.

## CONTACTING HOSPITAL EXECUTIVES

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

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in GMHA's report on the audit of financial statements which is dated April 24, 2017. That Discussion and Analysis explains in more detail major factors impacting the 2016 financial statements.

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

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

Statements of Net Position
September 30, 2017 and 2016

| ASSETS | 2017 | 2016 As Restated |
|---|---|---|
| Current assets: | | |
| Cash | $ 2,665,141 | $ 1,883,960 |
| Patient accounts receivable, net of estimated uncollectibles of $84,119,386 in 2017 and $66,070,980 in 2016 | 26,652,988 | 22,265,866 |
| Due from the Government of Guam | 2,252,382 | 7,849,854 |
| Other receivables, net of allowance for doubtful accounts of $0 in 2017 and $260,012 in 2016 | 74,169 | - |
| Inventory, net | 2,700,287 | 3,486,628 |
| Prepaid expenses | 14,690 | 136,033 |
| Total current assets | 34,359,657 | 35,622,341 |
| Note receivable | 18,037 | 57,236 |
| Capital assets: | | |
| Depreciable assets, net | 31,535,141 | 34,293,912 |
| Construction in progress | 1,034,982 | 1,163,347 |
| | 32,570,123 | 35,457,259 |
| Total noncurrent assets | 32,588,160 | 35,514,495 |
| Total assets | 66,947,817 | 71,136,836 |
| Deferred outflows of resources: | | |
| Deferred outflows from pension | 14,108,364 | 20,165,044 |
| Total assets and deferred outflows of resources | $ 81,056,181 | $ 91,301,880 |
| LIABILITIES AND NET POSITION | | |
| Current liabilities: | | |
| Accounts payable - trade | $ 5,223,547 | $ 3,579,551 |
| Accounts payable - Government of Guam Retirement Fund | 715,559 | 1,977,709 |
| Accrued taxes and related liabilities | 270,289 | 14,405 |
| Accrued payroll and benefits | 1,645,186 | 2,657,584 |
| Unearned revenues | - | 893,077 |
| Current portion of accrued annual leave | 986,810 | 1,749,990 |
| Other current liabilities | 2,197,890 | 2,635,000 |
| Total current liabilities | 11,039,281 | 13,507,316 |
| Accrued annual leave, net of current portion | 3,135,647 | 2,117,722 |
| Accrued sick leave | 4,706,659 | 4,328,404 |
| Net pension liability | 140,412,624 | 149,450,401 |
| Total liabilities | 159,294,211 | 169,403,843 |
| Deferred inflows of resources: | | |
| Deferred inflows from pension | 1,848,141 | 76,361 |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | 32,570,123 | 35,457,259 |
| Unrestricted | (112,656,294) | (113,635,583) |
| Total net position | (80,086,171) | (78,178,324) |
| Total liabilities, deferred inflows of resources and net position | $ 81,056,181 | $ 91,301,880 |

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

| | 2017 | 2016 As Restated |
|---|---|---|
| Operating revenues: | | |
| Net patient service revenue (net of contractual adjustments and provision for bad debts of $62,874,694 in 2017 and $61,219,683 in 2016) | $ 88,224,299 | $ 95,065,140 |
| Other operating revenues: | | |
| Cafeteria food sales | 407,276 | 511,387 |
| Other revenue | 3,573,953 | 3,306,720 |
| Total operating revenues | 92,205,528 | 98,883,247 |
| Operating expenses: | | |
| Nursing | 54,287,913 | 64,070,175 |
| Professional support | 28,888,475 | 31,281,873 |
| Administrative support | 12,957,803 | 14,035,184 |
| Fiscal services | 9,052,228 | 9,343,691 |
| Depreciation | 5,373,279 | 5,121,496 |
| Administration | 3,435,276 | 4,725,479 |
| Retiree healthcare costs and other pension benefits | 4,916,428 | 4,735,670 |
| Medical staff | 991,093 | 983,059 |
| Total operating expenses | 119,902,495 | 134,296,627 |
| Operating loss | (27,696,967) | (35,413,380) |
| Nonoperating revenues (expenses): | | |
| Transfers from GovGuam | 24,679,853 | 69,098,020 |
| Federal grants | 355,072 | 2,804,665 |
| Contributions | 333,023 | 234,568 |
| Federal program expenditures | (157,837) | (93,508) |
| Interest and penalties | (367,826) | (1,540,091) |
| Loss from disposal of fixed asset | (73,578) | (118,308) |
| Others | 39,518 | (4,685) |
| Total nonoperating revenues | 24,808,225 | 70,380,661 |
| Income (loss) before capital grants and contributions | (2,888,742) | 34,967,281 |
| Capital grants and contributions: | | |
| Government of Guam | 93,364 | 529,458 |
| Federal grants | 887,531 | - |
| Total capital grants and contributions | 980,895 | 529,458 |
| Change in net position | (1,907,847) | 35,496,739 |
| Net position at the beginning of the year | (78,178,324) | (113,675,063) |
| Net position at the end of the year | $ (80,086,171) | $ (78,178,324) |

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, 2017 and 2016

| | 2017 | 2016 As Restated |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from and on behalf of patients | $ 83,876,376 | $ 94,159,209 |
| Receipts from sales and other services | 3,907,060 | 3,818,105 |
| Payments to suppliers and contractors | (26,306,632) | (50,844,159) |
| Payments to employees | (83,786,567) | (81,442,845) |
| Net cash used for operating activities | (22,309,763) | (34,309,690) |
| Cash flows from noncapital financing activities: | | |
| Contributions from the Government of Guam | 24,467,820 | 57,435,199 |
| Federal grants received | 355,072 | 2,804,665 |
| Contributions | 333,023 | 234,568 |
| Interest and penalties paid | (367,826) | (1,540,091) |
| Payments made under federal programs | (157,837) | (93,508) |
| Principal repayment of note payable | - | (21,595,731) |
| Other receipts (payments) | 39,518 | (4,685) |
| Net cash provided by noncapital financing activities | 24,669,770 | 37,240,417 |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (2,559,721) | (1,842,047) |
| Contributions from the Government of Guam | 93,364 | 529,458 |
| Federal grants received | 887,531 | - |
| Net cash used for capital and related financing activities | (1,578,826) | (1,312,589) |
| Cash flows from investing activities: | | |
| Transfers from restricted cash | - | 209,267 |
| Net change in cash | 781,181 | 1,827,405 |
| Cash at beginning of year | 1,883,960 | 56,555 |
| Cash at end of year | $ 2,665,141 | $ 1,883,960 |

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, 2017 and 2016

| | 2017 | 2016 As Restated |
|---|---|---|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | $ (27,696,967) | $ (35,413,380) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Contractual adjustments and provisions for uncollectible accounts | 62,874,694 | 61,219,683 |
| Depreciation | 5,373,279 | 5,121,496 |
| Retiree healthcare costs and other pension benefits | 4,916,428 | 4,735,670 |
| Noncash pension cost | (1,209,317) | 11,543,543 |
| (Increase) decrease in assets: | | |
| Patient accounts receivable | (67,261,816) | (62,162,109) |
| Note receivable | 39,199 | 36,494 |
| Other receivables | (74,169) | - |
| Inventory | 786,341 | 686,835 |
| Prepaid expenses | 121,343 | 164,352 |
| Increase (decrease) in liabilities: | | |
| Accounts payable - trade | 1,643,996 | (12,699,361) |
| Accounts payable - Government of Guam Retirement Fund | (1,262,150) | (205,489) |
| Accrued taxes and related liabilities | 255,884 | (6,676,488) |
| Accrued payroll and benefits | (1,012,398) | 252,403 |
| Accrued annual leave and sick leave | 633,000 | 34,636 |
| Other current liabilities | (437,110) | (947,975) |
| Net cash used in operating activities | $ (22,309,763) | $ (34,309,690) |

See accompanying notes to financial statements.

## (1) Reporting Entity

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

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

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

## (2) Summary of Significant Accounting Policies

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

### Basis of Accounting

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

### Net Position

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

- Net investment in capital assets – includes capital assets restricted and unrestricted, net of accumulated depreciation reduced by outstanding debt net of debt service reserve.

- Restricted nonexpendable - net position subject to externally imposed stipulations that require GMHA to maintain the position permanently.

- Restricted expendable - net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of GMHA pursuant to those stipulations or that expire with the passage of time.

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

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

Estimates

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

Cash

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

For purposes of the statements of net position and of cash flows, cash is defined as cash on hand, cash held in demand accounts, and time certificates of deposit maturing within ninety days. As of September 30, 2017 and 2016, cash is $2,665,141 and $1,883,960, respectively, and the corresponding bank balances are $2,980,248 and $3,123,309, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of $250,000 are FDIC insured. GMHA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Patient Accounts Receivable

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

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

Due from GovGuam

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

(2) Summary of Significant Accounting Policies, Continued

Inventory

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

Capital Assets

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

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

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

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GMHA has determined the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and pension contributions made subsequent to the measurement date qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. GMHA has determined the differences between projected and actual earnings on pension plan investments and changes in proportion and differences between GMHA pension contributions and proportionate share of contributions qualify for reporting in this category.

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Vesting annual leave is accrued and reported as an expense and a liability in the period earned. No liability is accrued for non-vesting sick leave benefits. Annual leave expected to be paid out within the next fiscal year is accrued and is included in current liabilities. The maximum accumulation of annual leave convertible to pay upon termination of employment is limited to 320 hours. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (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 26-86 allows members of the Defined Contribution Retirement System (DCRS) to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. A liability is accrued for estimated sick leave to be paid out to DCRS members upon retirement. At September 30, 2017 and 2016, GMHA has accrued an estimated sick leave liability of $4,706,659 and $4,328,404, respectively. However, this amount is an estimate and the actual payout may be materially different than estimated.

Unearned Revenues

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. GMHA recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents GMHA's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. The total pension liability also includes GMHA's proportionate share of the liability for ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments that are anticipated to be made to defined benefit plan members and anticipated future COLA to DCRS members. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and are amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Net Patient Service Revenues

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

(2) Summary of Significant Accounting Policies, Continued

GovGuam Contributions

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

Federal Grant Award Revenues and Contributions

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

Estimated Malpractice Costs

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

Income Taxes

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

Risk Management

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2017, GMHA implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The implementation of this statement had a material effect on the accompanying financial statements resulting in the restatement of GMHA's fiscal year 2016 financial statements to reflect the reporting of pension liabilities, deferred inflows of resources and deferred outflows of resources for ad hoc COLAs and supplemental annuity payments and the recognition of pension expense in accordance with the provisions of GASB Statement No. 73. The 2016 financial statements were also restated as follows due to changes in actuarial assumptions and other inputs used to determine the pension liabilities, deferred inflows of resources and deferred outflows of resources for the qualified pension plan:

| | As Previously Reported | Adjustment | As Restated |
|---|---|---|---|
| As of October 1, 2015: | | | |
| Net position | $ (99,658,206) | $ (14,016,857) | $ (113,675,063) |
| For the year ended September 30: | | | |
| Operating expenses | $ 128,132,323 | $ 6,164,304 | $ 134,296,627 |
| Transfers from GovGuam | $ (67,453,312) | $ (1,644,708) | $ (69,098,020) |
| Change in net position | $ 40,016,335 | $ (4,519,596) | $ 35,496,739 |
| As of September 30: | | | |
| Deferred outflows from pension | $ 16,209,666 | $ 3,955,378 | $ 20,165,044 |
| Net pension liability | $ (127,034,931) | $ (22,415,470) | $ (149,450,401) |
| Deferred inflows from pension | $ - | $ (76,361) | $ (76,361) |
| Net position | $ (59,641,871) | $ (18,536,453) | $ (78,178,324) |

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Except for GASB Statement No. 73, the implementation of these statements did not have a material effect on GMHA's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on an actuarial valuation dated May 9, 2017, with a valuation date of October 1, 2015, the net OPEB obligation that GMHA will record upon implementation of Statement 75 is anticipated to be $90,868,193 as of September 30, 2017.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

(3) Patient Accounts Receivable

GMHA grants credit without collateral to its patients, many of whom are Guam residents and are insured under third-party payor agreements. Patient accounts receivable at September 30, 2017 and 2016, consist of:

| | 2017 | 2016 |
|---|---|---|
| Account referrals - Department of Revenue and Taxation | $ 19,507,515 | $ 6,485,232 |
| Self-pay Patients | 14,750,242 | 7,359,575 |
| Medically Indigent Program | 4,692,641 | 5,295,315 |
| Local Third-Party Payor and Other | 20,699,247 | 23,392,454 |
| Medicaid Assistance Program | 10,756,624 | 12,801,339 |
| Medicare | 27,366,854 | 19,754,261 |
| Collection agencies and other | 12,999,251 | 13,248,670 |
| | 110,772,374 | 88,336,846 |
| Less allowance for uncollectible accounts | (84,119,386) | (66,070,980) |
| | $ 26,652,988 | $ 22,265,866 |

Patient accounts receivable from "Local Third-Party Payor and Other" includes receivables from GovGuam of $2,420,177 and $53,068 as of September 30, 2017 and 2016, respectively, for healthcare services.

During fiscal years 2017 and 2016, GMHA collected $3,988,934 and $8,516,721, respectively, from accounts referred to the Department of Revenue and Taxation.

(4) Note Receivable

In February 2008, GMHA accepted a promissory note from a collection agency in the amount of $312,431 for outstanding collections of delinquent patient accounts. The note bears fixed interest of 6% and matures on February 1, 2018. At September 30, 2017 and 2016, the balance of the note was $18,037 and $57,236, respectively.

(5) Other Receivables

The Hospital grants credit without collateral to customers primarily located on Guam for catering services and supplies issuances. Other receivables at September 30, 2017 and 2016, consist of:

| | 2017 | 2016 |
|---|---|---|
| Government of Guam: | | |
| Department of Mental Health and Substance Abuse | $ 44,404 | $ 52,360 |
| Guam Fire Department | 11,494 | 1,260 |
| Other | 18,271 | 206,392 |
| | 74,169 | 260,012 |
| Less allowance for uncollectible accounts | - | (260,012) |
| | $ 74,169 | $ - |

(6) Inventory

Inventory at September 30, 2017 and 2016, consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Pharmaceuticals, drugs and medicine | $ 1,393,854 | $ 2,199,987 |
| Medical and pharmaceutical supplies | 1,739,868 | 1,642,594 |
| Dietary food supplies | 60,087 | 32,769 |
| | 3,193,809 | 3,875,350 |
| Less allowance for obsolescence | (493,522) | (388,722) |
| | $ 2,700,287 | $ 3,486,628 |

(7) Capital Assets

Capital assets activity for the years ended September 30, 2017 and 2016 was as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | Balance October 1, | Transfers and Additions | Transfers and Deletions | Balance September 30, |
| Depreciable assets: | | | | |
| Building and land improvements | $ 74,114,643 | $ 478,149 | $ - | $ 74,592,792 |
| Long-term care facility | 11,021,985 | 202,761 | - | 11,224,746 |
| Movable equipment | 25,836,807 | 2,007,176 | (1,096,278) | 26,747,705 |
| | 110,973,435 | 2,688,086 | (1,096,278) | 112,565,243 |
| Less accumulated depreciation and amortization | (76,679,523) | (5,373,279) | 1,022,700 | (81,030,102) |
| | 34,293,912 | (2,685,193) | (73,578) | 31,535,141 |
| Non-depreciable assets: | | | | |
| Construction in progress | 1,163,347 | 1,763,787 | (1,892,152) | 1,034,982 |
| Total capital assets, net | $ 35,457,259 | $ (921,406) | $ (1,965,730) | $ 32,570,123 |

(7) Capital Assets, Continued

| | 2016 | | | |
|---|---|---|---|---|
| | Balance October 1, | Transfers and Additions | Transfers and Deletions | Balance September 30, |
| Depreciable assets: | | | | |
| Building and land improvements | $ 74,059,726 | $ 563,105 | $ (508,188) | $ 74,114,643 |
| Long-term care facility | 11,021,985 | - | - | 11,021,985 |
| Movable equipment | 26,660,389 | 3,732,037 | (4,555,619) | 25,836,807 |
| | 111,742,100 | 4,295,142 | (5,063,807) | 110,973,435 |
| Less accumulated depreciation and amortization | (76,503,526) | (5,121,496) | 4,945,499 | (76,679,523) |
| | 35,238,574 | (826,354) | (118,308) | 34,293,912 |
| Non-depreciable assets: | | | | |
| Construction in progress | 3,616,442 | 916,205 | (3,369,300) | 1,163,347 |
| Total capital assets, net | $ 38,855,016 | $ 89,851 | $ (3,487,608) | $ 35,457,259 |

(8) Due to GovGuam Retirement Fund ("GGRF")

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

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

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

At September 30, 2017 and 2016, accounts payable due to GGRF reported as current liabilities consist of the following:

| | 2017 | 2016 |
|---|---|---|
| Employer and member contributions of: | | |
| Current fiscal year (DB) Plan | $ 104,380 | $ 121,275 |
| Unfunded liability | 345,728 | 339,469 |
| Employer and member contributions of current fiscal year (DCRS Plan) | 265,451 | 9,961 |
| Supplemental annuities/COLA benefits for retirees | - | 1,507,004 |
| | $ 715,559 | $ 1,977,709 |

(8) Due to GovGuam Retirement Fund ("GGRF"), Continued

At September 30, 2016, amounts due to GGRF included an outstanding obligation of $1,507,004 for supplemental benefits for the Hospital's retirees who retired prior to October 1, 1995 and Cost of Living Allowance (COLA) benefits for those employees who retired prior to October 1, 2001. In accordance with Public Law No. 26-35, as amended by Public Law No. 26-49, GMHA was among various autonomous agencies required to reimburse GGRF for certain supplemental benefits paid to its retirees by GGRF.

Statutory employer contributions for DCRS plan members for the years ended September 30, 2017 and 2016 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the DB plan. At September 30, 2017 and 2016, GMHA's unpaid contributions toward the unfunded liability of the DB Plan amounted to $345,728 and $339,469, respectively.

(9) Long-Term Debt and Other Liabilities

The changes in long-term liabilities for the years ended September 30, 2017 and 2016, are as follows:

| | Balance October 1, 2016 As Restated | Additions | Reductions | Balance September 30, 2017 | Due Within One Year |
|---|---|---|---|---|---|
| Annual leave | $ 3,867,712 | $ 1,835,186 | $ (1,580,441) | $ 4,122,457 | $ 986,810 |
| Sick leave | 4,328,404 | 1,124,497 | (746,242) | 4,706,659 | - |
| Net pension liability | 149,450,401 | 3,404,496 | (12,442,273) | 140,412,624 | - |
| | $ 157,646,517 | $ 6,364,179 | $ (14,768,956) | $ 149,241,740 | $ 986,810 |

| | Balance October 1, 2015 As Restated | Additions As Restated | Reductions As Restated | Balance September 30, 2016 As Restated | Due Within One Year |
|---|---|---|---|---|---|
| Note payable | $ 21,595,731 | $ - | $ (21,595,731) | $ - | $ - |
| Annual leave | 3,950,451 | 635,160 | (717,899) | 3,867,712 | 1,749,990 |
| Sick leave | 4,211,029 | 635,733 | (518,358) | 4,328,404 | - |
| Net pension liability | 123,407,666 | 40,285,436 | (14,242,701) | 149,450,401 | - |
| | $ 153,164,877 | $ 41,556,329 | $ (37,074,689) | $ 157,646,517 | $ 1,749,990 |

(10) Medical Malpractice/Employment and Personnel Claims

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

## (11) Employee Retirement Plans

A. General Information About the Pension Plan:

Defined Benefit Plan

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

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

*Plan Membership:* As of September 30, 2016, the date of the most recent valuation, plan membership consisted of the following:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 7,298 |
| Terminated employees entitled to benefits but not yet receiving them | 4,463 |
| Current members | 2,208 |
| | 13,969 |

*Benefits Provided:* The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or $6,000, whichever is greater.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or with 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or upon completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or with 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or upon completion of 30 years of service at any age.

(11) Employee Retirement Plans, Continued

A. General Information About the Pension Plan, Continued:

Defined Benefit Plan, Continued

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

*Contributions and Funding Policy:* Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example, the September 30, 2015 actuarial valuation was used for determining the year ended September 30, 2017 statutory contributions. Member contributions are required at 9.55% of base pay (9.54% in 2016).

As a result of actuarial valuations performed as of September 30, 2015, 2014, and 2013, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2017, 2016 and 2015, respectively, have been determined as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Normal costs (% of DB Plan payroll) | 16.27% | 15.86% | 15.92% |
| Employee contributions (DB Plan employees) | 9.55% | 9.54% | 9.55% |
| Employer portion of normal costs (% of DB Plan payroll) | 6.72% | 6.32% | 6.37% |
| Employer portion of normal costs (% of total payroll) | 1.87% | 1.94% | 2.05% |
| Unfunded liability cost (% of total payroll) | 21.60% | 22.42% | 24.09% |
| Government contribution as a % of total payroll | 23.47% | 24.36% | 26.14% |
| Statutory contribution rates as a % of DB Plan payroll: | | | |
| Employer | 27.41% | 28.16% | 29.85% |
| Employee | 9.55% | 9.54% | 9.55% |

GMHA's contributions to the DB Plan for the years ended September 30, 2017, 2016 and 2015 were $2,146,334, $2,312,583 and $2,731,091, respectively, which were equal to the required contributions for the respective years then ended.

*Actuarial Assumptions:* Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

(11) Employee Retirement Plans, Continued

A. General Information About the Pension Plan, Continued:

Defined Benefit Plan, Continued

| | |
|---|---|
| Valuation Date: | September 30, 2015 |
| Actuarial Cost Method: | Entry age normal |
| Amortization Method: | Level percentage of payroll, closed |
| Remaining Amortization Period: | 14.58 years |
| Asset Valuation Method: | 3-year smoothed market value |
| Inflation: | 2.75% |
| Total payroll growth: | 3.00% per year |
| Salary Increases: | 4.50% to 7.50% |
| Expected Rate of Return: | 7.00% |
| Discount Rate: | 7.00% |
| Retirement age: | 40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70. |
| Mortality: | RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards. |
| Other information: | Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012. |

*Discount Rate:* The total pension liability is calculated using a discount rate of 7.0% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

(11) Employee Retirement Plans, Continued

A. General Information About the Pension Plan, Continued:

Defined Benefit Plan, Continued

*Discount Rate Sensitivity Analysis:* The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2016 Net Pension Liability.

| | 1% Decrease in Discount Rate 6.0% | Current Discount Rate 7.0% | 1% Increase in Discount Rate 8.0% |
|---|---|---|---|
| Net Pension Liability | $ 150,787,067 | $ 123,668,997 | $ 100,327,687 |

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

*Plan Description:* The GMHA participates in the GovGuam ad hoc COLA/supplemental annuity plan for DB retirees, a single-employer defined benefit pension plan administered by the GGRF. GMHA considers this as a separate pension plan for DB retirees. A single actuarial calculation is performed annually covering all plan members and the same contribution rate applies to each employer.

*Plan Membership:* The plan membership is the same as the DB plan described above.

*Benefits Provided, Contributions and Funding Policy:* Ad hoc COLA and supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature, but are funded on a "pay-as-you-go" basis so there is no plan trust. Ad hoc COLAs are made through annual allocations to provide DB Plan retired members and spouse survivors with COLA payments of $2,000 per year. In addition, DB Plan retired members and survivors whose benefits commenced prior to October 1, 1995, have received supplemental annuity payments in the amount of $4,238 per year, but not to exceed $40,000 per year when combined with their regular annual retirement annuity. It is anticipated that ad hoc COLA and supplemental annuity payments will continue to be made for future years at the same level currently being paid.

For the years ended September 30, 2017, 2016 and 2015, GMHA recognized ad hoc COLA and supplemental annuity payments as transfers from GovGuam, totaling $1,513,050, $1,530,708 and $1,539,872, respectively, that GovGuam's General Fund paid directly for the DB Plan retirees on behalf of GMHA, which were equal to the statutorily required contributions.

*Actuarial Assumptions*: The methods and assumptions used to determine contribution rates are as follows:

(11) Employee Retirement Plans, Continued

A. General Information About the Pension Plan, Continued:

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees, Continued

| | |
|---|---|
| Valuation Date: | September 30, 2015 |
| Actuarial Cost Method: | Entry age normal |
| Amortization Method: | Level percentage of payroll, closed |
| Inflation: | 2.75% |
| Total payroll growth: | 3.00% per year |
| Salary Increases: | 4.50% to 7.50% |
| Discount Rate: | 3.058% |
| Retirement age: | 40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70. |
| Mortality: | RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards. |
| Other information: | Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012 |

*Discount Rate:* The total pension liability is calculated using a discount rate of 3.058% that is the high quality bond index rate. The rate of return of a high quality bond index applies to benefit payments that are not funded by plan assets.

*Discount Rate Sensitivity Analysis:* The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.058%) in measuring the 2016 Net Pension Liability.

| | 1% Decrease in Discount Rate 2.058% | Current Discount Rate 3.058% | 1% Increase in Discount Rate 4.058% |
|---|---|---|---|
| Net Pension Liability | $ 15,718,777 | $ 14,608,250 | $ 13,625,187 |

(11) Employee Retirement Plans, Continued

A. General Information About the Pension Plan, Continued:

Ad Hoc COLA Plan for DCRS Retirees

*Plan Description:* The GMHA participates in the GovGuam ad hoc COLA plan for DCRS retirees, a single-employer defined benefit pension plan administered by the GGRF. GMHA considers this as a separate pension plan for DCRS retirees. A single actuarial calculation is performed annually covering all plan members and the same contribution rate applies to each employer.

*Plan Membership:* As of September 30, 2016, the most recent measurement date, plan membership consisted of 8,858 active DCRS participants.

*Benefits Provided, Contributions and Funding Policy:* Ad hoc COLA benefits, contributions and funding policy are the same as those for DB retirees.

For the years ended September 30, 2017, 2016 and 2015, the GMHA recognized ad hoc COLA payments as transfers from GovGuam, totaling $126,000, $114,000 and $96,000, respectively, that GovGuam's general fund paid directly for the DCRS Plan retirees on behalf of the GMHA, which were equal to the statutorily required contributions.

*Actuarial Assumptions*: The methods and assumptions used to determine contribution rates are as follows:

| | |
|---|---|
| Valuation Date: | September 30, 2015 |
| Actuarial Cost Method: | Entry age normal |
| Amortization Method: | Level percentage of payroll |
| Inflation: | 2.75% |
| Total payroll growth: | 3.00% per year |
| Salary Increases: | 4.50% to 7.50% |
| Discount Rate: | 3.058% |
| Retirement age: | 5% per year from age 55 to 64, 10% per year from age 65 to age 74, 100% at age 75 |
| Mortality: | RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards. |

(11) Employee Retirement Plans, Continued

A. General Information About the Pension Plan, Continued:

Ad Hoc COLA Plan for DCRS Retirees, Continued

| | |
|---|---|
| Other information: | Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012. |

*Discount Rate:* The total pension liability is calculated using a discount rate of 3.058% that is the high quality bond index rate. The rate of return of a high quality bond index applies to benefit payments that are not funded by plan assets.

*Discount Rate Sensitivity Analysis:* The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.058%) in measuring the 2016 Net Pension Liability.

| | 1% Decrease in Discount Rate 2.058% | Current Discount Rate 3.058% | 1% Increase in Discount Rate 4.058% |
|---|---|---|---|
| Net Pension Liability | $ 5,606,492 | $ 4,908,140 | $ 4,313,910 |

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

*Pension Liability:* At September 30, 2017 and 2016, the GMHA reported a net pension liability for its proportionate shares of the GovGuam net pension liabilities which comprised of the following.

| | 2017 | 2016 |
|---|---|---|
| Defined benefit plan | $ 123,668,997 | $ 133,213,450 |
| Ad hoc COLA/supplemental annuity plan for DB retirees | 14,608,250 | 14,882,725 |
| Ad hoc COLA plan for DCRS retirees | 4,908,140 | 4,126,989 |
| Subtotal | 143,185,387 | 152,223,164 |
| Discount rate variance | (2,772,763) | (2,772,763) |
| | $ 140,412,624 | $ 149,450,401 |

GMHA's proportion of the GovGuam net pension liabilities was based on projection of the GMHA's long-term share of contributions to the pension plans relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2017 and 2016, the GMHA's proportionate shares of the GovGuam net pension liabilities were as follows:

| | 2017 | 2016 |
|---|---|---|
| Defined benefit plan | 9.04% | 9.27% |
| Ad hoc COLA/supplemental annuity plan for DB retirees | 6.37% | 6.31% |
| Ad hoc COLA plan for DCRS retirees | 7.96% | 7.92% |

(11) Employee Retirement Plans, Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

*Pension Expense:* For the years ended September 30, 2017 and 2016, the GMHA recognized pension expense from the above pension plans as follows:

| | 2017 | 2016 |
|---|---|---|
| Defined benefit plan | $ 10,355,553 | $ 22,075,998 |
| Ad hoc COLA/supplemental annuity plan for DB retirees | 1,330,802 | 1,398,509 |
| Ad hoc COLA plan for DCRS retirees | 441,427 | 376,879 |
| | $ 12,127,782 | $ 23,851,386 |

*Deferred Outflows and Inflows of Resources:* At September 30, 2017 and 2016, the GMHA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Defined Benefit Plan | | Ad Hoc COLA/SA Plan for DB | | Ad Hoc COLA Plan for DCRS | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ - | $ 407,408 | $ 1,143 | $ - | $ 94,741 | $ 41,312 |
| Net difference between projected and actual earnings on pension plan investments | - | 646,849 | - | - | - | - |
| Changes of assumptions | 352,119 | - | 15,069 | - | 536,015 | - |
| Contributions subsequent to the measurement date | 11,257,412 | - | 1,513,050 | - | 126,000 | - |
| Changes in proportion and difference between GMHA contributions and proportionate share of contributions | - | 752,572 | 29,312 | - | 183,503 | - |
| | $ 11,609,531 | $ 1,806,829 | $ 1,558,574 | $ - | $ 940,259 | $ 41,312 |

(11) Employee Retirement Plans, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Defined Benefit Plan | | Ad Hoc COLA/SA Plan for DB | | Ad Hoc COLA Plan for DCRS | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | $ 1,593,174 | $ - | $ - | $ 32,538 | $ - | $ 43,823 |
| Net difference between projected and actual earnings on pension plan investments | 1,435,540 | - | - | - | - | - |
| Changes of assumptions | 1,789,606 | - | 75,635 | - | 187,283 | - |
| Contributions subsequent to the measurement date | 10,797,565 | - | 1,530,708 | - | 114,000 | - |
| Changes in proportion and difference between GMHA contributions and proportionate share of contributions | 2,383,385 | - | 81,484 | - | 176,664 | - |
| | $ 17,999,270 | $ - | $ 1,687,827 | $ 32,538 | $ 477,947 | $ 43,823 |

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2017 will be recognized in pension expense as follows:

| Year Ending September 30 | Defined Benefit Plan | Ad Hoc COLA/SA Plan for DB Retirees | Ad Hoc COLA Plan for DCRS Retirees |
|---|---|---|---|
| 2018 | $ (2,239,061) | $ 45,524 | $ 49,485 |
| 2019 | 328,431 | - | 49,485 |
| 2020 | 1,151,452 | - | 49,485 |
| 2021 | (695,532) | - | 49,485 |
| 2022 | - | - | 49,485 |
| Thereafter | - | - | 525,522 |
| | $ (1,454,710) | $ 45,524 | $ 772,947 |

Contributions into the Defined Contribution Retirement System (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 accounts available under the DCRS.

(11) Employee Retirement Plans, Continued

Defined Contribution Plan, Continued

Statutory employer contributions into the DCRS plan for the years ended September 30, 2017 and 2016 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.

GMHA's contributions toward the unfunded liability of the DB Plan for the years ended September 30, 2017, 2016 and 2015 were $9,731,456, $8,947,051 and $10,348,909, respectively, which were equal to the required contributions for the respective years then ended.

GMHA's contributions to the DC Plan for the years ended September 30, 2017, 2016 and 2015 were $2,068,620, $1,925,747 and $1,995,879, respectively, which were equal to the required contributions for the respective years then ended.

Other Post Employment Benefits

*Plan Description:* GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides postemployment medical, dental and life insurance benefits to retirees, spouses, children and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

*Funding Policy:* GovGuam contributes to the Plan a portion of the medical and dental premiums based on a schedule of semi-monthly rates provided through insurance companies, with GovGuam's contribution amount set each year at renewal. Retirees are also required to pay a portion of the medical and dental insurance premiums. Medical coverage continues to the spouse after the death of the retiree provided the spouse makes the required contributions. Retirees and covered spouses are eligible for a $10,000 life insurance benefit. Retirees do not share in the cost of this benefit. Monthly life insurance premium is $15.52 per covered life.

During the years ended September 30, 2017, 2016 and 2015, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling $3,277,378, $3,090,962 and $2,779,965, respectively, representing certain healthcare benefits that GovGuam's General Fund paid directly on behalf of GMHA retirees and were equivalent to the required contribution for those years.

(11) Employee Retirement Plans, Continued

Other Post Employment Benefits, Continued

GMHA's net estimated OPEB obligation at September 30, 2017, 2016 and 2015 for the above mentioned Plan is as follows:

| 2017 | 2016 | 2015 |
|---|---|---|
| $ 90,868,193 | $ 79,608,915 | $ 68,762,000 |

Defined Benefit 1.75 Retirement System (the DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP)

In September 2016, Public Law 33-186 was enacted to create two new retirement plans; the Defined Benefit 1.75 plan (DB 1.75 Plan) and the Guam Retirement Security Plan (GRSP). Beginning 2018, the DB 1.75 plan and GRSP are to become the primary retirement systems for all new hires.

The DB 1.75 Plan is open for participation by certain existing employees, new employees, and reemployed employees who would otherwise participate in the DC Plan or the new GRSP and who make election on a voluntary basis to participate in the DB 1.75 Plan by December 31, 2017. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 9.5% of the employee's base salary while employer contributions are actuarially determined. Members of the DB 1.75 Plan automatically participate in the GovGuam deferred compensation plan, pursuant to which employees are required to contribute 1% of base salary as a pre-tax mandatory contribution.

The GRSP will be the primary retirement plan for new employees beginning January 1, 2018, unless the employee elects to participate in the DC Plan within 60 days of the employee's hire date. Certain existing and reemployed employees are also provided limited opportunity to participate in the GRSP. Employee contributions are made by mandatory pre-tax payroll deduction at the rate of 6.2% of the employee's base salary. The employer makes matching contributions at the same rate of 6.2% of the employee's base salary. No actuarial valuation of the DB 1.75 Plan or the GRSP has been performed.

(12) Patient Service Revenue

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

- Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. Rates for the long-term care facility vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. GMHA is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by GMHA and audits thereof by the Medicare fiscal intermediary. At September 30, 2017 and 2016, GMHA has $4,317,121 and $0, respectively, of reimbursements due from Medicare cost settlements.

- Medicaid Assistance Program and Medically Indigent Program (MIP) - GMHA is reimbursed for the cost of inpatient and outpatient services rendered under the programs administered by the GovGuam Department of Public Health and Social Services. During each fiscal year, GMHA is reimbursed on a perdiem rate for in-patient and percentage charges for out-patient.

(12) Patient Service Revenue, Continued

Gross patient revenue from the Medicare, Medicaid and MIP programs accounted for approximately 29 percent, 19 percent and 7 percent, respectively, of GMHA's gross patient revenue for the year ended September 30, 2017, and 28 percent, 23 percent and 8 percent, respectively, of GMHA's gross patient revenue for the year ended September 30, 2016. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

GMHA also has entered into payment agreements with certain commercial insurance carriers. The basis for payment to GMHA under these agreements includes discounts from established charges for the year ended September 30, 2016. Discounts were no longer provided in FY2017.

Patient service revenues for the years ended September 30, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Services provided to Medicaid patients | $ 29,010,034 | $ 36,646,359 |
| Services provided to Medicare patients | 43,276,047 | 43,992,290 |
| Services provided to MIP patients | 11,074,912 | 12,927,917 |
| Services provided to Self-pay patients | 19,325,957 | 21,023,081 |
| Services provided to Other patients | 48,412,043 | 41,695,176 |
| | 151,098,993 | 156,284,823 |
| Less contractual adjustments and provisions for uncollectible accounts | (62,874,694) | (61,219,683) |
| Net patient service revenue | $ 88,224,299 | $ 95,065,140 |

Services provided to Medicaid patients for the years ended September 30, 2017 and 2016 included $11,468,333 and $11,499,813, respectively, in revenues paid through the GMHA Pharmaceutical Fund.

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

During the years ended September 30, 2017 and 2016, 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:

| | 2017 | 2016 |
|---|---|---|
| GMHA Pharmaceuticals Fund | $ 3,822,778 | $ 3,833,272 |
| Healthy Futures Fund | - | 7,201,434 |
| Section 30 Bond Fund | 15,000,000 | 49,916,463 |
| General Fund | - | 2,301,819 |
| General Fund – On Behalf Payments | 4,916,428 | 4,735,670 |
| Guam Cancer Trust Fund | 395,098 | 258,482 |
| GMHA Healthcare Trust and Development Fund | 545,549 | 850,880 |
| | $ 24,679,853 | $ 69,098,020 |

In accordance with Public Law 33-185, GovGuam appropriated $15,291,111 from the GMHA Pharmaceuticals Fund for the year ended September 30, 2017. Of the $15,291,111 appropriations from the GMHA Pharmaceutical Fund, $11,468,333 or seventy-five percent (75%) was credited to Medicaid patient receivables. GMHA recorded the remaining $3,822,778 as non-operating revenues. Further, GMHA was also appropriated $15,000,000 from Section 30 Bond Fund in accordance with Public Law 33-183 and $395,098 from the Guam Cancer Trust Fund for the year ended September 30, 2017.

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

In accordance with Public Law 33-66, GovGuam appropriated $15,333,085 from the GMHA Pharmaceuticals Fund and $9,367,283 from the Healthy Futures Fund for the year ended September 30, 2016. Of the $15,333,085 appropriations from the GMHA Pharmaceutical Fund, $11,499,813 or seventy-five percent (75%) was credited to Medicaid patient receivables. GMHA recorded the remaining $3,833,272 as non-operating revenues. Further, GMHA was also appropriated $1,175,000 from Healthy Futures Fund (Unreserved Fund Balance) and $49,916,463 from Section 30 Bond Fund in accordance with Public Law 33-108 and Public Law 33-183, respectively, for the year ended September 30, 2016.

Public Law 32-60 established the GMHA Healthcare Trust and Development Fund which provided 60% of funds collected from gaming tax be allocated to GMHA for subsidizing the establishment and operation of an urgent healthcare center within the GMHA facility. For the years ended September 30, 2017 and 2016, GMHA received $545,549 and $850,880 in appropriations, respectively.

During the years ended September 30, 2017 and 2016, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling $4,916,428 and $4,735,670, respectively, representing certain healthcare benefits and other pension benefits that GovGuam's General Fund paid directly on behalf of Hospital retirees.

(14) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are residents of Guam and are either insured under third-party payor agreements or uninsured. The mix of receivables from patients and third-party payors at September 30, 2017 and 2016, was as follows:

| | 2017 | 2016 |
|---|---|---|
| Self-Pay Patients | 42% | 31% |
| Local Third-Party Payor and Other | 19% | 27% |
| Medicaid Assistance Program | 10% | 14% |
| Medicare | 25% | 22% |
| Medically Indigent Program | 4% | 6% |
| | 100% | 100% |

(15) Commitments and Contingencies

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.

(15) Commitments and Contingencies, Continued

Litigation

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

Retroactive Pay

On October 12, 2011, the Office of the Governor issued Executive Order No. 2011-14 which ordered the freezing of salary step increases for employees of line agencies and instrumentalities of the Executive Branch of the Government of Guam. On May 13, 2013, Executive Order No. 2013-004 was issued rescinding Executive Order No. 2011-14 and lifting the freeze on salary step increases. As of September 30, 2017 and 2016, GMHA recorded retroactive pay of $0.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GMHA did not pay any bonuses pursuant to the law from 1991 through 2002. In 2003, GMHA adopted a merit system similar to the GovGuam merit system. GMHA has assessed the impact of the requirements of the law for fiscal years 1991 through 2013. As of September 30, 2017 and 2016, GMHA recorded merit payable of $0.

Federal Award Programs

GMHA has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2017 and prior year audits amounted to $0. Audits of federal program funds are also performed by various federal agencies. If the audits result in cost disallowances, GMHA may be liable. However, management does not believe that resolution of this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

Receivable

During the year ended September 30, 2017, GMHA recorded a receivable of $4,317,121 for reimbursements due from Medicare cost settlements. The receivable has not been subsequently collected. Due to uncertainty as to when the collection will occur, the accompanying financial statements do not reflect any adjustments that may impact the recoverability of this asset.

(16) Dependency on the Government of Guam

GMHA has incurred losses from operations of $27,696,967 and $35,413,380 and negative cash flows from operations of $22,309,763 and $34,309,690 for the years ended September 30, 2017 and 2016, respectively. At September 30, 2017 and 2016, GMHA's deficiencies on delinquent and unpaid retirement contributions, including interest and penalties, with the GovGuam Retirement Fund were $715,559 and $1,977,709, respectively. GMHA recorded contractual adjustments and provisions for uncollectible accounts of $62,874,694 and $61,219,683 for the fiscal years ended September 30, 2017 and 2016, respectively.

(16) Dependency on the Government of Guam, Continued

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

- The Board approved to raise hospital fees by 5% effective April 1, 2018 and another 5% at the start of every subsequent fiscal year. Management is also reviewing and planning to increase fees for certain services such as room rates, supplies, among others, and also plans to ask the Legislature for larger fee increases.
- Management has submitted an application to rebase Medicare reimbursement rates for fiscal years 2013 through 2016.
- Management has requested for the Tax Equity and Fiscal Responsibility Act (TEFRA) adjustment covering fiscal years 2009 through 2012.
- Management has entered into contracts with a collection agency for self-pay receivables.
- Management has completed its negotiations with Guam insurers.
- Management is critically evaluating staffing patterns to ensure that quality and patient safety goals are met with "prudent" staffing.
- Management has asked the Government of Guam for financial assistance through the DPHSS programs and for alternative funding of self-pay patients.

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

(17) Subsequent Events

GMHA received a notice of preliminary denial of accreditation from the Joint Commission following a two-day Joint Commission survey in January 2018. In February 2018, GMHA submitted a corrective action plan to address the Joint Commission findings. Depending on the results of GMHA's appeal and sufficiency of the corrective action plans submitted, GMHA may lose its accredited status.

Management is of the opinion that the loss of accreditation from *The Joint Commission* would not result in loss of ability to be reimbursed for the care services provided to patients admitted to the GMHA. That loss would likely be manifested in greater difficulty in recruiting and retaining needed health professionals across all physician specialties, nurses not only in critical care areas but also in other nursing specialties as well as professionals in the Ancillary or Professional Support fields such as Pharmacy, Radiology, Medical Laboratory Services, Respiratory Care, Rehabilitative Services such as Physical Therapy, Occupational Therapy, and Speech Pathology.

Additionally, in June 2018, GMHA received a survey report and a letter from the Centers for Medicare and Medicaid Services (CMS) indicating that GMHA may be removed from the Medicare program as a Medicare service provider effective October 3, 2018 due to certain noncompliance with federal standards noted following a visit made by CMS in April 2018. The hospital was required to submit a corrective action plan by June 15, 2018. GMHA did submit the corrective action plan and is optimistic, it has addressed the CMS findings and will continue to meet the Conditions of Participation.

Due to uncertainty, the accompanying financial statements do not reflect any adjustments which may ultimately arise from these matters.

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

Schedule of Funding Progress and Actuarial Accrued Liability - Post Employment Benefits Other than Pension (Unaudited)

The Schedule of Funding Progress presents GASB 45 results of Other Post Employment Benefits (OPEB) valuations as of fiscal year ends September 30, 2017, 2016, 2011, and 2007 for the Guam Memorial Hospital Authority's share of the Government of Guam Post Employment Benefits other than Pensions. The schedule provides an information trend about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| October 1, 2007 | $ - | $ 34,115,000 | $ 34,115,000 | 0.0% | $ 38,481,404 | 88.7% |
| October 1, 2011 | $ - | $ 79,012,000 | $ 79,012,000 | 0.0% | $ 45,597,150 | 173.3% |
| October 1, 2015 | $ - | $ 143,287,530 | $ 143,287,530 | 0.0% | $ 45,589,420 | 314.3% |
| October 1, 2016* | $ - | $ 152,757,471 | $ 152,757,471 | 0.0% | $ 47,412,997 | 322.2% |

*Projected

See Accompanying Independent Auditors' Report.

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

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Defined Benefit Plan

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Total net pension liability | $ 1,368,645,126 | $ 1,436,814,230 | $ 1,246,306,754 | $ 1,303,304,636 |
| GMHA's proportionate share of the net pension liability | $ 123,668,997 | $ 133,213,450 | $ 107,746,620 | $ 116,454,796 |
| GMHA's proportion of the net pension liability | 9.04% | 9.27% | 8.65% | 8.94% |
| GMHA's covered-employee payroll** | $ 45,750,624 | $ 47,411,059 | $ 43,653,700 | $ 41,133,673 |
| GMHA's proportionate share of the net pension liability as percentage of its covered employee payroll | 270.31% | 280.98% | 246.82% | 283.11% |
| Plan fiduciary net position as a percentage of the total pension liability | 54.62% | 52.32% | 56.60% | 53.94% |

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA/Supplemental Annuity Plan for DB Retirees

| | 2017 | 2016 |
|---|---|---|
| Total net pension liability*** | $ 229,486,687 | $ 235,799,709 |
| GMHA's proportionate share of the net pension liability | $ 14,608,250 | $ 14,882,725 |
| GMHA's proportion of the net pension liability | 6.37% | 6.31% |
| GMHA's covered-employee payroll** | $ 32,230,552 | $ 32,275,382 |
| GMHA's proportionate share of the net pension liability as percentage of its covered employee payroll | 45.32% | 46.11% |

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.
*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

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

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

Ad Hoc COLA Plan for DCRS Retirees

| | 2017 | 2016 |
|---|---|---|
| Total net pension liability*** | $ 61,688,067 | $ 52,115,736 |
| GMHA's proportionate share of the net pension liability | $ 4,908,140 | $ 4,126,989 |
| GMHA's proportion of the net pension liability | 7.96% | 7.92% |
| GMHA's covered-employee payroll** | $ 29,046,338 | $ 28,182,983 |
| GMHA's proportionate share of the net pension liability as percentage of its covered employee payroll | 16.90% | 14.64% |

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.
*** No assets accumulated in a trust to pay benefits.

See Accompanying Independent Auditors' Report.

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

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Statutorily determined contribution | $ 13,227,990 | $ 14,573,235 | $ 13,533,406 | $ 13,533,406 |
| Contribution in relation to the statutorily determined contribution | 10,797,566 | 12,606,829 | 11,552,350 | 11,552,350 |
| Contribution deficiency | $ 2,430,424 | $ 1,966,406 | $ 1,981,056 | $ 1,981,056 |
| GMHA's covered-employee payroll ** | $ 45,750,624 | $ 47,411,059 | $ 43,653,700 | $ 41,133,673 |
| Contribution as a percentage of covered-employee payroll | 23.60% | 26.59% | 26.46% | 28.08% |

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Schedule of Expenses
Years Ended September 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| NURSING: | | |
| Salaries | $ 32,416,940 | $ 31,726,102 |
| Overtime | 1,147,361 | 2,056,895 |
| Other pay | 4,297,479 | 4,779,208 |
| Fringe benefits | 8,766,867 | 16,350,994 |
| Total personnel costs | 46,628,647 | 54,913,199 |
| Contractual services | 3,539,247 | 2,865,004 |
| Supplies and materials | 4,033,603 | 6,284,053 |
| Miscellaneous | 86,416 | 7,919 |
| | $ 54,287,913 | $ 64,070,175 |

| | 2017 | 2016 |
|---|---|---|
| PROFESSIONAL SUPPORT: | | |
| Salaries | $ 11,304,915 | $ 9,773,451 |
| Overtime | 465,003 | 1,137,133 |
| Other pay | 1,787,049 | 1,786,629 |
| Fringe benefits | 3,655,546 | 6,134,460 |
| Total personnel costs | 17,212,513 | 18,831,673 |
| Supplies and materials | 9,307,350 | 9,251,972 |
| Utilities | 14,816 | 18,963 |
| Contractual services | 2,240,339 | 3,030,131 |
| Miscellaneous | 113,457 | 149,134 |
| | $ 28,888,475 | $ 31,281,873 |

See accompanying independent auditors' report.

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

Schedule of Expenses, Continued
Years Ended September 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| ADMINISTRATIVE SUPPORT: | | |
| Salaries | $ 4,881,197 | $ 4,468,132 |
| Overtime | 280,304 | 559,925 |
| Other pay | 207,907 | 325,464 |
| Fringe benefits | 1,741,331 | 2,997,470 |
| Total personnel costs | 7,110,739 | 8,350,991 |
| Supplies and materials | 2,466,448 | 2,396,693 |
| Utilities | 2,373,874 | 2,361,210 |
| Contractual services | 607,764 | 530,049 |
| Miscellaneous | 398,978 | 396,241 |
| | $ 12,957,803 | $ 14,035,184 |

| | 2017 | 2016 |
|---|---|---|
| FISCAL SERVICES: | | |
| Salaries | $ 4,078,884 | $ 3,949,381 |
| Overtime | 91,850 | 281,056 |
| Other pay | 217,624 | 272,637 |
| Fringe benefits | 1,417,910 | 2,521,874 |
| Annual leave lump sum pay | 408,828 | 231,723 |
| Sick leave (DC plan) | 488,982 | 141,687 |
| Total personnel costs | 6,704,078 | 7,398,358 |
| Supplies and materials | 342,886 | 364,260 |
| Contractual services | 1,921,254 | 1,436,278 |
| Miscellaneous | 84,010 | 144,795 |
| | $ 9,052,228 | $ 9,343,691 |

See accompanying independent auditors' report.

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

Schedule of Expenses, Continued
Years Ended September 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| ADMINISTRATION: | | |
| Salaries | $ 1,796,742 | $ 1,515,037 |
| Overtime | 2,492 | 4,518 |
| Other pay | 35,959 | 92,406 |
| Fringe benefits | 594,636 | 1,033,892 |
| Total personnel costs | 2,429,829 | 2,645,853 |
| Supplies and materials | 82,019 | 89,233 |
| Contractual services | 260,228 | 264,688 |
| Insurance (Property) | 455,742 | 456,765 |
| Miscellaneous | 207,458 | 1,268,940 |
| | $ 3,435,276 | $ 4,725,479 |

| | 2017 | 2016 |
|---|---|---|
| MEDICAL STAFF: | | |
| Salaries | $ 585,257 | $ 541,865 |
| Overtime | 1,676 | 2,271 |
| Other pay | 19,620 | 37,492 |
| Fringe benefits | 243,343 | 346,236 |
| Total personnel costs | 849,896 | 927,864 |
| Supplies and materials | 51,270 | 25,682 |
| Contractual services | - | - |
| Miscellaneous | 89,927 | 29,513 |
| | $ 991,093 | $ 983,059 |
| Total actual expenses, without depreciation and retiree healthcare costs and other pension benefits | $ 109,612,788 | $ 124,439,461 |

See accompanying independent auditors' report.

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

Schedule of Patient Service Revenues by Patient Classification
Years Ended September 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| Gross Patient Service Revenue: | | |
| Medicaid patients | $ 29,010,034 | $ 36,646,359 |
| Medicare patients | 43,276,047 | 43,992,290 |
| MIP patients | 11,074,912 | 12,927,917 |
| Other patients | 48,412,043 | 41,695,176 |
| Self-pay patients | 19,325,957 | 21,023,081 |
| | $ 151,098,993 | $ 156,284,823 |
| Contractual Adjustments and Provision for Bad Debts: | | |
| Contractual adjustments: | | |
| Medicaid patients | $ 14,708,776 | $ 19,256,488 |
| Medicare patients | 18,345,387 | 24,352,627 |
| MIP patients | 4,385,375 | 5,475,938 |
| Other patients | 16,011,631 | 5,474,138 |
| Provision for bad debts: | | |
| Self-pay patients | 9,423,525 | 6,660,492 |
| | $ 62,874,694 | $ 61,219,683 |
| Net Patient Service Revenue: | | |
| Medicaid patients | $ 14,301,258 | $ 17,389,871 |
| Medicare patients | 24,930,660 | 19,639,663 |
| MIP patients | 6,689,537 | 7,451,979 |
| Other patients | 32,400,412 | 36,221,038 |
| Self-pay patients | 9,902,432 | 14,362,589 |
| | $ 88,224,299 | $ 95,065,140 |

See accompanying independent auditors' report.

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

## Schedule of Billings and Collections and Reconciliation of Billings to Gross Patient Revenues
## For the Years ended September 30, 2017, 2016, 2015 and 2014

| | | Medicaid, Medicare and MIP | | | | Self Pay and Government - DOC and Others | | | | Third-Party Payors | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medicaid | Medicare | MIP | Subtotal | Self Pay | Government - DOC and Others | Subtotal | Subtotal | Payor A | Payor B | Payor C | Payor D | Payor E | Subtotal | Grand Total | Timing Differences and Adjustments | Gross Patient Revenues |
| 2017 | Billings | $ 29,924,525 | $ 34,655,230 | $ 11,517,925 | $ 76,097,680 | $ 28,392,425 | $ 1,527,385 | $ 29,919,810 | $ 106,017,490 | $ 3,636,968 | $ 12,512,844 | $ 19,115,200 | $ 4,817,020 | $ 3,889,827 | $ 43,971,859 | $ 149,989,349 | $ 1,109,644 | $ 151,098,993 |
| | Collections | $ 13,628,713 | $ 13,242,302 | $ 4,534,889 | $ 31,405,904 | $ 12,959,653 | $ 187,317 | $ 13,146,970 | $ 44,552,874 | $ 2,365,968 | $ 15,404,038 | $ 15,515,588 | $ 3,519,571 | $ 1,900,355 | $ 38,705,520 | $ 83,258,394 | | |
| | Percentage of collections over billing | 46% | 38% | 39% | 41% | 46% | 12% | 44% | 42% | 65% | 123% | 81% | 73% | 49% | 88% | 56% | | |
| 2016 | Billings | $ 40,386,186 | $ 40,824,898 | $ 14,380,718 | $ 95,591,802 | $ 34,034,634 | $ 878,254 | $ 34,912,888 | $ 130,504,690 | $ 2,258,734 | $ 12,924,131 | $ 20,734,233 | $ 3,175,965 | $ 3,732,492 | $ 42,825,555 | $ 173,330,245 | $ (17,045,422) | $ 156,284,823 |
| | Collections | $ 26,852,265 | $ 14,775,217 | $ 6,693,099 | $ 48,320,581 | $ 14,771,636 | $ 599,724 | $ 15,371,360 | $ 63,691,941 | $ 2,683,779 | $ 7,049,088 | $ 14,636,563 | $ 2,205,959 | $ 2,347,233 | $ 28,922,622 | $ 92,614,563 | | |
| | Percentage of collections over billing | 66% | 36% | 47% | 51% | 43% | 68% | 44% | 49% | 119% | 55% | 71% | 69% | 63% | 68% | 53% | | |
| 2015 | Billings | $ 38,620,656 | $ 31,947,870 | $ 17,167,090 | $ 87,735,616 | $ 32,230,994 | $ 783,790 | $ 33,014,784 | $ 120,750,400 | $ 3,190,464 | $ 12,724,384 | $ 19,922,551 | $ 4,101,569 | $ 4,095,892 | $ 44,034,860 | $ 164,785,260 | $ (5,385,478) | $ 159,399,782 |
| | Collections | $ 17,021,649 | $ 12,227,719 | $ 8,425,392 | $ 37,674,760 | $ 12,731,268 | $ 305,439 | $ 13,036,707 | $ 50,711,467 | $ 2,039,183 | $ 6,762,529 | $ 14,420,318 | $ 2,786,961 | $ 2,494,030 | $ 28,503,021 | $ 79,214,488 | | |
| | Percentage of collections over billing | 44% | 38% | 49% | 43% | 40% | 39% | 39% | 42% | 64% | 53% | 72% | 68% | 61% | 65% | 48% | | |
| 2014 | Billings | $ 39,319,139 | $ 31,193,763 | $ 14,724,367 | $ 85,237,269 | $ 22,725,998 | $ 521,634 | $ 23,247,632 | $ 108,484,901 | $ 1,765,378 | $ 8,796,803 | $ 17,741,317 | $ 4,310,564 | $ 4,142,359 | $ 36,756,421 | $ 145,241,322 | $ (1,584,267) | $ 143,657,055 |
| | Collections | $ 24,531,690 | $ 14,277,153 | $ 3,685,372 | $ 42,494,215 | $ 8,831,000 | $ 464,990 | $ 9,295,990 | $ 51,790,205 | $ 766,160 | $ 5,639,440 | $ 12,353,179 | $ 2,556,663 | $ 2,799,774 | $ 24,115,216 | $ 75,905,421 | | |
| | Percentage of collections over billing | 62% | 46% | 25% | 50% | 39% | 89% | 40% | 48% | 43% | 64% | 70% | 59% | 68% | 66% | 52% | | |

See accompanying independent auditors' report.

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

Schedule of Full Time Employee (FTE) Count
Years Ended September 30, 2017 and 2016

| Department | 2017 | 2016 |
|---|---|---|
| Actual FTE count: | | |
| Nursing | 435 | 455 |
| Professional Support | 205 | 200 |
| Administrative Support | 172 | 166 |
| Fiscal Services | 101 | 94 |
| Administration | 14 | 16 |
| Medical Staff | 50 | 46 |
| DOC | 24 | 8 |
| | 1,001 | 985 |
| Budgeted FTE count | 1,234 | 1,212 |

See accompanying independent auditors' report.