

**GUAM MEMORIAL HOSPITAL AUTHORITY**

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**Financial Statements And Independent Auditor's Report  
And Additional Information**

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**For The Years Ended September 30, 2003 and 2002**

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**(a Public Corporation)**

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**September 30, 2003**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Guam Memorial Hospital Authority:

I have audited the accompanying statements of net assets of Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the GMHA's management. My responsibility is to express an opinion on these financial statements based on my audits.

Except as discussed in the following paragraphs, I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

The accounts receivable balances in the general ledger were not reconciled to the subsidiary ledgers as of September 30, 2003 and 2002 in which the variance was \$15,559,525 and \$13,203,001, respectively. I was also unable to determine the reasonableness and adequacy of allowance for bad debts and contractual adjustments in the amount of \$94,935,639 and \$73,376,214 at September 30, 2003 and 2002, respectively, due to GMHA's inability to substantiate and provide a rational basis for such estimates. Additionally, accounts receivable confirmations obtained from third-party payors showed significant differences from amounts recorded by GMHA, and reconciliations had not been performed to identify and reconcile such differences. Because of the inadequacy in the accounting records, I was unable to apply audit procedures to satisfy myself as to the adequacy of the accounts receivable, the allowance for bad debts and the contractual adjustments to determine that such account balances were fairly stated as of September 30, 2003 and 2002. Furthermore, in my judgment, the balances of accounts receivable and the related allowance for bad debts and contractual adjustments materially affect operating revenues and expenditures for the years ended September 30, 2003 and 2002.

The capital assets detailed control register of GMHA was not reconciled to the general ledger balances at September 30, 2003. The movable equipment control account was overstated by \$2,325,047 as compared to the general ledger, and the buildings control account was understated by \$1,783,380 as compared to the general ledger. Because of inadequacy of the accounting records, I was unable to form an opinion regarding the amounts at which capital assets, net of accumulated depreciation are recorded in the accompanying statements of net assets at September 30, 2003 (stated at \$43,640,783), or the amount of depreciation expense for the year ended (stated at \$3,707,209).

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of accounts receivable and the related allowance for bad debts and contractual adjustments; and capital assets net of accumulated depreciation and related depreciation expense been determinable, such financial statements present fairly, in all material respects, the financial position of GMHA as of September 30, 2003 and 2002, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The *Management's Discussion and Analysis* on pages 4 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information in Schedule I on pages 28 and 29 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 33 is presented for purposes of additional analysis, as required by the U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which is not a required part of the basic financial statements. These schedules are the responsibility of the management of Guam Memorial Hospital Authority. Such information has been subjected to the auditing procedures applied in my audits of the basic financial statements and, in my opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 19, 2005, on my consideration of Guam Memorial Hospital Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audits.

The Guam Memorial Hospital Authority has incurred continuing operating losses and negative cash flows that are insufficient to pay current expenses and liabilities. The Guam Memorial Hospital Authority incurred operating losses of \$11,357,328 for the year ended September 30, 2003 and \$3,292,112 for the year ended September 30, 2002. The Guam Memorial Hospital Authority defaulted on its \$6.6 million note payable to the Government of Guam Retirement Fund and is in arrears on unpaid retirement fund contributions of approximately \$9.7 million as of September 30, 2003. Additionally, GMHA is in arrears in the amount of \$325,834 for principal and interest on a \$1.4 million note payable to the Guam Power Authority. These factors raise substantial doubt about the Guam Memorial Hospital Authority's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 13. The accompanying financial statements do not include any adjustments that might be necessary if the Guam Memorial Hospital Authority is unable to continue as a going concern.

*J. Scott Hagopian & Company*

Hagåtña, Guam  
April 19, 2005





**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2003**



Our discussion and analysis of Guam Memorial Hospital's financial statements provide an overview of the hospital's financial activities for the fiscal year ended September 30, 2003. Please read management's discussion and analysis in conjunction with GMHA's financial statements beginning on page 7.

**Basis of Accounting**

The hospital is an autonomous Government of Guam entity, which uses the accrual basis of accounting for financial statement presentation. The accrual basis of accounting reports income when earned and expenses when incurred. Under the accrual basis of accounting, the hospital is required to make prudent estimates against revenues that are recorded but may not be received, called a bad debt expense and contractual adjustments.

**Annual Report Presentation**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34.

**BASIC FINANCIAL STATEMENTS**

**Independent Auditor's Report**

The Independent Auditor's Report of Financial Statements as presented provides GMHA with a qualified opinion. The qualified opinion was due to material misstatements in accounts receivable and the lack of reconciliations of accounts receivable subsidiary to the accounts receivable control account. The lack of reconciliation of the capital assets detail control register to the general ledger also is a cause for the rendering of the qualified opinion for the period ending September 30, 2003. GMHA received the qualified opinion due to the lack of compliance with Office of Management and Budget (OMB) Circular A-133 procurement requirements.

Management expects to receive a qualified opinion for the fiscal year ending 2004 for deficiencies in the same areas. Please note that since fiscal years 2002 and 2003, the management of GMHA has changed completely. Subsequent to the change in administration, GMHA hired a CEO/Administrator, Chief Financial Officer and an Assistant Chief Financial Officer. The three positions have made reassignments in their respective areas. The deficiencies noted occurred under a different administration and, therefore, current management is aggressively responding to the deficiencies so noted.



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2003**



**BASIC FINANCIAL STATEMENTS, Continued**

The current management of GMHA will implement corrective action in fiscal year 2005 to address, mitigate and resolve deficiencies noted by our auditors.

**Statements of Net Assets**

GMHA's Total Net Assets decreased by \$5,584,208 due to adjustments to the patient accounts receivable, net and a decrease in available cash. Patient accounts receivable, net, equaling \$30,587,286 decreased \$3,715,505 compared to the previous year. The decrease in patient accounts receivable, net is the result of an adjustment to the provision for bad debts account. An analysis of historical trends resulted in the need to increase the percentage of bad debts to gross patient accounts receivable. The adjustment of provision for bad debts includes provisions for prior periods. The decrease in total cash of \$1,285,756 reflects an increase in the cash required to administer medical care to GMHA patients.

Total current liabilities increased due to the accrual of a payable to United Government Service for the fiscal year 2003 Medicare Cost Report. The extinguishing of this debt occurred in fiscal year 2004. Current portion of long-term debt and Accounts Payable-Retirement Fund increased in the 2002 fiscal year due to the non-payment of promissory notes to the Government of Guam Retirement Fund. An explanation for the failure to pay the Government of Guam Retirement Fund cannot be ascertained because the decision to not pay the debt was made under a prior administration. In fiscal year 2003, management initiated payments to the long-term notes in an effort to abate the delinquent status of this debt.

GMHA received a Qualified Audit Opinion due to the irreconcilable difference between the financial statements and the subsidiary ledger of patient accounts receivables and capital asset accounts. Management expects the rendering of the same opinion for the 2004 fiscal year. In fiscal year 2005, management is working diligently to place procedures in place and providing training to current staff members to avoid a Qualified Opinion in the future.

GMHA has a critical need for qualified accounting staff with the ability to complete account reconciliations. Management will address this need by requiring extensive continuing education in the area of accounting and/or seeking qualified accountants for other governmental agencies.



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2003**



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

Total Operating Revenues decreased in fiscal year 2003 when compared to the previous fiscal year. Net Patient Services Revenues decreased by \$2,748,246 due to adjustments to revenue and contractual adjustments to reconcile patient accounts receivables to the subsidiary ledger. Total Operating Expenses increased in fiscal year 2003 as compared to the previous fiscal year due to an adjustment to Bad Debt, which is a component of Total Operating Expenses. This adjustment is referenced above in the discussion of the Statement of Net Assets.

Total Non-Operating Revenues in fiscal year 2003 decreased due to transfers from the Government of Guam in the previous fiscal year. Transfers from the Government of Guam totaled \$25,236,268 and were used to extinguish bank and withholding tax debts and to support operational and capital expenditures.

**Statements of Cash Flows**

The statement of cash flows reports cash received, cash disbursements and net changes from operations, non-capital financing activities, capital financing activities and the reconciliation of operating loss to net cash provided by operating activities. Changes in cash flows are consistent with operating losses and non-operating revenues and expenses referenced above in the discussions of Statement of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets.

**Forward**

Management decisions affecting the fiscal years 2002 and 2003 financial statements occurred during a prior administration at GMHA. The current administration has made a diligent effort to meet the request of the external auditors with absence of much needed information. The current administration anticipates identical responses to findings and questioned cost and identical management discussion and analysis for the fiscal year 2004. The current administrative staff started implementing corrective actions in the later part of fiscal year ending 2004.

**Contacting GMHA's Financial Management**

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of GMHA's finances and demonstrate GMHA's accountability for the money it collects. If you have questions about this report or need additional information, please contact GMHA CEO/Hospital Administrator at 647-2828 or the GMHA Chief Financial Officer's Office at 647-2934 or 647-2190.



# GUAM MEMORIAL HOSPITAL AUTHORITY

## Statements of Net Assets September 30, 2003 and 2002

	<u>ASSETS</u>	
	<u>2003</u>	<u>2002</u>
Current assets:		
Cash (notes 1 and 2)	\$ 1,178,147	\$ 2,463,903
Restricted cash (notes 1 and 3)	493,090	493,090
Total cash	1,671,237	2,956,993
Patient accounts receivable, net (notes 1 and 5)	30,587,286	34,302,791
Other receivables	904,222	644,029
Inventories (note 1)	1,353,680	1,506,259
Prepaid expenses	287,588	80,139
Total current assets	34,804,013	39,490,211
Capital assets, net (notes 1 and 4)	43,640,783	44,538,793
Total assets	<u>\$ 78,444,796</u>	<u>\$ 84,029,004</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current portion of long-term debt (note 8)	\$ 7,403,566	\$ 7,521,048
Accounts payable - trade	6,005,584	5,934,241
Accounts payable - Retirement Fund (note 9)	9,666,160	8,954,915
Accrued payroll and benefits	1,061,710	1,061,296
Current portion of accrued annual leave (note 1)	1,400,468	1,705,782
Due to Medicare programs (note 6)	4,203,767	12,236
Other accrued liabilities	546,149	2,017,121
Total current liabilities	30,287,404	27,206,639
Long-term debt (note 8)	672,268	1,053,410
Deferred retirement fund contributions (note 7)	2,634,704	2,634,704
Long-term portion of accrued annual leave (note 1)	1,457,630	1,775,406
Accrued sick leave (note 1)	804,307	-
Total liabilities	35,856,313	32,670,159
Net assets (note 1):		
Invested in capital assets net of related debt	43,640,783	44,488,738
Temporarily restricted for capital expenditures	493,090	493,090
Unrestricted	(1,545,390)	6,377,017
Total net assets	42,588,483	51,358,845
Total liabilities and net assets	<u>\$ 78,444,796</u>	<u>\$ 84,029,004</u>

Commitments and contingencies (note 11)

See accompanying notes to financial statements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Net patient service revenue (notes 1 and 6)	\$ 64,324,145	\$ 67,072,391
Other operating revenues:		
Food sales, cafeteria	528,578	516,890
Other	<u>145,517</u>	<u>665,863</u>
Total operating revenues	<u>64,998,240</u>	<u>68,255,144</u>
Operating expenses (note 1):		
Nursing	28,491,351	28,170,668
Ancillary	15,870,634	15,595,110
Bad debts	8,947,165	3,967,182
General services	8,311,066	8,119,846
Administrative support	6,963,181	7,430,021
Depreciation	3,707,209	3,763,125
Medical staff	2,021,144	2,488,651
Administration	<u>2,043,818</u>	<u>2,012,653</u>
Total operating expenses	<u>76,355,568</u>	<u>71,547,256</u>
Operating loss	<u>(11,357,328)</u>	<u>(3,292,112)</u>
Non-operating revenues (expenses):		
Capital grants and contributions	7,779	81,794
Transfers from the Government of Guam (note 10)	1,113,100	25,236,268
Insurance claim	1,000,000	-
Federal Emergency Management Agency (FEMA)	627,805	-
Interest and penalties (note 8)	<u>(1,275,387)</u>	<u>(1,069,486)</u>
Total non-operating revenues	<u>1,473,297</u>	<u>24,248,576</u>
Excess of revenues over expenses (expenses over revenues)	(9,884,031)	20,956,464
Net assets released from restrictions -capital improvements and equipments	<u>1,113,669</u>	<u>3,946,064</u>
Increase (decrease) in unrestricted net assets	<u>(8,770,362)</u>	<u>24,902,528</u>
Temporarily restricted net assets (notes 1 and 3):		
Net assets released from restrictions- capital improvements and equipments	(1,113,669)	(3,946,064)
Federal capital grants and contributions	<u>1,113,669</u>	<u>2,011,502</u>
Increase (decrease) in temporarily restricted net assets	<u>-</u>	<u>(1,934,562)</u>
Increase (decrease) in net assets	(8,770,362)	22,967,966
Net assets beginning of the year	<u>51,358,845</u>	<u>28,390,879</u>
Net assets end of the year	<u>\$ 42,588,483</u>	<u>\$ 51,358,845</u>

See accompanying notes to financial statements.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Statements of Cash Flows Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 59,092,485	\$ 56,224,079
Payments to suppliers and contractors	(20,241,078)	(17,183,316)
Payments to employees	(44,665,905)	(43,918,751)
Medicare program overpayments	4,203,767	-
Other receipts and payments, net	<u>680,294</u>	<u>1,182,753</u>
Net cash used in operating activities	<u>(930,437)</u>	<u>(3,695,235)</u>
Cash flows from non-capital financing activities:		
Transfers from the Government of Guam	1,019,101	25,236,268
Repayment of notes payable, net of proceeds	(710,351)	(22,008,079)
Interest paid	(427,481)	(834,113)
Contributions from FEMA and non-profit organizations	<u>635,584</u>	<u>81,794</u>
Net cash provided by non-capital financing activities	<u>516,853</u>	<u>2,475,870</u>
Cash flows from capital and related financing activities:		
Repayment of capital leases	-	(114,392)
Acquisition and construction of capital assets	(2,813,448)	(2,660,753)
Decrease in due from grantor agency	216,247	-
Capital grants and contributions	725,029	2,011,502
Proceeds from insurance claim	<u>1,000,000</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(872,172)</u>	<u>(763,643)</u>
Net (decrease) in cash	(1,285,756)	(1,983,008)
Cash at beginning of year	<u>2,956,993</u>	<u>4,940,001</u>
Cash at end of year	<u>\$ 1,671,237</u>	<u>\$ 2,956,993</u>

See accompanying notes to financial statements.

# **GUAM MEMORIAL HOSPITAL AUTHORITY**

## Statements of Cash Flows, Continued Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Reconciliation of operating loss to net cash provided		
by operating activities:		
Operating loss	\$ (11,357,328)	\$ (3,292,112)
Adjustments to reconcile operating loss to net cash provided		
by operating activities:		
Depreciation	3,707,209	3,763,125
Bad debts	8,947,165	3,967,182
Loss from disposal of equipment	4,249	-
(Increase) decrease in assets:		
Patient accounts receivable	(5,231,660)	(11,097,721)
Other receivables	6,199	249,410
Inventories	152,579	132,495
Prepaid expenses	(207,449)	1,264,371
Increase (decrease) in liabilities:		
Accounts payable	146,410	(75,835)
Accrued payroll and employees benefits	414	111,510
Accrued annual leave and sick leave	181,217	150,636
Due to United Government Service	4,191,531	-
Other accrued liabilities	<u>(1,470,973)</u>	<u>1,131,704</u>
Net cash used in operating activities	<u>\$ (930,437)</u>	<u>\$ (3,695,235)</u>

### Non-cash transactions:

In 2002, GMHA applied the balance of \$2,240,258 of the \$6,600,000 government appropriation under Public Law 26-33 for the extinguishment of its tax obligations in arrears with the Department of Revenue and Taxation.

See accompanying notes to financial statements.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (1) Organization and Summary of Significant Accounting Policies

### Organization

The Guam Memorial Hospital Authority (GMHA) was created on July 26, 1977 under Public Law 14-29 as an autonomous instrumentality of the Government of Guam. The law provides for control of GMHA to be vested with the Board of Trustees of the Hospital consisting of seven (7) members that shall serve a term of five (5) years. GMHA is a component unit of the Government of Guam and is included as a discretely presented component unit of the basic financial statements of the Government of Guam.

### Use of Estimates

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

### Enterprise Fund Accounting

GHMA uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting," as amended, GHMA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

During 2002, GMHA implemented GASB Statement No. 33, Accounting and financial Reporting for Nonexchange Transactions, GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government, GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures, and GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.



# GUAM MEMORIAL HOSPITAL AUTHORITY

## Notes to Financial Statements September 30, 2003 and 2002

### (1) Organization and Summary of Significant Accounting Policies, Continued

#### Cash

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

#### Restricted Funds

Restricted funds are used to differentiate between contributions which are restricted by a donor for a particular purpose or for a particular time frame, and contributions on which donor places no restrictions or amounts which arise as a result of normal operations of the GMHA. Funds restricted by donor for plant replacement and expansion are recorded as "net assets released from restrictions" and are transferred from temporarily restricted net assets to unrestricted net assets to the extent expended within the period.

#### Capital Assets

Capital assets acquired prior to June 30, 1978, are recorded at their appraised values as of that date. Subsequent additions are primarily valued at cost. Major renewals and betterments are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of an asset are charged to expense. Depreciation is provided over the estimated useful lives of the respective assets through use of the straight-line method. Useful lives for capital assets are based on the American Hospital Association Guide "Estimated Useful Lives of Depreciable Hospital Assets" as follows:

Building and land improvements	10-40 years
Equipment	3-20 years

#### Net Assets

Net assets of GMHA are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Temporarily restricted net assets* are those whose use by GMHA has been limited by donors to a specific time period or purpose. At September 30, 2003 and 2002, the temporarily restricted net assets are for use in capital improvements to renovate or expand the hospital and the long-term care facility. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (1) Organization and Summary of Significant Accounting Policies, Continued

### Federal Grant Award Revenues and Contributions

From time to time, GMHA receives federal grant awards and contributions from the Federal Emergency Management Agency (FEMA) and Compact of Free Association through the Government of Guam as well as contributions from individuals and private organizations. Revenues from federal award grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Federal grant and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital replacement and expansions are reported after non-operating revenues and expenses.

### Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### Patient Accounts Receivable

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

The allowance for uncollectible accounts receivable is determined based on management estimates. While management believes the amount is adequate, the ultimate uncollectible balance may differ from the amounts provided. At September 30, 2003 and 2002, GMHA's general ledger balances of patient's accounts receivable were not reconciled to patient's subsidiary ledgers in which there were variances of \$15.6 million and \$13.2 million, respectively. GMHA is in the process of reviewing and reconciling the misstatements. Therefore, significant adjustments are expected to occur in the near future upon completion of the analysis.

### Inventories

Inventories are recorded at the lower of cost or market value, with cost being derived through an average historical cost.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Notes to Financial Statements September 30, 2003 and 2002

### (1) Organization and Summary of Significant Accounting Policies, Continued

#### Compensated Absences

Employees are credited 104, 160 or 208 hours of vacation leave per fiscal year, subject to their lengths of service. The accumulation of vacation credits is limited to 480 hours (580 hours for registered nurses) at fiscal year end and is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-5 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. Any annual leave earned by eligible employees in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 shall be credited to the employee's sick leave. The remaining excess hours must be used by September 30, 2004, otherwise, the employees forfeit those hours. Public Law 27-5 does not apply to registered nurses. GMHA recognizes all vested vacation leave benefits accrued by its employees as a liability. When employees use vacation leave benefits, the liability account is reduced accordingly. As of September 30, 2003 and 2002, accrued annual leave totaled \$2,858,098 and \$3,481,188, respectively.

Pursuant to Public Law 26-86, employees under the Defined Contribution Retirement System (DCRS) plan, upon their retirement will be paid by its employer a lump sum payment of their unused sick leave hours up to fifty percent. At September 30, 2003, unused sick leave of the members under the DC plan totaled \$1,608,606, of which, 50% or \$804,307 was accrued in the accompanying the financial statements.

#### Operating Revenues and Expenses

GMHA's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which are GMHA's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital assets acquisition, are reported as non-operating revenues. Operating expenses are expenses incurred to provide health care services other than financing costs.

#### Risk Management

GMHA is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. GMHA is self-insured for medical malpractice claims and judgments, as discussed in note 11.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Notes to Financial Statements September 30, 2003 and 2002

### (2) Cash

Cash insured by the Federal Deposit Insurance Corporation (FDIC) is \$300,000 in each fiscal year 2003 and 2002, with the remaining being uninsured.

### (3) Assets Limited as to Use and Donor Restriction Released

At September 30, 2003 and 2002, the restricted cash is for use in capital improvements to renovate or expand the hospital and the long-term care facility.

Temporarily restricted net assets were released from donor restrictions by incurring costs satisfying the restricted purposes. At September 30, 2003 and 2002, purpose restrictions accomplished were for capital expenditures under federal programs.

### (4) Capital Assets

A summary of capital assets additions, retirements, and balances for the years ended September 30, 2003 and 2002 were as follows:

<u>For Fiscal Year 2003:</u>	<u>Balance September 30, 2002</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance September 30, 2003</u>
<u>Depreciable</u>				
Building and land improvements	\$ 51,285,458	\$ 2,715,777	(\$ 68,500)	\$ 53,932,735
Long-term care facility	10,660,987	-	-	10,660,987
Movable equipments	<u>22,997,961</u>	<u>443,801</u>	<u>( 347,268)</u>	<u>23,094,494</u>
	84,944,406	3,159,578	( 415,768)	87,688,216
Less: Accumulated depreciation and amortization	<u>(41,858,248)</u>	<u>(3,707,208)</u>	<u>411,518</u>	<u>(45,153,938)</u>
	43,086,158	( 547,630)	( 4,250)	42,534,278
<u>Non-depreciable</u>				
Construction in progress	<u>1,452,635</u>	<u>2,369,647</u>	<u>(2,715,777)</u>	<u>1,106,505</u>
Capital assets, net	<u>\$ 44,538,793</u>	<u>\$ 1,822,017</u>	<u>(\$2,720,027)</u>	<u>\$ 43,640,783</u>

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Notes to Financial Statements September 30, 2003 and 2002

### (4) Capital Assets, Continued

<u>For Fiscal Year 2002:</u>	<u>Balance September 30, 2001</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance September 30, 2002</u>
<u>Depreciable</u>				
Building and land improvements	\$ 51,273,858	\$ 11,600	\$ -	\$ 51,285,458
Long-term care facility	10,660,987	-	-	10,660,987
Movable equipments	<u>21,561,119</u>	<u>1,436,842</u>	<u>-</u>	<u>22,997,961</u>
	83,495,964	1,448,442	-	84,944,406
Less: Accumulated depreciation and amortization	<u>(38,095,123)</u>	<u>(3,763,125)</u>	<u>-</u>	<u>(41,858,248)</u>
	45,400,841	(2,314,683)	-	43,086,158
<u>Non-depreciable</u>				
Construction in progress	<u>240,324</u>	<u>1,212,311</u>	<u>-</u>	<u>1,452,635</u>
Capital assets, net	<u>\$ 45,641,165</u>	<u>(\$ 1,102,372)</u>	<u>\$ -</u>	<u>\$ 44,538,793</u>

### (5) Patients Accounts Receivable, Net

As of September 30, 2003 and 2002, patient accounts receivable, net were as follows:

	<u>2003</u>	<u>2002</u>
Receivable from patients and their insurance carriers	\$ 41,489,490	\$ 47,318,596
Patient receivables referred to collection agencies	<u>84,033,435</u>	<u>60,360,409</u>
Total patient accounts receivable	<u>125,522,925</u>	<u>107,679,005</u>
Less: Allowance for bad debts	( 76,119,436)	( 51,942,081)
Allowance for contractual adjustments	<u>( 18,816,203)</u>	<u>( 21,434,133)</u>
Total allowance for bad debts and contractual adjustments	<u>( 94,935,639)</u>	<u>( 73,376,214)</u>
Patients accounts receivable, net	<u>\$ 30,587,286</u>	<u>\$ 34,302,791</u>



## GUAM MEMORIAL HOSPITAL AUTHORITY

### Notes to Financial Statements September 30, 2003 and 2002

#### (6) Third-Party Rate Adjustments and Revenue, and Concentrations of Credit Risk

The GMHA 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 as follows:

Medicare. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospective 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 Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. At September 30, 2003, amounts due to Medicare program consist of results of the its audit for fiscal years 1998 and 2000 in the total amount of \$573,951, and an accrual of retroactive lump adjustment for fiscal year September 30, 2003 in the amount of \$3,629,816. At September 30, 2002, the amount due to Medicare program was \$12,236.

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

Laws and regulations governing Medicare and Medicaid Programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Notes to Financial Statements September 30, 2003 and 2002

### (6) Third-Party Rate Adjustments and Revenue, and Concentrations of Credit Risk, Continued

GMHA grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Of GMHA's net patient service revenue for fiscal years ended September 30, 2003 and 2002, the revenue percentages derived from major third-party payors, self-pay patients, and other providers are as follows:

	Approximate Revenue Percentages of Third-Party Payors, Self-Pay, and Other Providers to Net Patient Service Revenue	
	<u>2003</u>	<u>2002</u>
Medicare	18 %	17%
Medicaid	9 %	8%
Medically Indigent Program	8 %	7%
Other Local Insurances	21 %	15%
Self-Pay	14 %	18%
Other Providers	<u>30 %</u>	<u>35%</u>
	<u>100 %</u>	<u>100%</u>

During the fiscal years 2003 and 2002, management estimates of the contractual adjustments by the Third Party Payors, and uncollectible percentage from self pay and other providers of the gross billings/charges and or established rates are as follows:

	Fiscal Year 2003		
	<u>October 2002 to March 2003</u>	<u>April 2003 to September 30</u>	<u>Fiscal Year 2002</u>
Medicare	43%	41 %	43%
Medicaid	36%	41 %	36%
Medically Indigent Program	44%	44 %	44%
Other Local Insurances	18% & 25%	8%	18% & 25%
Self-Pay	50%	50 %	50%

At September 30, 2003 and 2002, the Patient Service Revenue in the accompanying financial statements is presented net of Management's Contractual Estimates which totaled \$33,078,624 and \$31,767,385, respectively.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Notes to Financial Statements September 30, 2003 and 2002

### (7) Employees' Retirement Plan

Employees of GMHA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit pension plan). Employees hired after September 30, 1995 are members of the Government of Guam's Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who were members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Requirements of both plans are established by Title 4 Guam Code Annotated, Chapter 8, Articles 1 and 2.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which GMHA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation performed as of September 30, 2003 issued in March 15, 2005, it was determined that for the year ended September 30, 2003, a minimum combined employer and employee contribute rate of 46.16% of covered Defined Benefit payroll is required to fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. The actuarially determined contribution rate was 24.89% of covered payroll as of September 30, 2003 from the 20.81% as of September 30, 2002 actuarial valuation. During the year ended September 30, 2003, the Guam Legislature mandated statutory contribution rates for employee and employer contributions of 9.5% and of 26%, respectively, of covered payroll from October 1, 2002 to February 28, 2003. The employer contribution was dropped to 18% effective March 1, 2003. The statutory contribution rates for employer and employee contributions were 19.8016% and 9.5%, respectively, for the year ended September 30, 2002.

The Defined Benefit Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 7% and an assumed salary scale increase of 8.5% per annum for short service employees and 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 2003 did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor, and therefore, the amount was not determinable. If the actuarial valuation were performed for GMHA as a separate sponsor, the accrual unfunded liability at September 30, 2003 and 2002, may be materially different than that recorded in the accompanying financial statements.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (7) Employees' Retirement Plan, Continued

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

Employer contributions into the DCRS are based on a statutory amount of 19.8016% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited in the member's individual annuity account. The remaining 14.8016% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service but have not attained the age of 55 are eligible only for the amount of member contributions plus any earnings thereon.

## (8) Long-Term Debt

At September 30, 2003 and 2002, long-term debt consists of the following:

	<u>2003</u>	<u>2002</u>
Promissory note payable to the Government of Guam Retirement Fund in equal quarterly installments of \$401,330 including interest at the Bank of Hawaii's prime rate plus 1% (9% at September 30, 2003 and 2002). During 2003 and 2002, not all installments were made and the note is in arrears. Payments made to the notes were \$695,700 and \$1,067,832, respectively, of principal, interest and penalties. The note was due in March 2003 and is uncollateralized.	\$ 6,654,705	\$ 6,932,542
Promissory note to the Guam Power Authority (GPA) for balance due on electrical service with electric utility, payable in total monthly installments of \$45,965, beginning October 13, 2001, including interest at 4.47% per annum. During 2003, GMHA defaulted on seven (7) monthly installments totaling \$325,834. The note is due in September 2005 and uncollateralized.	1,421,129	1,591,861

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Notes to Financial Statements September 30, 2003 and 2002

### (8) Long-Term Debt, Continued

	<u>2003</u>	<u>2002</u>
Balance due on several capital leases of computer hardware and software with a computer manufacturer, payable in total monthly installments of \$10,210 including interest at effective rates ranging from 6.7% to 7.6%, collateralized by computer hardware and software, with a bargain purchase option at the end of the lease.	\$ -	\$ 50,055
Total notes payable	8,075,834	8,574,458
Less current portion	<u>7,403,566</u>	<u>7,521,048</u>
Long-term debt	<u>\$ 672,268</u>	<u>\$ 1,053,410</u>

The aggregate maturities of long-term debt at September 30, 2003 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2004	\$ 7,403,566
2005	672,268
2006	-
2007	-
2008	<u>-</u>
	<u>\$ 8,075,834</u>

In November 21, 2002, the Superior Court of Guam ordered GMHA to pay its outstanding liabilities to the Government of Guam Retirement Fund. Furthermore, in March 2003, GMHA defaulted on this note for failure to make a final balloon payment with the Government of Fund Retirement Fund due on March 2003. At September 30, 2003 and 2002, the notes payable to Retirement Fund included estimated accrual of interest and penalties of \$397,014 and \$189,366, respectively.



# GUAM MEMORIAL HOSPITAL AUTHORITY

## Notes to Financial Statements September 30, 2003 and 2002

### (9) Related Party Transactions

At September 30, 2003 and 2002, a summary of related party transactions with the Government Agencies are as follows:

	<u>2003</u>	<u>2002</u>
Payables to Government Agencies:		
Retirement Fund:		
Principal and interest on Promissory note	\$ 6,654,705	\$ 6,932,542
Unpaid Contributions and interest accrual	<u>9,666,160</u>	<u>8,954,915</u>
	16,320,865	15,887,457
Guam Power Authority in promissory note and current electric service	1,650,716	1,904,730
Guam Telephone Authority	22,727	335,415
Guam Waterworks Authority	21,854	85,949
Department of Revenue and Taxation on employees' withholding taxes	<u>808</u>	<u>1,471,879</u>
Total	<u>\$18,016,970</u>	<u>\$19,685,430</u>
Operations Receivable from Government Agencies:		
Department of Public Health and Social Services(DPHSS) for the following programs:		
Medicaid, net of estimated contractual adjustments of \$2,003,353 and \$1,816,933 for 2003 and 2002, respectively.	\$10,644,341	\$ 6,857,285
MIP, net of estimated contractual adjustments of \$9,982,051 and \$10,713,369 for 2003 and 2002, respectively.	<u>7,567,001</u>	<u>9,733,795</u>
Total	<u>\$18,211,342</u>	<u>\$16,591,080</u>

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Notes to Financial Statements September 30, 2003 and 2002

### (9) Related Party Transactions, Continued

	<u>2003</u>	<u>2002</u>
Other Receivables:		
Department of Administration	\$ 482,640	\$ 216,247
Department of Mental Health and Substance Abuse	135,008	149,352
Fire Department	183,519	158,529
Department of Public Health and Social Services	<u>18,392</u>	<u>18,503</u>
	<u>\$ 819,559</u>	<u>\$ 542,631</u>

Due to significant discrepancies between the GMHA patients' receivable control account and the general ledger for fiscal years 2003 and 2002 totaling \$15,559,525 and \$13,203,001, respectively, the related party receivables disclosed above may differ by a significant amount as compared to the records of various government agencies.

### (10) Transfers from the Government of Guam

At September 30, 2003 and 2002, GMHA's transfers from the Government of Guam consist of cash transfers-in and accrual of unreimbursed capital expenditures as follows:

	<u>2003</u>	<u>2002</u>
Transfers-in from Tobacco Settlement Asset Backed-Bond Proceeds, Series 2001A Bonds, Health Security Trust Fund:		
Used for GMHA's operating supports under Public Law 26-35 appropriation	\$ -	\$ 2,400,000
Used for GMHA's capital expenditures under Public Law 26-80 appropriation:		
Transfers-in	1,019,101	133,973
Accrual of revenue from transfers	<u>93,999</u>	<u>81,703</u>
Total	<u>1,113,100</u>	<u>2,615,676</u>
Appropriations:		
Used for GMHA's debt extinguishment of its notes payable with Bank of Guam through GEDCA bond refinancing	-	20,380,334
Used to pay-off GMHA's tax obligations in arrears with Department of Revenue and Taxation under Public Law 26-33	<u>-</u>	<u>2,240,258</u>
	<u>\$ 1,113,100</u>	<u>\$25,236,268</u>

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Notes to Financial Statements September 30, 2003 and 2002

#### (10) Transfers from the Government of Guam, Continued

The Health Security Trust Fund was established pursuant to Public Law 25-187, as amended, in which approximately fifty percent (50%) of the of the proceeds of the sale of the Guam Economic Development and Commerce Authority (GEDCA) Tobacco Settlement Asset-Backed Bonds, Series 2001A and Series 2001B were deposited. Two sub-accounts were established in June 2001, within the Health Security Trust Fund consisting of the Series 2001A for \$4,911,236.30 and the Series 2001B for \$5,828,740.45. The Tobacco Settlement Asset-Backed Bonds, Series 2001A and Series 2001B are administered by the GEDCA to account for the monies received. Public Law 26-35 appropriated \$2.4 million from the Series 2001A sub-account of the Security Trust Fund to GMHA to be used exclusively for prior years' vendor payment obligations. Additionally, Public Law 26-80 appropriated \$2.5 million from the Series 2001A sub-account of the Health Security Trust Fund to GMHA to be used for capital expenditures and for pharmaceuticals pursuant to Public Law 27-98. At September 30, 2003, activity under the Health Security Trust Fund is as follows:

Asset Backed Bond Series 2001A Deposits	\$ 4,911,236
Withdrawals under Public Law 26-35 for operating supports for fiscal year 2002	( 2,400,000)
Public Law 26-80 appropriating \$2.5 million for capital expenditures:	
Fiscal Year 2002 withdrawals	( 133,973)
Fiscal Year 2003 withdrawals	<u>( 1,019,101)</u>
Remaining balance to be withdrawn from the Trust Fund as of September 30, 2003	<u>\$ 1,358,162</u>

At September 30, 2003 and 2002, management believes that withdrawals from the Trust Fund were expended in compliance with the intent of the law.

# **GUAM MEMORIAL HOSPITAL AUTHORITY**

## **Notes to Financial Statements September 30, 2003 and 2002**

### **(11) Commitments and Contingencies**

#### **Litigation**

GMHA is the defendant in several malpractice claims and has received several claims that are pending review or are expected to go to litigation. While GMHA intends to pursue an aggressive defense of these cases and claims, the possibility exists that some may result in material monetary damages being awarded to claimants or plaintiffs. As of September 30, 2003, GMHA's known maximum exposure under these claims is approximately \$3.1 million. However, GMHA is unable to estimate the actual monetary damages from these self-insured malpractice claims, therefore, no provision for any liability that may result from these claims has been made in the financial statements.

#### **Employment/Personnel Matters**

In April 2003, fifty nine (59) employees of GMHA were laid off as part of the new management's cost reduction program that includes a reduction in labor and fringe costs. Twenty three (23) of these employees filed their appeal to the Civil Service Commission (CSC). In October 2003, the CSC mandated GMHA to reemploy the laid-off employees on the grounds that lay off procedures of the hospital were found technically incorrect. In addition, GMHA was ordered to pay the lost salaries and furloughs. At September 30, 2003, the liability arising from this case has not been determined and management has made no accrual for the unpaid salaries.

#### **Reserve for Encumbrances**

As of September 30, 2003 and 2002 GMHA had material purchase commitments under outstanding encumbrances totaling \$4,681,229 and \$3,176,425, respectively.

#### **Self-Insurance**

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

## **GUAM MEMORIAL HOSPITAL AUTHORITY**

Notes to Financial Statements  
September 30, 2003 and 2002

### **(11) Commitments and Contingencies, Continued**

#### **Medicare**

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

#### **Memorandum of Understanding**

In fiscal year 1995, GMHA received a \$6 million advance from the Government of Guam (GovGuam) and entered into a Memorandum of Understanding (MOU) to repay the advance by endorsing back to the Government of Guam 50% of the payments received under the Medically Indigent Program. No repayments have been made by GMHA since 1996 and GovGuam has made no attempts to collect the remaining balance. GMHA has interpreted GovGuam's inaction as a forgiveness of this debt and wrote off the outstanding balance of \$2,902,446 at September 30, 1999. However, the MOU is still in effect and it is possible that GMHA may be called upon to repay this balance at some time in the future.

### **(12) Typhoon Expenses and Related Insurance Claims**

On July 5, 2002, the island of Guam was struck by a major typhoon and a super typhoon on December 8, 2002. The main facility was severely damaged. At September 30, 2003, the estimated damages from the super typhoon were \$2.8 million. During 2003, GMHA received \$1 million as a partial settlement claim for the damages and an estimated \$1 million in federal assistance under FEMA. As of September 30, 2003, GMHA received \$627,805 from FEMA and had incurred unreimbursed expenditures of approximately \$372,000 for project renovations still in progress. GMHA is negotiating a claim settlement for approximately \$780,000 with its property insurance provider. No accrual has been made to the financial statements at September 30, 2003 as remaining claims are pending review by the insurance adjuster.

## **GUAM MEMORIAL HOSPITAL AUTHORITY**

### **Notes to Financial Statements September 30, 2003 and 2002**

#### **(13) Going Concern**

The Guam Memorial Hospital Authority has incurred continuing operating losses and negative cash flows that are insufficient to pay current expense and liabilities. The Guam Memorial Hospital Authority incurred operating losses of \$11,357,328 for the year ended September 30, 2003 and \$3,292,112 for the year ended September 30, 2002. The Guam Memorial Hospital Authority defaulted on its \$6.6 million note payable to the Government of Guam Retirement Fund and is in arrears on unpaid retirement fund contributions of approximately \$9.7 million as of September 30, 2003. Additionally, GMHA is in arrears in the amount of \$325,834 for principal and interest on a \$1.4 million note payable to the Guam Power Authority. These factors raise substantial doubt about the Guam Memorial Hospital Authority's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary if the Guam Memorial Hospital Authority is unable to continue as a going concern.

The Guam Memorial Hospital Authority has not officially formalized a recovery plan. Management of GMHA seek additional funding in the form of increased appropriations from the Government of Guam, intends to reduce costs and staff and the restructuring of its existing debt on terms that will satisfy the debt and not have a negative affect on operations. Management believes these factors will contribute toward achieving profitability. GMHA's ability to achieve these goals is uncertain and there is no assurance that it will be successful in achieving these objectives.

#### **(14) Reclassifications**

Certain balances in the 2002 financial statements have been reclassified to correspond to the 2003 presentation.

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Supplementary Information Schedule of Expenses Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Nursing:		
Salaries - regular	\$ 16,755,372	\$ 15,590,927
Salaries - overtime and incentive pay	3,701,262	4,762,664
Fringe benefits	<u>4,343,988</u>	<u>3,666,073</u>
Total personnel costs	24,800,622	24,019,664
 Supplies and materials	 3,144,914	 3,539,404
Miscellaneous	<u>545,815</u>	<u>611,600</u>
	<u><u>\$ 28,491,351</u></u>	<u><u>\$ 28,170,668</u></u>
 Ancillary:		
Salaries - regular	\$ 5,057,728	\$ 5,478,078
Salaries - overtime and incentive pay	1,593,691	1,361,896
Fringe benefits	<u>1,456,067</u>	<u>1,457,956</u>
Total personnel costs	8,107,486	8,297,930
 Supplies and materials	 6,418,538	 5,511,141
Contractual services	1,285,566	1,729,572
Miscellaneous	<u>59,044</u>	<u>56,467</u>
	<u><u>\$ 15,870,634</u></u>	<u><u>\$ 15,595,110</u></u>
 General services:		
Salaries - regular	\$ 2,959,284	\$ 3,194,447
Salaries - overtime and incentive pay	526,010	447,839
Fringe benefits	<u>973,116</u>	<u>1,015,547</u>
Total personnel costs	4,458,410	4,657,833
 Utilities	 1,636,221	 1,682,447
Supplies and materials	623,963	584,092
Contractual services	855,163	671,932
Typhoon expenses	647,554	395,315
Miscellaneous	<u>89,755</u>	<u>128,227</u>
	<u><u>\$ 8,311,066</u></u>	<u><u>\$ 8,119,846</u></u>

# GUAM MEMORIAL HOSPITAL AUTHORITY

## Supplementary Information Schedule of Expenses, Continued Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Administrative support:		
Salaries - regular	\$ 3,041,939	\$ 3,591,093
Salaries - overtime and incentive pay	341,694	375,621
Fringe benefits	989,174	1,028,608
Annual leave lump sum pay	<u>307,033</u>	<u>403,834</u>
Total personnel costs	4,679,840	5,399,156
Contractual services	1,475,432	1,049,687
Supplies and materials	690,715	833,278
Miscellaneous	<u>117,194</u>	<u>147,900</u>
	<u>\$ 6,963,181</u>	<u>\$ 7,430,021</u>
Medical staff:		
Salaries - regular	\$ 500,937	\$ 589,809
Salaries - overtime and incentive pay	47,523	44,851
Fringe benefits	<u>189,980</u>	<u>229,114</u>
Total personnel costs	738,440	863,774
Contractual Services	1,271,620	1,605,260
Miscellaneous	<u>11,084</u>	<u>19,617</u>
	<u>\$ 2,021,144</u>	<u>\$ 2,488,651</u>
Administration:		
Salaries - regular	\$ 436,802	\$ 756,636
Salaries - overtime and incentive pay	58,248	61,150
Fringe benefits	<u>100,966</u>	<u>124,754</u>
Total personnel costs	596,016	942,540
Miscellaneous	296,104	764,213
Contractual Services	<u>1,151,698</u>	<u>305,900</u>
	<u>\$ 2,043,818</u>	<u>\$ 2,012,653</u>
Employees at end of year	<u>817</u>	<u>952</u>