

GUAM MEMORIAL HOSPITAL AUTHORITY

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

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

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Memorial Hospital Authority:

We have audited the accompanying statements of net assets of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GMHA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

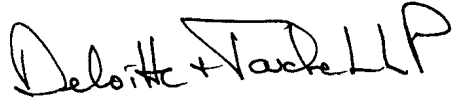
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Memorial Hospital Authority as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of GMHA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of GMHA taken as a whole. The accompanying schedules on pages 34 through 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements of GMHA. These schedules are the responsibility of GMHA's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2012 on our consideration of GMHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

March 23, 2012

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

Management Discussion and Analysis
Year Ended September 30, 2011

INTRODUCTION

Guam Memorial Hospital Authority is a component unit of the Government of Guam, located in Tamuning. The Hospital provides acute, outpatient, long term and emergency care services to everyone requiring medical services. It should be noted that the Hospital is open 24 hours, 365 days per year and is the only component of the Government of Guam in which medical services cannot be withheld due to the financial ability of the patient.

The Hospital attained Joint Commission Accreditation in 2010. The Joint Commission Accreditation means that the level of medical care provided by the Hospital has been assessed to be of quality standards and that the Hospital has demonstrated compliance to the most stringent standards of performance.

The following Management's Discussion & Analysis (MD&A), of the Guam Memorial Hospital Authority's (the Hospital or GMHA), activities and financial performance will serve as an introduction and overview of the audited financial statements of the Hospital for the fiscal years ended September 30, 2010 and September 30, 2011. The information contained in the MD&A has been prepared by management and should be considered with the financial statements and the notes which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENT AND FINANCIAL ANALYSIS

Financial Highlights

Total assets exceeded total liabilities by \$18,612,950 at the close of fiscal year 2011 as compared to \$47,301,641 at the close of fiscal year 2010.

Total assets at September 30, 2011 decreased by \$5,505,229 as compared to September 30, 2010.

Total liabilities at September 30, 2011 increased by \$23,183,462 as compared to September 30, 2010.

Net assets decreased by \$28,688,691 as compared to fiscal year 2010.

Total operating revenues of \$69,850,260 for fiscal year 2011 decreased by \$14,776,108 as compared to \$84,626,368 for fiscal year 2010. Operating expenses of \$105,785,724 for fiscal year 2011 increased by \$23,524, as compared to \$105,762,200 for fiscal year 2010. This resulted in an operating loss of \$35,935,464 for fiscal year 2011 as compared to \$21,135,832 for fiscal year 2010.

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

Summarized Statements of Net Assets

<u>Assets</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Current and other assets	\$ 47,323,955	\$ 51,170,293	\$ 47,604,208
Capital assets, net	<u>36,577,600</u>	<u>38,236,491</u>	<u>39,214,276</u>
Total assets	\$ <u>83,901,555</u>	\$ <u>89,406,784</u>	\$ <u>86,818,484</u>
<u>Liabilities and Net Assets</u>			
Liabilities:			
Current liabilities	\$ 48,894,791	\$ 37,473,712	\$ 22,598,999
Long-term liabilities	<u>16,393,814</u>	<u>4,631,431</u>	<u>4,476,413</u>
Total liabilities	<u>65,288,605</u>	<u>42,105,143</u>	<u>27,075,412</u>
Net Assets:			
Invested in capital assets	36,577,600	38,236,491	39,214,276
Unrestricted	<u>(17,964,650)</u>	<u>9,065,150</u>	<u>20,528,796</u>
Total net assets	<u>18,612,950</u>	<u>47,301,641</u>	<u>59,743,072</u>
Total liabilities and net assets	\$ <u>83,901,555</u>	\$ <u>87,406,784</u>	\$ <u>86,818,484</u>

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

	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>
Operating revenues	\$ 69,850,260	\$ 84,626,368	\$ 93,539,681
Operating expenses	<u>105,785,724</u>	<u>105,762,200</u>	<u>99,355,376</u>
Operating loss	(35,935,464)	(21,135,832)	(5,815,695)
Non-operating revenues (expenses), net	<u>4,856,280</u>	<u>5,749,554</u>	<u>14,543,999</u>
Excess (deficiency) of revenues over (under) expenses	(31,079,184)	(15,386,278)	8,728,304
Capital Grants from GovGuam General Fund	1,407,210	1,006,397	22,862
Federal award capital grants and contributions	<u>983,283</u>	<u>1,938,450</u>	<u>2,107,445</u>
Change in net assets	(28,688,691)	(12,441,431)	10,858,611
Net assets at the beginning of the year	<u>47,301,641</u>	<u>59,743,072</u>	<u>48,884,461</u>
Net assets at the end of the year	\$ <u>18,612,950</u>	\$ <u>47,301,641</u>	\$ <u>59,743,072</u>

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Management Discussion and Analysis
Year Ended September 30, 2011

Financial Results and Condition

Total assets decreased by \$5,505,220 in 2011 compared to 2010 primarily due to decrease in patient receivables and receivables from the Government of Guam.

Current liabilities increased by \$11,421,079 in 2011 compared to 2010 due primarily to increase in trade payables, increase in liability to the Government of Guam Retirement Fund and increase in accrued taxes and penalties on unpaid liabilities.

Long term liabilities increased by \$11,292,852 in 2011 compared to 2010 due to a \$12 million loan with a local bank to pay trade payables.

Total net assets decreased by \$28,688,691 during fiscal year 2011 due to the following:

- Operating revenues decreased by \$14,776,108 over the prior fiscal year due to a \$14,441,802 increase in contractual adjustments and provision for uncollectible accounts of \$77,651,869 in 2011 as compared to \$63,210,067 in 2010.
- Operating expenses had a modest increase over the prior fiscal year.
- Non-operating revenues, net of non-operating expenses, decreased by \$893,274 primarily due to an increase in interest and penalties and offset by an increase in funding from the Government of Guam from the Healthy Futures Fund.

GMHA continues to see a shortage of operating revenues to fund its operations effectively. The current economic downturn coupled with the current liabilities leaves GMHA in a very vulnerable position that can only be remedied with consistent subsidies from the Government of Guam.

THE 3 M's

In FY 2011, forty six percent (46%) of our revenues were from the following revenue streams:

Medicare	22 %
Medicaid	13 %
MIP	11%

In FY 2010, forty five percent (45%) of our revenues were from the following revenue streams:

Medicare	21 %
Medicaid	13 %
MIP	11 %

Although the Hospital bills on a fee for service basis, compensation from Medicare, Medicaid and MIP are on a per diem rate. This rate is approximately \$1000 per day. Medicare limits the payments to 7 days of stay, while Medicaid and MIP follow the Medicare reimbursement methodology, but without any limitations on the length of stay. (see TEFRA discussion below).

The Hospital is unable to keep up with the costs incurred by the 3M's. Below is a summarization of the amounts that the Hospital has to write off for FY 2011 and FY2010:

	<u>2011</u>	<u>2010</u>
Services to Medicare Patients	\$ 32,999,609	\$ 31,501,571
Contractual Write off	\$ 18,943,720	\$ 15,874,931
Net Revenue	\$ 14,055,889	\$ 15,626,640
Net Revenue %	43%	50%

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Year Ended September 30, 2011

History of TEFRA for Guam

In 1982, Congress passed the Tax Equity and Fiscal Responsibility Act (TEFRA) that included changes to Medicare. 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:

1. Long Term Care Hospitals
2. Children's Hospitals
3. Psychiatric Hospitals
4. Rehabilitation Hospitals
5. 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. This annual update factor in many years was adjusted below the actual inflation rate due to budget neutrality issues at the federal government.

In 1997, Congress passed legislation to create Perspective Payment for Psychiatric and Rehabilitation Hospitals (Psych PPS and Rehab PPS). This legislation was done as a direct result of 2 issues; First, Medicare wanted to get most services under some form of PPS, Second, TEFRA annual Exception requests were overloading the system. Basically Medicare allowed for TEFRA providers to request additional reimbursement annually due to the fact that the TEFRA rate no longer represented a fair reimbursement cap to the facility. This was due to changes in the way we treat patients and the types of services that were provided to patients were no longer similar to the Base Period (1982). When Congress changed the Psych and Rehab reimbursement, they also allowed a one time Rebasing of the TEFRA rate to an average on the cost of care for FY 1990-1995 (removing the highest and lowest). Guam took advantage of this rebasing since at that time, the Hospital was being hit with an over \$1,000,000 Annual reimbursement reduction due to TEFRA. In Guam's case, the new Rebased years ended up being 1992, 1993, and 1994. The new TEFRA Base rate was used on the 1999 – present cost report.

In 2006, the TEFRA rate was adjusted again causing the Hospital to be reimbursed less than its cost of treating Medicare patients. The Losses have grown from \$1,500,000 in 2006 to over \$5,000,000 in 2011. The reason that the TEFRA rate is causing this is based on the fact that the Hospital has made significant increases to types of care and the complexity of cases that they treat on island. In the base year, the Hospital did not have Open Heart Surgery, or Arterial Bypass Surgery, nor did they have the MRI machine. The Hospital has also seen greater than average increases in cost of care due to the shipping distance required to get supplies to island. And lastly, the reimbursement shortfalls the Hospital has experienced (in a large part due to Medicare reimbursement) have made the Hospital suffer cash flow problems and when the Medical Supply and Drugs vendors do not get paid on time, they charge more for the supplies and drugs.

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The Current Situation for Guam

The Hospital has been reimbursed by Medicare, Medicaid and MIP at less than its actual cost of treatment. For the Medicare patients (over 25% of the patients seen at the Hospital), this is as a result of the TEFRA rate that was set based on the 1992-1994 base years. Medicare does allow for the Hospital to request an annual exception to the TEFRA Rate based on the variances in Patient demographics, Patient Acuity and Patient treatments. The Hospital has filed these for the Fiscal years 2006 through 2008 (2009 and 2010 has not been finalized yet so we can not yet request the exception on them until the audit is finalized by Medicare). Medicare has asked for additional information to compare the current year to the base year 2 times, each time requiring more detailed information. The Hospital does not have the detail patient and financial records that Medicare is looking for. This is due to the Computer overhaul that was implemented in 1995-1996. The records that Medicare is looking for just do not exist anymore. While the summary analysis that Medicare uses to determine the amount of TEFRA Exception to be paid to the Hospital has been completed and shows the services and costs that should be reimbursed, the Hospital can not “Prove” to Medicare that it is entitled to this additional compensation due to a lack of documentation. So at this point, Medicare’s position is that the Hospital can not get the TEFRA Exception payment since the base year data can not be documented.

The Hospital has also asked for a TEFRA rebasing, however the rebasing regulations also state that the Hospital must show how they are different between the base period and the current period. This information is again based on the detail data that the Hospital simply does not have.

The net result is that Hospital will continue to pay significantly more in actual expenses to treat Medicare patients than the actual reimbursement that is received. In FY 2010, this represented \$5,000,000 or a 25.5% loss on every dollar spent on treating Medicare patients.

Also, note that the Medicare reimbursement rate has a direct impact on the Medicaid and MIP reimbursement to GMHA since both of those programs mirror the payment rate of Medicare.

Possible Resolutions for Guam

There are essentially 3 possible resolutions for the Hospital. They are Cost Reimbursement, TEFRA Rebasing, and Prospective Payment System. Below is a little discussion on each of these potential resolutions.

Cost Reimbursement is the most advantageous to the Hospital. Under this proposed resolution, the Hospital would be paid the cost of treating the Medicare patients and would be held harmless for the changes and improvements in the quality of care and the complexity of the patients that are treated at the Hospital vs. any base period. This resolution would require Congressional Legislation (“Rider Bill”) that would take Guam out of the TEFRA reimbursement methodology. The Hospital believes that Guam can make the argument that the “Outer Pacific Islands” (not to be lumped in with Puerto Rico) have a unique set of challenges that are not well reflected in the use of a TEFRA rate. The Hospital would suggest that this legislation include American Samoa and the Commonwealth, since they are getting to the same point as the Hospital in the near future. The argument would be that the physical isolation from supplies and services as well as the continuation of the Hospital(s) to grow in the types of services and complexity of care can not be equitably addressed with a TEFRA Reimbursement methodology.

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Possible Resolutions for Guam, Continued

TEFRA Rebasing is the second most desirable resolution to the Hospital. There would not need to be any congressional Legislation, instead there would just need to be some pressure applied to the Department of Health and Human Services and CMS (Medicare) to allow the Hospital to rebase their TEFRA rate to 2009 or 2010. The issue is that CMS would have to accept the arguments without the detailed documentation from 1992-1994. There already exists regulations that will allow TEFRA Rebasing when there is significant change that makes the base year no longer comparative. This resolution would re-set the TEFRA rate to a base year that we would be able to collect, track and keep the detailed base year data. Then when the TEFRA rate becomes out of line with the actual cost of care, the Hospital will have the detail data to be able to file the TEFRA Exceptions on an annual basis as needed. The downside to this approach is that the TEFRA rate will eventually put the Hospital in the same position it is in now, and the Hospital will need to file the TEFRA Exception requests to recoup the losses.

Prospective Payment System is the least desirable resolution to the Hospital. If the Hospital would be included in the DRG reimbursement mechanism it will NOT qualify as a Critical Access Hospital due to the bed size. As a result, the Hospital would be paid the Federal DRG amounts for the treatment of patients based on their diagnosis. If the Hospital were on the DRG PPS methodology AND the Hospital received an Exemption to qualify them as a Critical Access Hospital, then they would be reimbursed the cost of care. Even if the Hospital was designated a Critical Access Hospital, the Hospital would then be treated as one of over 1,200 hospitals in the US, and when Congress makes changes to the payment of Critical Access Hospitals, the Hospital will have no ability to be exempted. In addition, the Hospital has had 2-3 studies performed as to whether the reimbursement under DRG vs. TEFRA is better and the DRG reimbursement is actually less than the TEFRA reimbursement. In addition, it may require Congressional Legislation to get the Hospital into the DRP PPS reimbursement system since the 1982 TEFRA law specifically excludes them.

Challenges and Accomplishments

Cost Savings for FY 2011 and ongoing:

1. Starting FY 2012, Management has frozen the annual salary increment for all employees. This will result in a savings to the Hospital of \$1.2 Million.
2. Chemotherapeutics Drugs: During the last Administration, the Hospital made arrangements to provide Chemo-Therapy drugs to MIP patients. MIP in turn would reimburse the hospital for the drugs and any hospital services rendered. Under the current payment methodology that MIP uses by mirroring Medicare payments to the Hospital, we realized that the Hospital was at risk of losing at least \$100,000 per month. Hence, this practice was discontinued on September 30, 2011.
3. All hiring is on hold except for licensed / certified, critical patient care positions.
4. We have deleted a total of 164 Budgeted positions for FY 2012.
5. Hemodialysis: The Hospital ran an out-patient dialysis unit with approximately 41 patients. Taking in to consideration the revenue and expenses of this unit, the expenses exceeded the revenues by approximately \$80,000 per month. In addition, this unit was operating dialysis equipment that had passed their useful life. To continue the program, the Hospital would have to purchase 19 units @ \$16,000 per unit. After careful consideration, we closed the unit down after making arrangements with a private provider in Guam to absorb all our patients, without any cost to the Hospital in FY 2011.

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Challenges and Accomplishments, Continued

6. Currently, we have approximately 500 GTA trunk lines to the hospital at an average cost of \$46 per trunk line. We have plans to cut the majority of GTA lines and replace the GTA lines with VOIP (VOIP is an acronym for Voice Over Internet Protocol). If you have a reasonable quality Internet connection you can get phone service delivered through your Internet connection instead of from your local phone company. Some people use VOIP in addition to their traditional phone service, since VOIP service providers usually offer lower rates than traditional phone companies. This will result in a savings of over \$10,000 per month.
7. Overtime, Call back and on call pay: This has been curtailed or controlled and would result in a savings of \$500,000 per year.
8. We are looking at a 32 workweek, limited to administrative support positions.
9. We are looking at alternatives to our billing and collection at the Hospital. Outsourcing certain insurance billings and MIP billings would be of an advantage to the Hospital, if proper coders can be identified.
10. We have successfully implemented a process to identify and apply for PTAN (Provider Transaction Access Number). This unique number given by Medicare is to be used for physician professional fees billing by the Hospital. The PTAN is physician and hospital specific. In the past, the Hospital was unable to obtain the PTAN or clearly did not understand the process, resulting in unbilled accounts. This has been corrected.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

Capital Improvement Projects:

1. GMHA CIPs completed in FY 2011	\$ 279,473
2. GMHA CIPs in progress in FY 2011-12-30	\$ 7,834,803
3. GMHA CIPs pending	\$ 11,396,273

At September 30, 2011, 2010 and 2009, the Hospital had \$36,577,600, \$38,236,491 and \$39,214,276, respectively, invested in capital assets, net of accumulated depreciation, where applicable. See note 7 to the financial statements for more information on the Hospital's capital assets.

Long-term Debt and Liabilities

At September 30, 2011, 2010 and 2009, the Hospital had \$16,393,814, \$4,631,431 and \$4,476,413, respectively in long-term liabilities. See note 9 to the financial statements for more information on the Hospital's long-term liabilities and changes therein.

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Year Ended September 30, 2011

ECONOMIC OUTLOOK

Despite the financial challenges in FY 2011, our employees continue to come in to work everyday to ensure our patients receive quality medical care in a safe environment. The Hospital has worked too hard and long to ensure accreditation from Joint Commission, but moving forward our challenges will continue to exist in FY 2012.

Through the foresight and planning between the Hospital's Board of Trustees, the Senators of the 31st Guam Legislature, and Administration, the burden that the Hospital bears may be lessened if proper funding is available to the Hospital.

Much like FY 2011, overall Government of Guam collections will be sluggish and this will likely be reflected in delayed reimbursement to the Hospital.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, patients, and stakeholders a general overview of the Hospital's finances and demonstrate its stewardship and accountability with public monies that it collects and its proper usage. The Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in the report on the audit of the Hospital's financial statements which is dated December 29, 2010. The Discussion and Analysis explains the major factors impacting the 2010 financial statements. If you have any questions about this report or the 2010 or 2009 reports or need additional information, please contact the Hospital Administrator's office at 647-2418/2367 or the Chief Financial Officer's office at 647-2934/2190, Monday through Friday, 8 am to 5 pm, closed Saturday, Sunday, and recognized Government of Guam holidays. You may also refer to the Hospital's website at www.gmha.org if you wish to contact any one of the Hospital's Board of Trustees or find out the great things that are happening at your Hospital.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Statements of Net Assets
September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ 84,034	\$ 425,948
Patient accounts receivable, net of estimated uncollectibles of \$178,564,976 in 2011 and \$139,145,804 in 2010	40,996,484	43,386,437
Due from the Government of Guam	825,985	3,294,669
Other receivables, net of allowance for doubtful debts of \$1,332,365 in 2011 and \$1,322,994 in 2010	-	37,506
Inventory	4,790,372	3,513,849
Prepaid expenses	196,587	263,208
Total current assets	<u>46,893,462</u>	<u>50,921,617</u>
Note receivable	221,226	248,676
Capital assets, net	36,577,600	38,236,491
Restricted cash	209,267	-
Total noncurrent assets	<u>37,008,093</u>	<u>38,485,167</u>
Total assets	<u><u>\$ 83,901,555</u></u>	<u><u>\$ 89,406,784</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current portion of notes payable	\$ 598,094	\$ -
Accounts payable - trade	18,369,169	16,522,969
Accounts payable - Government of Guam Retirement Fund	15,052,276	8,915,769
Accrued taxes and related liabilities	6,404,278	3,107,767
Accrued payroll and benefits	1,182,169	2,852,587
Deferred revenues	3,489,526	2,651,429
Current portion of accrued annual leave	1,442,000	1,523,346
Other accrued liabilities	2,357,279	1,899,845
Total current liabilities	<u>48,894,791</u>	<u>37,473,712</u>
Notes payable, net of current portion	11,292,852	-
Accrued annual leave, net of current portion	2,260,156	2,173,876
Accrued sick leave	2,840,806	2,457,555
Total liabilities	<u>65,288,605</u>	<u>42,105,143</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	36,577,600	38,236,491
Unrestricted	<u>(17,964,650)</u>	<u>9,065,150</u>
Total net assets	<u>18,612,950</u>	<u>47,301,641</u>
Total liabilities and net assets	<u><u>\$ 83,901,555</u></u>	<u><u>\$ 89,406,784</u></u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$77,651,869 in 2011 and \$63,210,067 in 2010)	\$ 69,139,310	\$ 83,481,135
Other operating revenues:		
Cafeteria food sales	553,649	642,581
Other revenue	<u>157,301</u>	<u>502,652</u>
Total operating revenues	<u>69,850,260</u>	<u>84,626,368</u>
Operating expenses:		
Nursing	48,988,708	50,644,738
Professional support	24,978,061	24,612,076
Administrative support	13,079,501	13,276,551
Fiscal services	7,254,755	6,935,431
Depreciation	4,853,099	4,581,714
Administration	3,329,489	3,277,114
Retiree healthcare costs	2,170,712	1,383,548
Medical staff	<u>1,131,399</u>	<u>1,051,028</u>
Total operating expenses	<u>105,785,724</u>	<u>105,762,200</u>
Operating loss	<u>(35,935,464)</u>	<u>(21,135,832)</u>
Nonoperating revenues (expenses):		
Transfers from GovGuam	6,399,186	2,598,651
Federal grants	2,049,041	4,218,016
Contributions	329,061	418,365
Federal program expenditures	(657,545)	(411,358)
Interest and penalties	(3,105,834)	(960,083)
Others	<u>(157,629)</u>	<u>(114,037)</u>
Total nonoperating revenues (expenses)	<u>4,856,280</u>	<u>5,749,554</u>
Loss before capital grants and contributions	<u>(31,079,184)</u>	<u>(15,386,278)</u>
Capital grants and contributions:		
Government of Guam	1,407,210	1,006,397
Federal grants	<u>983,283</u>	<u>1,938,450</u>
Total capital grants and contributions	<u>2,390,493</u>	<u>2,944,847</u>
Change in net assets	(28,688,691)	(12,441,431)
Net assets at the beginning of the year	<u>47,301,641</u>	<u>59,743,072</u>
Net assets at the end of the year	<u><u>\$ 18,612,950</u></u>	<u><u>\$ 47,301,641</u></u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 72,394,810	\$ 83,471,869
Receipts from sales and other services	748,456	1,132,963
Payments to suppliers and contractors	(22,568,251)	(21,138,138)
Payments to employees	(66,758,923)	(65,993,649)
Net cash used for operating activities	<u>(16,183,908)</u>	<u>(2,526,955)</u>
Cash flows from noncapital financing activities:		
Proceeds from bank loan	12,000,000	-
Contributions from the Government of Guam	8,104,368	683,475
Federal grants received	2,049,041	4,218,016
Contributions	329,061	418,365
Interest and penalties paid	(3,105,834)	(960,083)
Payments made under federal programs	(657,545)	(411,358)
Principal repayment of bank loan and note payable	(299,276)	-
Other payments	(22,359)	(114,037)
Net cash provided by noncapital financing activities	<u>18,397,456</u>	<u>3,834,378</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(3,329,478)	(3,603,929)
Federal grants received	983,283	1,938,450
Net cash used for capital and related financing activities	<u>(2,346,195)</u>	<u>(1,665,479)</u>
Cash flows from investing activities:		
Transfers to restricted funds	(209,267)	-
Net cash used for investing activities	<u>(209,267)</u>	<u>-</u>
Net change in cash	(341,914)	(358,056)
Cash at beginning of year	425,948	784,004
Cash at end of year	<u>\$ 84,034</u>	<u>\$ 425,948</u>
Summary of noncash financing activities:		
Decrease in accounts payable -trade	\$ (190,222)	\$ -
Increase in notes payable	190,222	-
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (35,935,464)	\$ (21,135,832)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Contractual adjustments and provisions for uncollectible accounts	77,651,869	60,882,536
Depreciation	4,853,099	4,581,714
Retiree healthcare costs	2,170,712	1,383,548
(Increase) decrease in assets:		
Patient accounts receivable	(75,261,916)	(63,569,086)
Note receivable	27,450	25,855
Other receivables	37,506	(12,270)
Inventory	(1,276,523)	437,579
Prepaid expenses	66,621	(150,730)
Increase (decrease) in liabilities:		
Accounts payable - trade	2,036,422	7,291,529
Accounts payable - retirement fund	6,136,507	1,693,788
Accrued taxes and related liabilities	(1,670,418)	3,107,767
Accrued payroll and benefits	388,185	18,018
Accrued annual leave and sick leave	3,296,511	162,957
Deferred revenues	838,097	2,651,429
Other accrued liabilities	457,434	104,243
Net cash used in operating activities	<u>\$ (16,183,908)</u>	<u>\$ (2,526,955)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2011 and 2010

(1) Reporting Entity

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

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

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

(2) Summary of Significant Accounting Policies

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

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

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

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

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

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

Estimates

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

Basis of Accounting

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

Cash

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

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand, cash held in demand accounts, and time certificates of deposit maturing within ninety days. As of September 30, 2011 and 2010, cash is \$84,034 and \$425,948, respectively, and the corresponding bank balances are \$1,879,768 and \$620,171, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits in the amount of \$1,879,768 and \$250,000, respectively, are FDIC insured. GMHA requires collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are collateralized.

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

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

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Patient Accounts Receivable

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

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

Due from GovGuam

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

Inventory

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

Capital Assets

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

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

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

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

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

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

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

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

Public Law No. 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. At September 30, 2011 and 2010, GMHA has accrued an estimated liability of \$2,840,806 and \$2,457,555, respectively. However, this amount is an estimate and actual payout may be materially different than estimated.

Deferred Revenues

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. The deferred revenue of \$3,489,526 and \$2,651,429 as of September 30, 2011 and 2010, respectively, primarily relates to receivables from the Government of Guam for healthcare services for which payments are dependent upon funding availability and appropriations.

Net Patient Service Revenues

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

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Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

GovGuam Contributions

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

Federal Grant Award Revenues and Contributions

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

Estimated Malpractice Costs

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

Income Taxes

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

Risk Management

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

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Pledged Revenues

The Hospital has pledged, in addition to the full faith and credit of the Government of Guam, all future gross revenues to repay a \$12 million bank loan issued in 2011. Note proceeds were used to retire current liabilities. The notes are payable from total operating revenues and are payable through 2018. Annual interest and principal related payments are expected to require less than 2% of total operating revenues (based on 2011 data). The total interest and principal remaining on the notes as of September 30, 2011 is \$16,090,585. Principal and interest paid for fiscal year 2011 and total operating revenues were \$627,801 and \$69,850,260, respectively.

New Accounting Standards

During fiscal year 2011, GMHA implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

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

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

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

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

(3) Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are Guam residents and are insured under third-party payor agreements. Patient accounts receivable at September 30, 2011 and 2010, consist of:

	<u>2011</u>	<u>2010</u>
Account referrals - Department of Revenue and Taxation	\$ 78,157,487	\$ 75,807,809
Medically Indigent Program and Self-pay Patients	40,063,877	27,710,862
Local Third-Party Payor and Other	25,722,035	27,444,663
Medicaid Assistance Program	12,521,112	10,893,553
Medicare	19,498,143	9,870,119
Collection agencies and other	<u>43,598,806</u>	<u>30,805,235</u>
	219,561,460	182,532,241
Less allowance for uncollectible accounts	<u>(178,564,976)</u>	<u>(139,145,804)</u>
	\$ <u>40,996,484</u>	\$ <u>43,386,437</u>

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(4) Note Receivable

In February 2008, GMHA accepted a promissory note from a collection agency in the amount of \$312,431 for outstanding collections of delinquent patient accounts. The note bears a fixed interest of 6% and matures on February 1, 2018. At September 30, 2011 and 2010, the balance of the note was \$221,226 and \$248,676, 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, 2011 and 2010, consist of:

	<u>2011</u>	<u>2010</u>
Government of Guam:		
Department of Mental Health and Substance Abuse	\$ 948,728	\$ 955,804
Guam Fire Department	369,312	366,124
Hospital employees	9,298	33,975
Other	<u>5,027</u>	<u>4,597</u>
	1,332,365	1,360,500
Less allowance for uncollectible accounts	<u>(1,332,365)</u>	<u>(1,322,994)</u>
	\$ <u>-</u>	\$ <u>37,506</u>

(6) Inventory

Inventory at September 30, 2011 and 2010, consists of the following:

	<u>2011</u>	<u>2010</u>
Pharmaceuticals, drugs and medicine	\$ 2,876,494	\$ 2,125,721
Medical and pharmaceutical supplies	2,307,710	1,814,535
Dietary food supplies	<u>-</u>	<u>16,662</u>
	5,184,204	3,956,918
Less: allowance for obsolescence	<u>(393,832)</u>	<u>(443,069)</u>
	\$ <u>4,790,372</u>	\$ <u>3,513,849</u>

(7) Capital Assets

Capital asset activity for the years ended September 30, 2011 and 2010 was as follows:

	<u>2011</u>			
	<u>Balance October 1,</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance September 30,</u>
Depreciable assets:				
Building and land improvements	\$ 61,575,935	\$ 1,984,376	\$ (203,197)	\$ 63,357,114
Long-term care facility	11,021,985	-	-	11,021,985
Movable equipment	<u>24,703,534</u>	<u>515,103</u>	<u>(495,174)</u>	<u>24,723,463</u>
	97,301,454	2,499,479	(698,371)	99,102,562
Less: accumulated depreciation and amortization	<u>(60,347,683)</u>	<u>(4,853,099)</u>	<u>563,101</u>	<u>(64,637,681)</u>
	36,953,771	(2,353,620)	(135,270)	34,464,881

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Notes to Financial Statements
September 30, 2011 and 2010

(7) Capital Assets, Continued

Non-depreciable assets:				
Construction in progress	<u>1,282,720</u>	<u>2,814,375</u>	<u>(1,984,376)</u>	<u>2,112,719</u>
Total capital assets, net	\$ <u>38,236,491</u>	\$ <u>460,755</u>	\$ <u>(2,119,646)</u>	\$ <u>36,577,600</u>
	<u>2010</u>			
	<u>Balance</u> <u>October 1,</u>	<u>Transfers</u> <u>and</u> <u>Additions</u>	<u>Transfers</u> <u>and</u> <u>Deletions</u>	<u>Balance</u> <u>September 30,</u>
Depreciable assets:				
Building and land improvements	\$ 59,527,272	\$ 2,051,163	\$ (2,500)	\$ 61,575,935
Long-term care facility	10,939,366	82,619	-	11,021,985
Movable equipment	<u>25,185,046</u>	<u>1,324,797</u>	<u>(1,806,309)</u>	<u>24,703,534</u>
	95,651,684	3,458,579	(1,808,809)	97,301,454
Less: accumulated depreciation and amortization	<u>(57,571,482)</u>	<u>(4,581,714)</u>	<u>1,805,513</u>	<u>(60,347,683)</u>
	38,080,202	(1,123,135)	(3,296)	36,953,771
Non-depreciable assets:				
Construction in progress	<u>1,134,074</u>	<u>2,257,140</u>	<u>(2,108,494)</u>	<u>1,282,720</u>
Total capital assets, net	\$ <u>39,214,276</u>	\$ <u>1,134,005</u>	\$ <u>(2,111,790)</u>	\$ <u>38,236,491</u>

(8) Due to GovGuam Retirement Fund

As of September 30, 2011 and 2010, 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 is assessed interest and penalties on these unpaid contributions in accordance with 4 Guam Code Annotated § 8137, *Retirement of Public Employees*, which states that GGRF will impose interest at a rate equivalent to the average rate of return on its investments from the previous fiscal year and a 1% penalty for delinquent payments.

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

Public Law No. 30-196 passed in August 2010 and Public Law No. 31-74 passed in June 2011 amended Public Law No. 28-38. Public Law No. 30-196 changed the calculation of interest owed to GGRF. Public Law 31-74 provides for the inclusion of \$5,526,700 in GMHA's delinquent retirement contributions for fiscal year 2011 to the balance of GMHA's prior years' retirement liabilities as identified in Public Law 28-38.

During the fiscal years ended September 30, 2011 and 2010, GovGuam's general fund paid interest totaling \$481,725 and \$2,286,014, respectively, for GMHA.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(8) Due to GovGuam Retirement Fund, Continued

At September 30, 2011 and 2010, accounts payable due to GGRF reported as current liabilities consist of the following:

	<u>2011</u>	<u>2010</u>
Employer and member contributions of:		
Prior fiscal years (DB Plan)	\$ 4,987,183	\$ 5,251,839
Current fiscal year (DB) Plan	2,165,252	497,756
Unfunded liability	3,904,429	1,009,346
Employer and member contributions of current		
fiscal year (DCRS Plan)	428,392	243,897
Supplemental annuities/COLA benefits for retirees	1,507,004	1,507,004
Interest and penalties	1,223,031	405,927
Public law 31-74 savings and interest	833,316	-
Others	<u>3,669</u>	<u>-</u>
	\$ <u>15,052,276</u>	\$ <u>8,915,769</u>

At September 30, 2011 and 2010, 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, 2011 and 2010 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the DB plan. At September 30, 2011 and 2010, GMHA's unpaid contributions toward the unfunded liability of the DB Plan amounted to \$3,904,429 and \$1,009,346, respectively.

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

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(9) Long-Term Debt and Other Liabilities

Long-Term Debt:

As of September 30, 2011, long-term debt consists of:

	<u>2011</u>	<u>2010</u>
Note payable to a bank, in an original amount of \$12 million, variable interest at 1% over bank's reference rate subject to a minimum interest of 6.5% and maximum interest of 9.5%, due in monthly installments of principal and interest of \$104,634 beginning April 2011 through January 2018, all remaining balance due on January 31, 2018. The note is collateralized by the full faith and credit of the Government of Guam and all of the revenues of the Authority.	\$ 11,790,724	\$ -
Promissory note payable to a vendor, payable in monthly installments of principal and interest of \$20,000 beginning August 2011 due in March 2012, uncollateralized and bears interest of 12% per annum	<u>100,222</u>	<u>-</u>
Total long-term debt	11,890,946	-
Less: current maturities	<u>598,094</u>	<u>-</u>
	\$ <u>11,292,852</u>	\$ <u>-</u>

On January 31, 2011, the Authority entered into a \$12 million bank loan. Proceeds of the loan are to be used when a cash shortage threatens the Authority and will not be used for the hiring of non-healthcare professionals not involved with providing direct care or patient care support. The loan is guaranteed by the Government of Guam and entitled to the full faith and credit of the Government of Guam. Pursuant to the loan agreement, the Authority pledged all of its revenues.

Management is of the opinion that compliance with applicable loan covenants occurred during the year ended September 30, 2011.

As of September 30, 2011, future maturities of long-term debt are as follows:

Year ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 598,094	\$ 777,509	\$ 1,375,603
2013	539,748	715,855	1,255,603
2014	575,543	680,060	1,255,603
2015	612,058	643,545	1,255,603
2016	651,375	604,228	1,255,603
2017-2018	<u>8,914,128</u>	<u>778,442</u>	<u>9,692,570</u>
	\$ <u>11,890,946</u>	\$ <u>4,199,639</u>	\$ <u>16,090,585</u>

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Notes to Financial Statements
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(9) Long-Term Debt and Other Liabilities, Continued

At September 30, 2011 and 2010, the changes in other long-term liabilities are as follows:

	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011	Due Within One Year
Notes payable	\$ -	\$ 12,190,222	\$ (299,276)	\$ 11,890,946	\$ 598,094
Annual leave	3,697,222	2,366,944	(2,362,010)	3,702,156	1,442,000
Sick leave	<u>2,457,555</u>	<u>1,183,471</u>	<u>(800,220)</u>	<u>2,840,806</u>	<u>-</u>
	\$ <u>6,154,777</u>	\$ <u>15,740,637</u>	\$ <u>(3,461,506)</u>	\$ <u>18,433,908</u>	\$ <u>2,040,094</u>
	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One Year
Annual leave	\$ 3,911,724	\$ 2,790,868	\$ (3,005,370)	\$ 3,697,222	\$ 1,523,346
Sick leave	<u>2,080,096</u>	<u>1,163,186</u>	<u>(785,727)</u>	<u>2,457,555</u>	<u>-</u>
	\$ <u>5,991,820</u>	\$ <u>3,954,054</u>	\$ <u>(3,791,097)</u>	\$ <u>6,154,777</u>	\$ <u>1,523,346</u>

(10) Medical Malpractice/Employment and Personnel Claims

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

(11) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

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

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(11) Employee Retirement Plans, Continued

The DB Plan was originally designated as a single-employer plan but was redesignated by GovGuam's Department of Administration as a cost-sharing multiple-employer plan, effective October 1, 2008. The redesignation was based on the determination as outlined under GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, wherein all risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the separate employers. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2009, 2008, and 2007, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2011, 2010 and 2009, respectively, have been determined by the Guam Legislature as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Normal costs (% of DB Plan payroll)	17.00%	18.34%	17.36%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.50%</u>	<u>8.84%</u>	<u>7.86%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.73%	3.70%
Unfunded liability cost (% of total payroll)	<u>21.75%</u>	<u>22.69%</u>	<u>19.68%</u>
Government contribution as a % of total payroll	<u>24.78%</u>	<u>26.42%</u>	<u>23.38%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>27.46%</u>	<u>26.04%</u>	<u>25.20%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

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

GMHA's required and actual contributions to the DB Plan for the years ended September 30, 2011, 2010 and 2009 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Required contributions	\$ <u>2,992,302</u>	\$ <u>3,223,103</u>	\$ <u>3,129,594</u>
Actual contributions	\$ <u>1,399,019</u>	\$ <u>2,862,255</u>	\$ <u>3,007,363</u>

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(11) Employee Retirement Plans, Continued

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions for DCRS plan members for the years ended September 30, 2011 and 2010, 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. GMHA's required and actual contributions toward the unfunded liability of the DB Plan for the years ended September 30, 2011, 2010 and 2009 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Required contributions	\$ <u>6,817,544</u>	\$ <u>6,310,538</u>	\$ <u>5,394,244</u>
Actual contributions	\$ <u>2,913,115</u>	\$ <u>5,301,192</u>	\$ <u>5,176,348</u>

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

GMHA's required and actual contributions to the DC Plan for the years ended September 30, 2011, 2010 and 2009 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Required contributions	\$ <u>1,640,628</u>	\$ <u>1,514,745</u>	\$ <u>1,335,310</u>
Actual contributions	\$ <u>1,426,432</u>	\$ <u>1,392,797</u>	\$ <u>1,281,375</u>

Other Post Employment Benefits

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

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

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(11) Employee Retirement Plans, Continued

Other Post Employment Benefits, Continued

During the years ended September 30, 2011, 2010 and 2009, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling \$2,170,712, \$1,383,548, and \$1,584,754, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GMHA retirees.

(12) Net Patient Service Revenue

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

- Medicare - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. At September 30, 2010, cost reports through September 30, 2009, have been audited or otherwise final settled.
- Medicaid Assistance Program and Medically Indigent Program (MIP) - The Hospital is reimbursed for the cost of inpatient and outpatient services rendered under the programs administered by the GovGuam Department of Public Health and Social Services. During each fiscal year, the Hospital is reimbursed on the basis of interim rates with the final settlement determined after submission of annual cost reports prepared in accordance with the agency requirement.

Revenue from the Medicare, Medicaid and MIP programs accounted for approximately 22 percent, 13 percent and 11 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2011, and 21 percent, 13 percent and 10 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

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Notes to Financial Statements
September 30, 2011 and 2010

(12) Net Patient Service Revenue, Continued

Net patient service revenues for the years ended September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Patient service revenues at established charge rates:		
Services provided to Medicaid patients	\$ 12,935,006	\$ 19,468,105
Medicaid payments through GMHA Pharmaceuticals Fund	5,971,012	-
Services provided to Medicare patients	32,999,609	31,501,571
Services provided to MIP patients	16,584,240	2,708,256
MIP payments through GMHA Pharmaceuticals Fund	-	11,526,655
Services provided to Self-pay patients	30,637,248	32,364,975
Self-pay ("charity care") payments through GMHA Pharmaceuticals Fund	1,990,337	-
Services provided to Other patients	<u>45,673,727</u>	<u>49,121,640</u>
	146,791,179	146,691,202
Less contractual adjustments and provisions for uncollectible accounts	<u>(77,651,869)</u>	<u>(63,210,067)</u>
Net patient service revenue	<u>\$ 69,139,310</u>	<u>\$ 83,481,135</u>

(13) Guam Memorial Hospital Authority Pharmaceuticals Fund

During the fiscal year ended September 30, 2009, the Guam Legislature passed legislation, Public Law No. 29-132, which changed the application of funds appropriated from the Guam Memorial Hospital Authority Pharmaceuticals Fund. In accordance with the public law, the Hospital applied appropriated Pharmaceuticals funds as operating revenue, retroactively and prospectively. All funds received shall be applied towards payments of bills and services incurred by qualified MIP recipients involved in the program at the Hospital and any funds remaining after such payments shall then be applied to services provided to qualified recipients enrolled in the Medicaid program by the Hospital.

In accordance with Public Law 29-132, appropriations from the Guam Memorial Hospital Authority Pharmaceutical Fund were recorded in Net Patient Service Revenue for the years ended September 30, 2011 and 2010.

In accordance with Public Law No. 30-55, GovGuam appropriated \$11,526,655 from the Guam Memorial Hospital Authority Pharmaceuticals Fund for payment of bills and services incurred by qualified MIP recipients for the year ended September 30, 2010.

During the fiscal year ended September 30, 2011, the Guam Legislature passed Public Law No. 30-196 which changed the application of funds appropriated from the Guam Memorial Hospital Authority Pharmaceutical Funds. Seventy-five percent (75%) of the funds received shall be applied towards the payment of bills for services incurred by qualified Medicaid recipients and the remaining to billings for services provided to patients classified as "charity care".

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

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September 30, 2011 and 2010

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

During the years ended September 30, 2011 and 2010, GovGuam passed supplemental appropriations in public laws from the General Fund and various special revenue funds for certain specific programs and financial assistance, which are summarized as follows:

	<u>2011</u>	<u>2010</u>
Guam Memorial Hospital Authority		
Pharmaceuticals Fund	\$ 7,961,349	\$ 11,526,655
Healthy Futures Fund	4,228,474	1,215,103
General Fund – on-behalf payments	<u>2,170,712</u>	<u>1,383,548</u>
	<u>\$ 14,360,535</u>	<u>\$ 14,125,306</u>

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

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

In accordance with Public Law 30-55, GovGuam appropriated \$11,526,655 from the Guam Memorial Hospital Authority Pharmaceuticals Fund for the year ended September 30, 2010.

In accordance with Public Law 30-101, GovGuam appropriated \$500,000 for vendor payables from the Healthy Future Fund for the year ended September 30, 2010.

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

During the years ended September 30, 2011 and 2010, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling \$2,170,712 and \$1,383,548, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of Hospital retirees.

(15) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are residents of Guam and are either insured under third-party payor agreements or uninsured. The mix of receivables from patients and third-party payors at September 30, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Medically Indigent Program and Self-pay patients	54%	57%
Local Third-Party Payor and Other	32%	32%
Medicaid Assistance Program	6%	6%
Medicare	<u>8%</u>	<u>5%</u>
	<u>100%</u>	<u>100%</u>

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2011 and 2010

(16) 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.

Litigation

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

The Hospital is a respondent to a lawsuit filed by the Government of Guam Retirement Fund (the Fund) for nonpayment of retirement contributions under the Defined Benefit and Defined Contribution Plans for a total amount of \$2,656,321, plus interest penalties and reimbursement of legal expenses incurred by the Fund. As of September 30, 2011, GMHA has recorded a payable to the Fund of \$15,052,276 representing unpaid contributions and related interest and penalties as of September 30, 2011. Any additional liability relating to this matter cannot presently be determined and, accordingly, no provision for additional liability or potential loss that may result from this matter has been recorded by GMHA.

Federal Award Programs

The Hospital has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2011 and prior year audits amounted to \$2,048,420. If the questioned costs were ultimately disallowed, the Hospital would be liable for the return of such funds. However, no liability, which may arise from the ultimate outcome of this matter, has been provided for in the accompanying financial statements. Audits of federal program funds are also performed by various federal agencies. If the audits result in cost disallowances, the Hospital may be liable. However, management does not believe that resolution of this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

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(17) Dependency on the Government of Guam

The Hospital has incurred losses from operations of \$35,935,464 and \$21,135,832 and negative cash flows from operations of \$16,183,908 and \$2,526,955 for the years ended September 30, 2011 and 2010, respectively. At September 30, 2011 and 2010, the Hospital's deficiencies on delinquent and unpaid retirement contributions, including interest and penalties, with the GovGuam Retirement Fund were \$13,482,675 and \$8,915,769, respectively. The Hospital recorded contractual adjustments and provisions for uncollectible accounts of \$77,651,869 and \$63,210,067 for the fiscal years ended September 30, 2011 and 2010, respectively. Management believes that the continuation of the Hospital's operations is dependent upon the future payment of medical services underwritten by the Government of Guam, continued compensation by the Government of Guam for the cost of services provided under the Medically Indigent Program, the collection of long outstanding patient receivables, and/or improvements in operations.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Expenses and Full-Time Employees Count
Years Ended September 30, 2011 and 2010

	2011	2010
NURSING:		
Salaries	\$ 28,692,346	\$ 26,922,631
Overtime	1,465,041	1,594,379
Other pay	4,329,672	4,497,334
Fringe benefits	8,991,996	8,134,846
Total personnel costs	43,479,055	41,149,190
Contractual services:		
Registry nurses	951,145	4,584,085
Others	1,131,210	1,034,417
Supplies and materials	3,412,665	3,818,817
Miscellaneous	14,633	58,229
	<u>\$ 48,988,708</u>	<u>\$ 50,644,738</u>
 Total employees at end of year	 <u>477</u>	 <u>496</u>

	2011	2010
PROFESSIONAL SUPPORT:		
Salaries and leave pay	\$ 8,538,993	\$ 8,054,435
Overtime	744,771	951,720
Other pay	1,235,287	1,239,242
Fringe benefits	3,017,317	2,703,495
Total personnel costs	13,536,368	12,948,892
Supplies and materials	10,545,910	10,838,519
Utilities	10,808	18,534
Contractual services	806,442	721,640
Miscellaneous	78,533	84,491
	<u>\$ 24,978,061</u>	<u>\$ 24,612,076</u>
 Total employees at end of year	 <u>190</u>	 <u>210</u>

See accompanying independent auditors' report.

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Schedule of Expenses and Full-Time Employees Count, Continued
Years Ended September 30, 2011 and 2010

	2011	2010
ADMINISTRATIVE SUPPORT:		
Salaries	\$ 4,296,051	\$ 3,964,182
Overtime	290,695	365,802
Other pay	401,310	584,407
Fringe benefits	1,689,114	1,433,888
Total personnel costs	6,677,170	6,348,279
Supplies and materials	1,997,270	2,402,108
Utilities	3,378,203	3,527,773
Contractual services	738,832	726,918
Miscellaneous	288,026	271,473
	<u>\$ 13,079,501</u>	<u>\$ 13,276,551</u>
 Total employees at end of year	 <u>171</u>	 <u>171</u>

	2011	2010
FISCAL SERVICES:		
Salaries	\$ 3,022,678	\$ 3,140,869
Overtime	60,758	159,531
Other pay	167,228	187,905
Fringe benefits	1,147,080	1,084,789
Annual leave lump sum pay	402,945	82,363
Sick leave (DC plan)	400,737	401,167
Total personnel costs	5,201,426	5,056,624
Supplies and materials	347,570	280,928
Contractual services	1,613,075	1,478,046
Miscellaneous	92,684	119,833
	<u>\$ 7,254,755</u>	<u>\$ 6,935,431</u>
 Total employees at end of year	 <u>85</u>	 <u>89</u>

See accompanying independent auditors' report.

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Schedule of Expenses and Full-Time Employees Count, Continued
Years Ended September 30, 2011 and 2010

	2011	2010
ADMINISTRATION:		
Salaries	\$ 1,130,174	\$ 942,841
Overtime	297	2,831
Other pay	57,838	53,557
Fringe benefits	421,882	329,859
Total personnel costs	1,610,191	1,329,088
Supplies and materials	37,529	56,670
Contractual services	119,725	477,475
Insurance (Property)	638,774	639,272
Miscellaneous	923,270	774,609
	<u>\$ 3,329,489</u>	<u>\$ 3,277,114</u>
Total employees at end of year	<u>9</u>	<u>11</u>
	2011	2010
MEDICAL STAFF:		
Salaries	\$ 767,806	\$ 692,872
Overtime	331	543
Other pay	63,994	78,383
Fringe benefits	276,856	264,541
Total personnel costs	1,108,987	1,036,339
Supplies and materials	14,942	8,120
Miscellaneous	7,470	6,569
	<u>\$ 1,131,399</u>	<u>\$ 1,051,028</u>
Total employees at end of year	<u>67</u>	<u>86</u>
Total actual expenses, without depreciation and retiree healthcare costs, GAAP basis	<u>\$ 98,761,913</u>	<u>\$ 99,796,938</u>
Total actual expenses, without depreciation and retiree healthcare costs, budgetary basis	<u>\$ 98,023,172</u>	<u>\$ 99,859,804</u>
Total budgeted expenses, without depreciation and retiree healthcare costs	<u>\$ 113,240,122</u>	<u>\$ 99,991,850</u>
Total actual FTE count	<u>999</u>	<u>1,063</u>
Total budgeted FTE count	<u>1,244</u>	<u>1,253</u>

See accompanying independent auditors' report.

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Notes to Schedule of Expenses and Full-Time Employees Count
Years Ended September 30, 2011 and 2010

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

GMHA recognizes annual leave lump sum pay and certain sick leave expenses as benefits accrue to employees. GMHA budget does not reflect such expenses on the modified accrual basis. For the year ended September 30, 2011 and 2010, the total of annual leave sum pay and sick leave expenses amounted to \$803,682 and \$483,530, respectively.

The following reconciles expenses between GAAP and budgetary bases:

	<u>FY 2011</u>	<u>FY 2010</u>
Expenses, without depreciation and retiree healthcare costs, GAAP basis	\$ 98,761,913	\$ 99,796,938
Annual leave lump sum pay	(402,945)	(82,363)
Sick leave (DC Plan)	(400,737)	(401,167)
Change in encumbrances	<u>64,941</u>	<u>546,396</u>
Expenses, without depreciation and retiree healthcare costs, budgetary basis	\$ <u>98,023,172</u>	\$ <u>99,859,804</u>
Budgeted expenses	\$ <u>113,240,122</u>	\$ <u>99,991,850</u>

See Accompanying Independent Auditors' Report.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Patient Service Revenues by Patient Classification
Years Ended September 30, 2011 and 2010

	2011	2010
GROSS PATIENT SERVICE REVENUE:		
Medicaid patients	\$ 18,906,018	\$ 19,468,105
Medicare patients	32,999,609	31,501,571
MIP patients	16,584,240	14,234,911
Self-pay patients	32,627,585	32,364,975
Other patients	45,673,727	49,121,640
	<u>\$ 146,791,179</u>	<u>\$ 146,691,202</u>
CONTRACTUAL ADJUSTMENTS AND PROVISIONS FOR UNCOLLECTIBLE ACCOUNTS:		
Contractual adjustments:		
Medicaid patients	\$ 11,430,718	\$ 13,379,745
Medicare patients	18,943,720	15,874,931
MIP patients	8,529,578	7,324,722
Other patients	13,859,563	14,138,558
Provisions for uncollectible accounts:		
Self-pay patients	24,888,290	12,492,111
	<u>\$ 77,651,869</u>	<u>\$ 63,210,067</u>
NET PATIENT SERVICE REVENUE:		
Medicaid patients	\$ 7,475,300	\$ 6,088,360
Medicare patients	14,055,889	15,626,640
MIP patients	8,054,662	6,910,189
Self-pay patients	7,739,295	19,872,864
Other patients	31,814,164	34,983,082
	<u>\$ 69,139,310</u>	<u>\$ 83,481,135</u>

See accompanying independent auditors' report.

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

Schedule of Billings and Collections and Reconciliation of Billings to Gross Patient Revenues
For the Years ended September 30, 2011, 2010 and 2009

		Medicaid, Medicare and MIP				Self Pay and Government - DOC and Others				Third-Party Payors							Timing Differences and Adjustments	Gross Patient Revenues
		Medicaid	Medicare	MIP	Subtotal	Self Pay	Government - DOC and Others	Subtotal	Subtotal	Payor A	Payor B	Payor C	Payor D	Payor E	Subtotal	Grand Total		
2011	Billings Collections	\$ 29,277,059 16,982,331	\$ 29,118,123 10,404,210	\$ 20,281,319 7,303,460	\$ 78,676,501 34,690,001	\$ 24,664,607 8,437,216	\$ 815,665 236,853	\$ 25,480,272 8,674,069	\$ 104,156,773 43,364,070	\$ 3,338,052 3,387,794	\$ 9,330,528 6,205,515	\$ 20,229,778 15,049,914	\$ 3,845,433 2,741,192	\$ 3,798,912 2,054,332	\$ 40,542,703 29,438,747	\$ 144,699,476 72,802,817	\$ 2,091,703	\$ 146,791,179
	Percentage of collections over billings	<u>58%</u>	<u>36%</u>	<u>36%</u>	<u>44%</u>	<u>34%</u>	<u>29%</u>	<u>34%</u>	<u>42%</u>	<u>101%</u>	<u>67%</u>	<u>74%</u>	<u>71%</u>	<u>54%</u>	<u>73%</u>	<u>50%</u>		
2010	Billings Collections	28,347,466 13,595,866	30,805,021 13,302,398	23,078,531 15,002,789	82,231,018 41,901,053	24,460,841 10,687,886	828,648 504,750	25,289,489 11,192,636	107,520,507 53,093,689	4,290,480 3,413,999	9,721,928 7,122,314	21,204,366 13,080,186	4,655,058 3,179,678	4,590,879 2,402,413	44,462,711 29,198,590	151,983,218 82,292,279	(5,292,016)	146,691,202
	Percentage of collections over billings	<u>48%</u>	<u>43%</u>	<u>65%</u>	<u>51%</u>	<u>44%</u>	<u>61%</u>	<u>44%</u>	<u>49%</u>	<u>80%</u>	<u>73%</u>	<u>62%</u>	<u>68%</u>	<u>52%</u>	<u>66%</u>	<u>54%</u>		
2009	Billings Collections	26,339,448 14,991,805	30,412,723 14,708,972	20,678,652 6,632,404	77,430,823 36,333,181	21,643,303 12,810,519	667,014 459,928	22,310,317 13,270,447	99,741,140 49,603,628	3,867,071 2,193,387	8,147,748 5,722,860	19,060,232 13,505,391	4,523,400 3,267,422	4,939,694 2,203,887	40,538,145 26,892,947	140,279,285 76,496,575	2,341,098	142,620,383
	Percentage of collections over billings	<u>57%</u>	<u>48%</u>	<u>32%</u>	<u>47%</u>	<u>59%</u>	<u>69%</u>	<u>59%</u>	<u>50%</u>	<u>57%</u>	<u>70%</u>	<u>71%</u>	<u>72%</u>	<u>45%</u>	<u>66%</u>	<u>55%</u>		

See accompanying independent auditors' report.