

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

Financial Statements

Independent Auditor's Report And Supplemental Information

For the years ended September 30, 2006 and 2005

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

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September 30, 2006

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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, 2006 and 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GMHA's internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinions.

As discussed in Note 4, at September 30, 2006, GMHA reconciled the patient subsidiary ledgers and the general ledger. Consequently, the variance of \$15,557,199 that had existed at September 30, 2005, and in prior years from 2001 was accounted for. Although the GMHA reconciled the accounts receivable control accounts, the accounts receivable confirmations obtained from third-party payors showed material differences from amounts recorded by GMHA, and reconciliations had not been performed to identify and reconcile such differences. Furthermore, I was also unable to determine the reasonableness and adequacy of allowance for bad debts and contractual adjustments in the amount of \$100,348,314 and \$66,764,749 at September 30, 2006 and 2005, respectively, due to GMHA's inability to substantiate and provide a rational basis for such estimates. Because of the inadequacy in the accounting records, I was unable to apply audit procedures necessary to satisfy myself as to the propriety of the accounts receivable, bad debt expenses, the adequacy of allowance for bad debts and the contractual adjustments, and

determine that such account balances were fairly stated as of September 30, 2006 and 2005. In my opinion, the balances of accounts receivables, bad debt expense and the related allowance for bad debts and contractual adjustments materially affect operating revenues and expenditures for the years ended September 30, 2006 and 2005.

The capital assets control register of GMHA was not reconciled to the general ledger balances at September 30, 2006 and 2005. The movable equipment register control account as of September 30, 2006 was understated by \$587,708 and at September 30, 2005 was overstated by \$1,718,953, as compared to the general ledger. The building and land improvement register control account was understated by \$848,374 and \$1,726,133, at September 30, 2006 and 2005 respectively, as compared to the general ledger. Additionally, GMHA has not conducted a physical count of its fixed assets for the last five years. Because of the inadequacies 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, 2006 and 2005 (stated at \$41,863,452 and \$40,619,500, respectively), or the amount of depreciation expense for the years ended (stated at \$3,897,223 and \$3,494,096, respectively).

At September 30, 2005, I was not able to perform inventory observation until October 20, 2005. Therefore, I was not able to observe and substantiate the procedures in place to obtain a reasonable assurance that inventory was properly accounted for on all inventory locations of the GMHA. Additionally, the Pharmacy Department's physical count at September 30, 2005 was not properly valued and was not entered in the inventory accounting system of GMHA. The physical count of inventory located in the Pharmacy Department at September 30, 2005, should be valued and determined in conformity with accounting principles generally accepted in the United States of America. At September 30, 2005, the effects on the accompanying financial statements of this departure cannot reasonably be determined.

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, bad debt expense and the related allowance for bad debts and contractual adjustments been determinable; had I been able to observe the actual count during the cut-off period, and satisfy myself regarding proper valuation of inventory in the pharmacy department at September 30, 2005; and had propriety of 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, 2006 and 2005, 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 53 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of GMHA's management. I have applied certain limited procedures to such information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information (Schedule of Expenses) on pages 96 through 98 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 103 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 March 23, 2007 on my consideration of GMHA's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 considered in assessing the results of my audits.

The accompanying financial statements have been prepared assuming that the GMHA will continue as a going concern. As discussed in Note 15 to the financial statements, GMHA has incurred recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's recovery plans in regard to these matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Hagåtña, Guam
March 23, 2007



GUAM MEMORIAL HOSPITAL AUTHORITY
Management's Discussion and Analysis
Year Ended September 30, 2006



The Management Discussion and Analysis (MD&A) is designed to provide the readers of this financial audit report for the Guam Memorial Hospital Authority for the fiscal year ending 2006, an overview of the Hospital's financial activities. Upon completing reading the MD&A, the reader should be able to gain an understanding through the eyes of management how the Hospital performed, the Hospital's financial condition and future prospects as it complements and supplements the financial statements.

BASIS OF ACCOUNTING

The Hospital is a special-purpose government agency engaged only in business-type activities which uses the accrual basis of accounting for financial statement presentation. Accrual basis accounting records financial events based on events that change the Hospital's net worth the amount owed to minus the amount owed others. It is standard practice to record and recognize revenues in the period in which they incur and to match them with related expenses. Even though cash is not received or paid in a credit transaction, they are recorded because they are consequential to the future income and cash flow of the Hospital. Under the accrual basis of accounting, the Hospital is also required to make prudent estimates against revenues that are recorded but may not be received and are recognized as bad debt expense and contractual adjustments.

ANNUAL REPORT PRESENTATION

This presentation is in accordance with a format consistent with the presentation mandated by the Governmental Accounting Standards Board Statement No. 34 that was developed for easier understanding and more useful of government financial information.

INDEPENDENT AUDITOR'S REPORT

The Independent Auditor's Report of Financial Statements for FY2006 as presented provided GMHA with a qualified opinion. The qualified opinion was due to the following:

- Material differences in 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;
- Inability to determine the reasonableness and adequacy of allowance for bad debts and contractual adjustments;



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- } Lack of inventory controls in the Pharmacy department; and the
- } Lack of reconciliation of the capital assets detail control register to the general ledger.

GMHA also received the qualified opinion on internal control due to the lack of compliance with Office of Management and Budget (OMB) Circular A-133 procurement requirements.

Our discussion and analysis provides a financial overview of the Hospital's financial activities for the fiscal years ended September 30, 2006, 2005, and 2004.

The Hospital's financial statement consists of three statements: 1) Statement of Net Assets or Balance Sheet – A balance sheet is often described as a “snapshot” of the Hospital's financial condition on a given date and is the only financial statement which applies to a single point in time, instead of a period of time; 2) Statement of Revenues, Expenses, and Changes in Net Assets or Income Statement – the purpose of the income statement is to show if the Hospital made or lost money during the period being reported; and 3) Statement of Cash Flows which illustrates incoming and outgoing money during a particular period. The statement shows how changes in the balance sheet and income accounts affected cash and cash equivalents and breaks the analysis down according to operating, investing, and financing activities. As an analytical tool the statement of cash flows is useful in determining the short-term viability of the Hospital, particularly its ability to pay bills.

Statements of Net Assets
September 30, 2006, 2005, and 2004

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|---------------------|
| <u>ASSETS</u> | | | |
| Current assets | \$46,208,777 | \$33,480,430 | \$31,248,725 |
| Capital assets, net | <u>41,863,452</u> | <u>40,619,500</u> | <u>42,192,771</u> |
| Total assets | <u>\$88,072,229</u> | <u>\$74,099,930</u> | <u>\$73,441,496</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | |
| Current liabilities | \$36,531,195 | \$27,598,181 | \$27,289,345 |
| Long-term liabilities | 4,629,330 | 4,895,801 | 4,646,236 |
| Net assets | <u>46,911,704</u> | <u>41,605,948</u> | <u>41,505,915</u> |
| Total liabilities and net assets | <u>\$88,072,229</u> | <u>\$74,099,930</u> | <u>\$73,441,496</u> |



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Management's Discussion and Analysis
Year Ended September 30, 2006



The Hospital realized an increase in net assets from FY2005 to FY2006 of approximately \$13 million or 18%. Several events occurred that yielded increase in net assets.

- 1) The Hospital being legislatively given seven million eight hundred thousand (\$7.8M) in Advance Appropriation authority. Public Law 28-68 (Chapter II, Part III, §25) appropriated General Fund revenues from FY2007 to fund capital outlays, equipment purchases, repairs, renovations, and improvements. The Hospital requested and was granted the authority to carry over that spending authorization to FY2007 because procurement rules and regulations for some items would take time due to having to go out on IFB or RFP. The Hospital must establish that such items have been properly procured and paid for by the end of FY 2007 upon which the General Fund will reimburse the Hospital in the amount not to exceed the seven million eight hundred (\$7.8M) ceiling.
- 2) The Hospital also saw a recovery of prior Medicare patient billings of over \$6 million in reimbursement from Medicare. The Hospital had procured the services of Essential Consulting, Inc. to reopen prior year's submission of the Hospital's Medicare Cost Report for FY2002, FY2003, & FY 2005. Medicare corrected the Hospital's acute per diem rate resulting in the reimbursement. The notice was received in FY2006. Partial funds were received in FY05 and the balance was receipted early October 2006.
- 3) Public law 28-68 also helped to create the GMHA Pharmaceutical Fund in which five and sixty-one hundredths percent (5.61%) of all gross receipts taxes collected in Guam shall fund the Hospital's pharmaceutical requirements. This led to the increase in the Hospital's inventory of close to \$2 million from FY 2005.

The Hospital did see an increase in patient accounts receivable (note that it is net of allowance for doubtful accounts). Internally the Hospital has made a concerted effort (via the revenue generating departments) to recognize new supplies, services, and procedures in the Hospital's charge master. This has resulted in the Hospital realizing increase gross revenues for new supplies, services, and procedures. As noted in chart 1, the total number of admissions over fiscal years 2002 to 2006 demonstrates the consistency in the number of patient admissions based on the patient type. You see a slight downward trend in the number of inpatient and outpatient admissions, but the number of emergency room admissions remains relatively stable (chart 1). In viewing charts 2 through 6, despite the inconsistency of the number of patients the total amount of gross patient receivables illustrating there is no direct relation to the number of patient admitted verses gross patient receivables recorded. Patient charges are purely dependent upon the type of medical attention deemed by the patient's condition which would dictate a longer length of stay as applicable to acute care patients (charts 2 through 6). In order to understand the relation between chart 1 and the subsequent charts 2 through 6, in fiscal year 2006, the Hospital admitted over 50,000 patients which resulted in the Hospital recording \$99 million in gross patient billings for the indicated payors (chart #2). For fiscal year 2005, the Hospital admitted over 41,000 patients and recorded over \$90 million in gross patient billings. For fiscal year 2004, the Hospital admitted over 44,000 patients and recorded over \$81 million in gross patient billings. In fiscal year 2003, the Hospital admitted over 47,000 patients and



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recorded over \$84 million in gross patient billings. And finally in fiscal year 2002, the Hospital admitted over 51,000 patients and \$83 million in gross patient billings. It should be also noted that each visit to the Hospital is recognized with a unique patient identifier known as the patient number. Thus, if you find yourself visiting the Emergency Room three times in one day, your visit will be identified with three unique identifiers. This is done in this manner because of the individual condition that exists causing the patient to visit the Hospital.

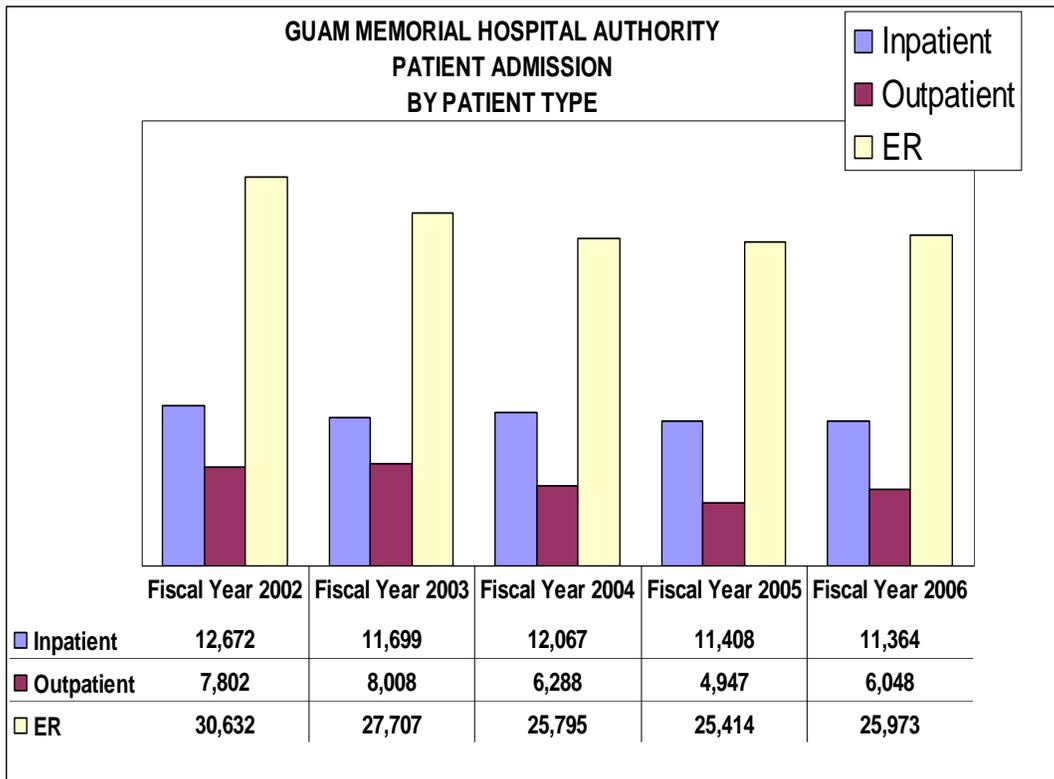


Chart 1

Source: Hospital Information System – AS400 Patient Information Module
 Registration by E/I/O – Report #PIRP9002-01
 Fiscal Years 2002, 2003, 2004, 2005, and 2006



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Management's Discussion and Analysis
Year Ended September 30, 2006



GUAM MEMORIAL HOSPITAL AUTHORITY
FISCAL YEAR 2006
ALL PATIENT ADMISSIONS VS MONTHLY GROSS PATIENT BILLINGS

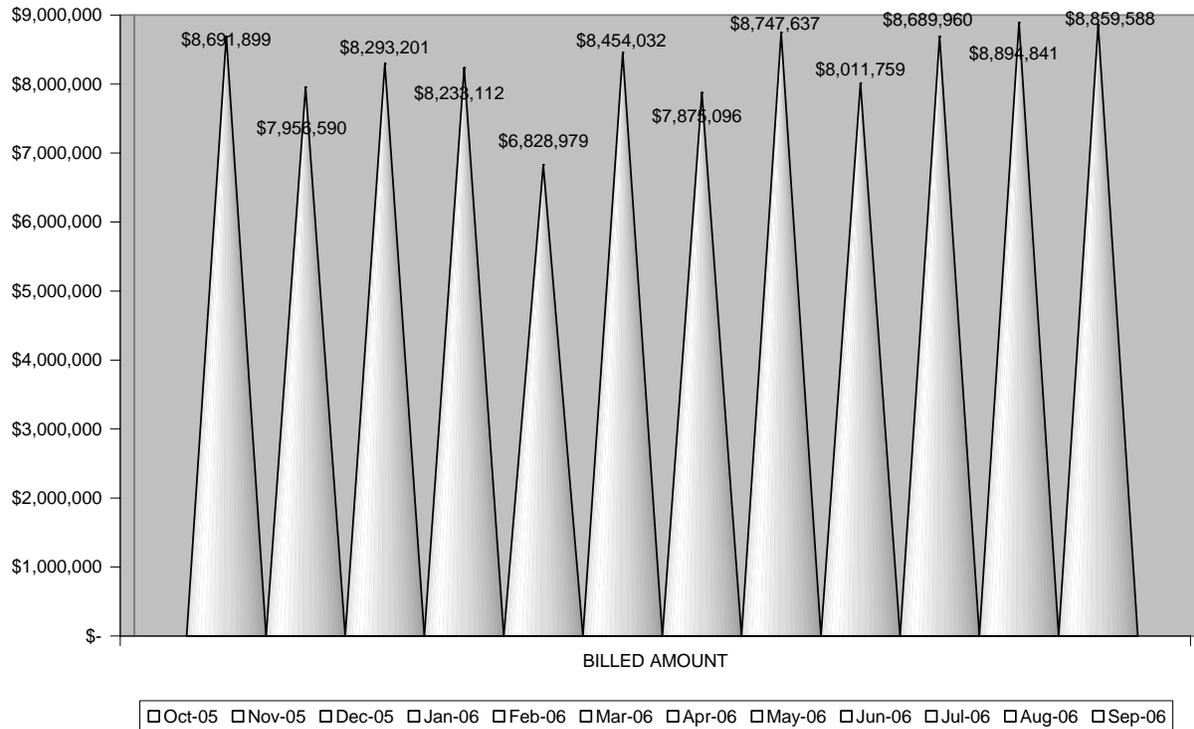


Chart 2

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2006



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GUAM MEMORIAL HOSPITAL AUTHORITY
FISCAL YEAR 2005
ALL PATIENT ADMISSIONS VS GROSS MONTHLY PATIENT BILLINGS

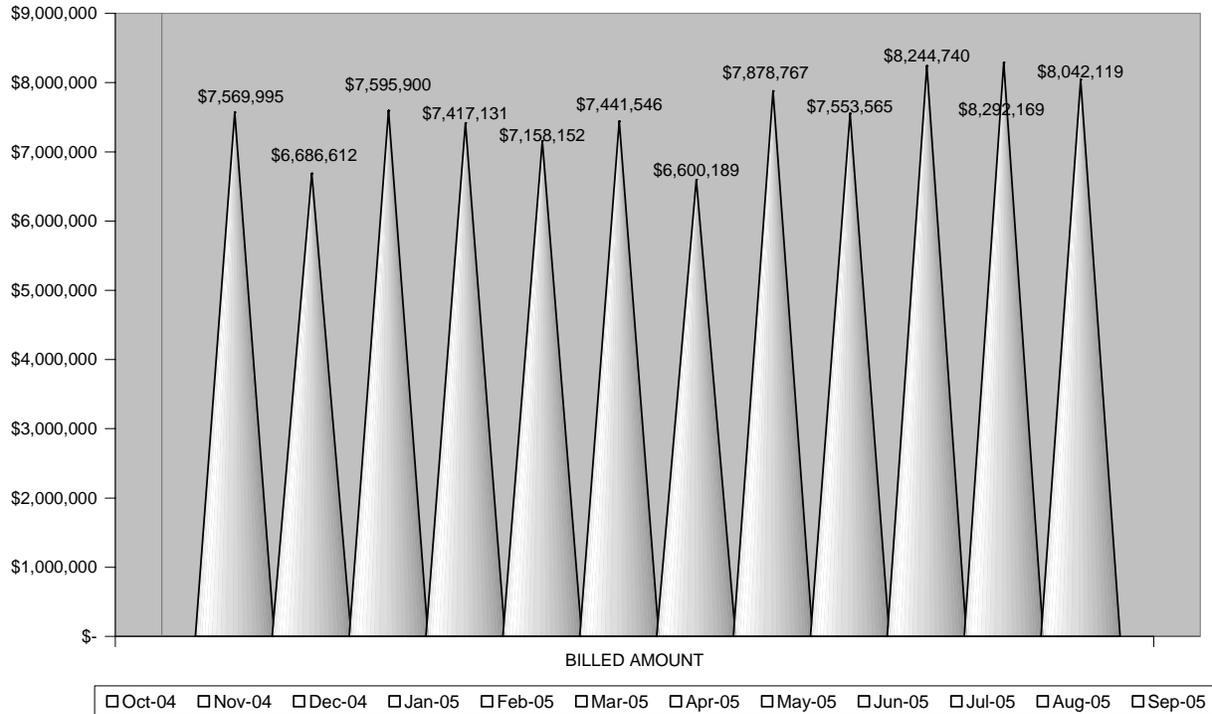


Chart 3

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2005



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FISCAL YEAR 2004
ALL PATIENT ADMISSIONS VS GROSS MONTHLY PATIENT BILLINGS

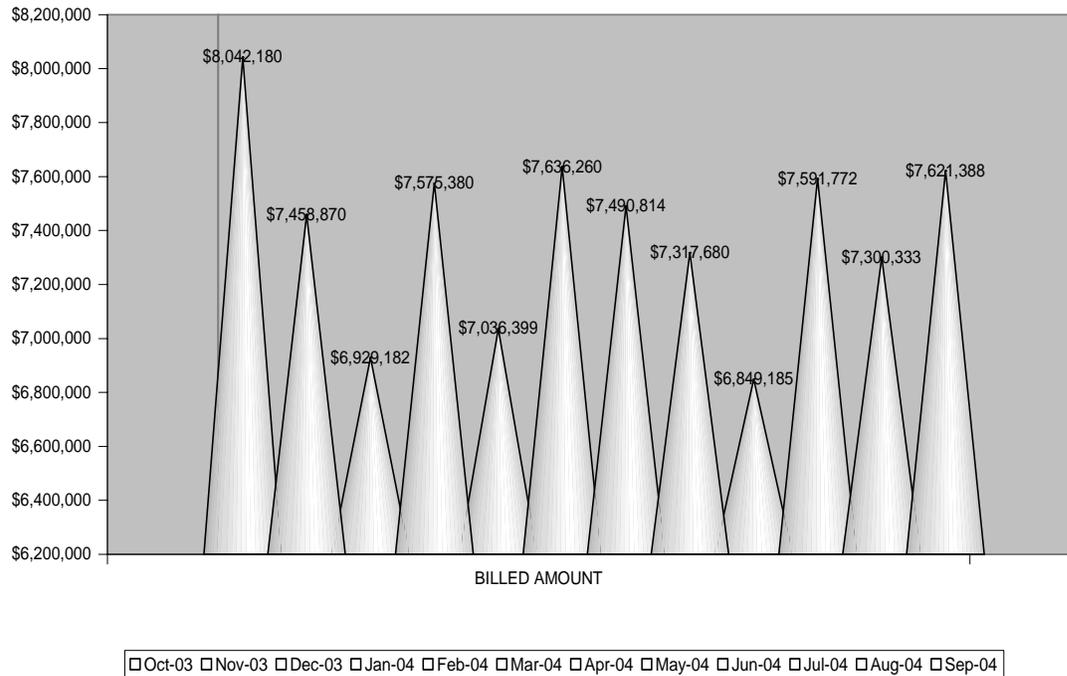


Chart 4

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2004



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GUAM MEMORIAL HOSPITAL AUTHORITY
FISCAL YEAR 2003
ALL PATIENT ADMISSIONS VS GROSS MONTHLY PATIENT BILLINGS

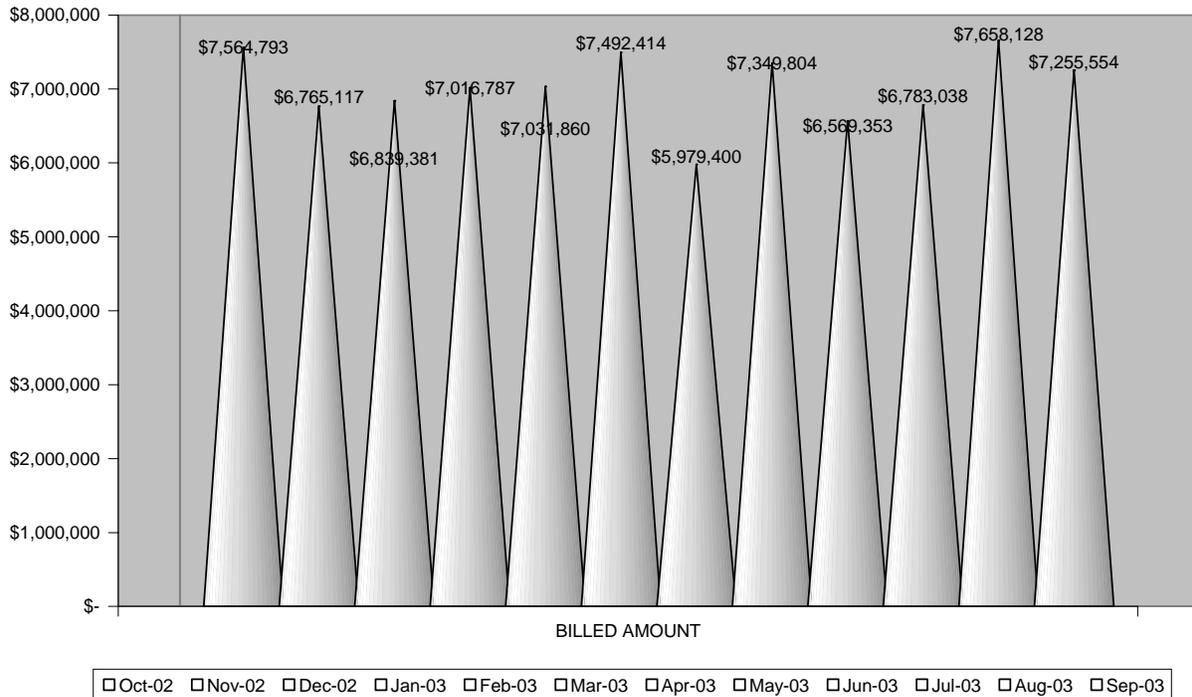


Chart 5

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2003



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GUAM MEMORIAL HOSPITAL AUTHORITY
FISCAL YEAR 2002
ALL PATIENT ADMISSIONS VS GROSS MONTHLY PATIENT BILLINGS

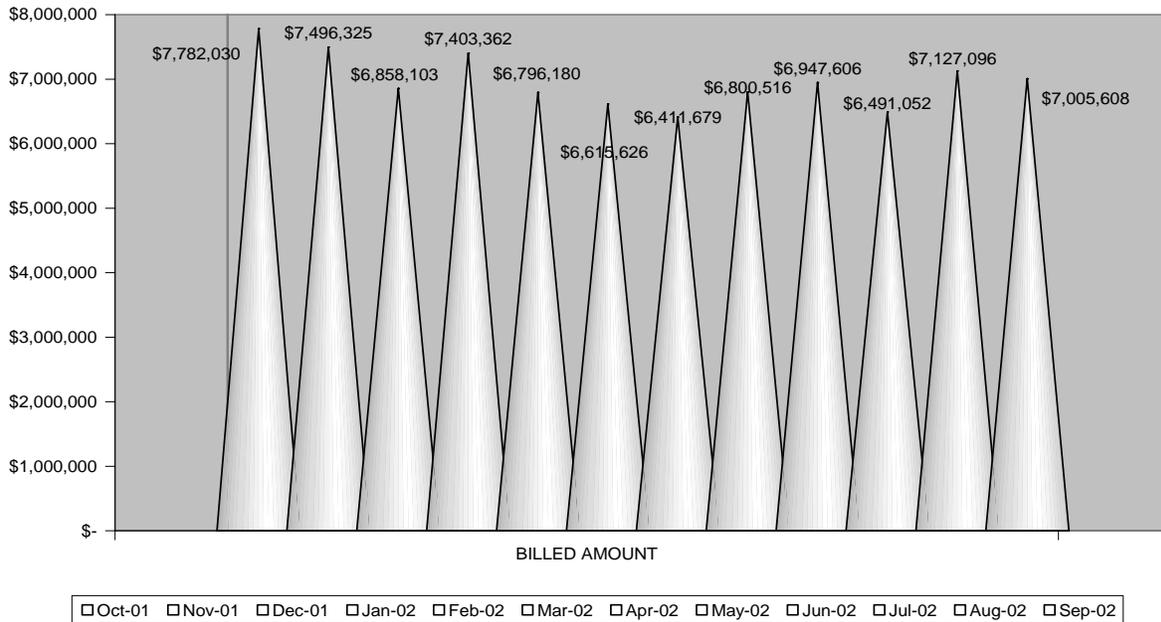


Chart 6

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2002

As you can see, the Hospital is quite capable of billing for services, the question is does the Hospital collect? Most of the public is under the impression that if the Hospital bills fifty dollars (\$50) to a patient that the Hospital will receive the fifty (\$50) in payment. For patients with insurance, be it local health insurance or Medicare, the Hospital does not receive a full dollar to dollar reimbursement. As an example, a regular inpatient from a 3rd party payor receives a five thousand (\$5,000) Hospital bill. The Hospital will collect from the patient their corresponding patient share at the point of discharge. The Hospital will then bill the 3rd party payor. The 3rd party payor will pay a portion of the bill. What is not paid by the 3rd party payer would represent both the contractual adjustment and non covered benefits. The Hospital would bill the patient for the non-covered benefits. The contractual adjustment will be absorbed by the Hospital. This portion of the bill represents the cost of having the local insurance reimburse the Hospital before the contractually agreed reimbursement period. This is called, “the Prompt Payment Act” or Guam Public Law 25-189. In summary, health providers have ninety (90) days to submit a health claim or bill from the date of services were rendered. In turn, the public law provides for a timeline for payments of forty five (45) days for the insurance companies to render a payment without additional information. Guam Public Law 24-11 mandates that “All companies or other legal entities providing or applying to provide health insurance or the provision of health care,



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shall have contracts for services with all government of Guam entities that are providing health care services to any and all of their subscribers. This requirement shall be met prior to, and as a condition to, the start of negotiations for the government of Guam fiscal year 1999. Any dispute or controversy between contracting parties shall be submitted to arbitration according to the generally accepted local practice." In order for the Hospital to receive payments on timely billed claims, the Hospital has traditionally negotiated a percentage discount if payment is received prior to the forty five (45) days as allowable in the Prompt Payment Act. The Hospital realizes that the discount translates into lost revenues but the timely and steady cash stream weighs more into the timely payment of its outstanding vendor and operational needs. Noted below in charts 7 through 11 are amounts collected by the Hospital on such claims within the parameters of both Public Laws 24-11 and 25-189.

GUAM MEMORIAL HOSPITAL AUTHORITY
FISCAL YEAR 2006
PATIENT COLLECTIONS

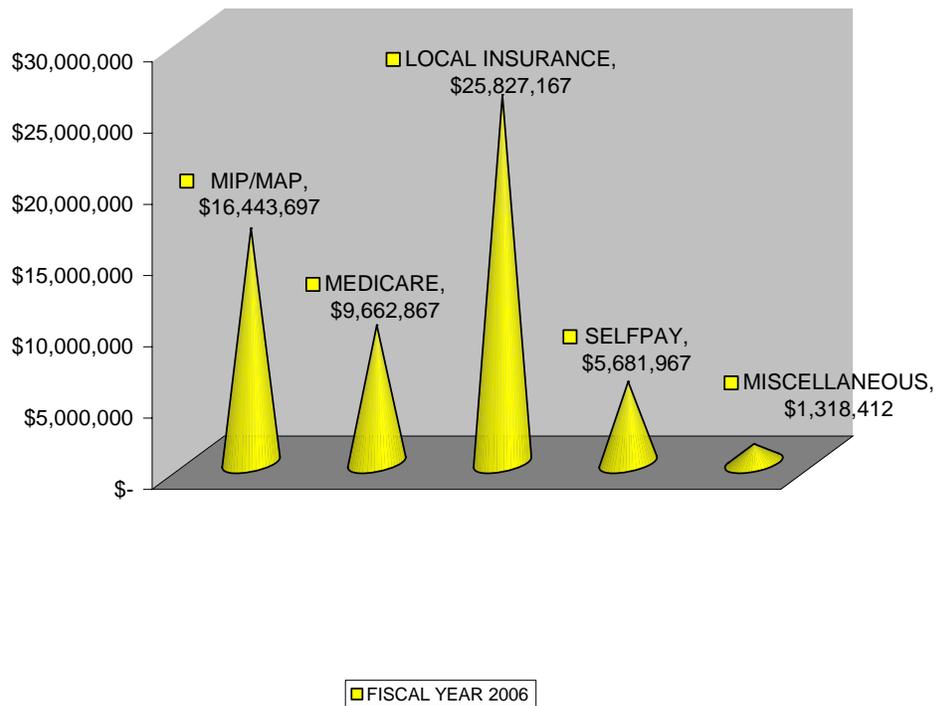


Chart 7

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2006



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GUAM MEMORIAL HOSPITAL AUTHORITY
FISCAL YEAR 2005
PATIENT COLLECTIONS

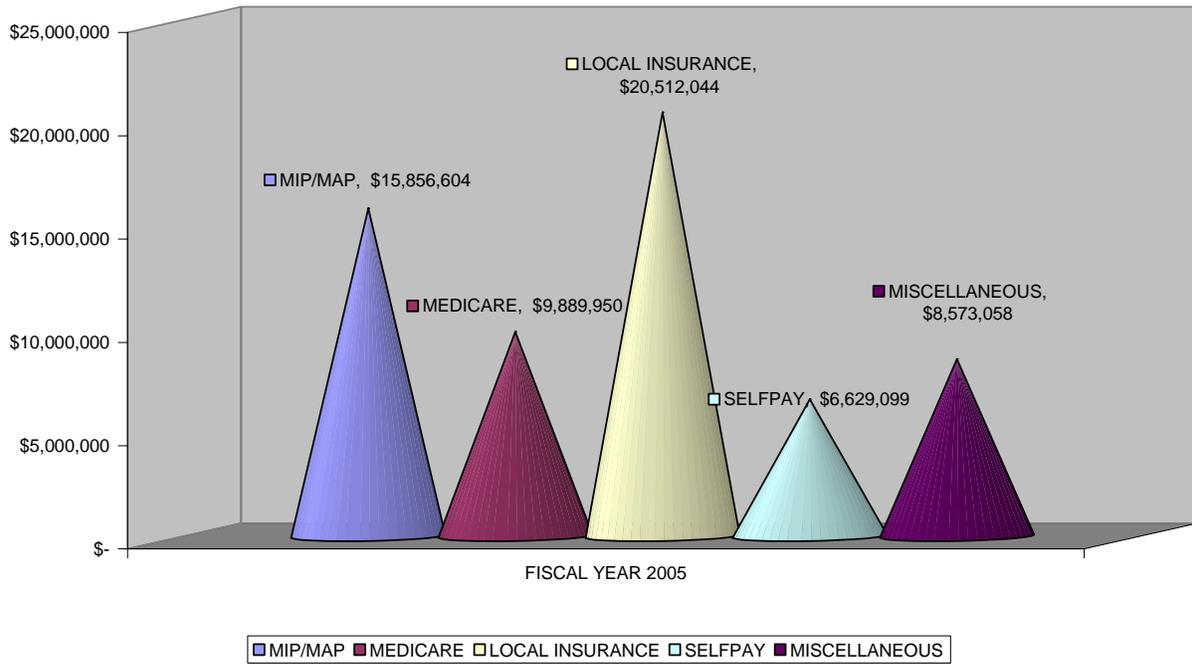


Chart 8

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2005



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GUAM MEMORIAL HOSPITAL AUTHORITY
FISCAL YEAR 2004
PATIENT COLLECTIONS

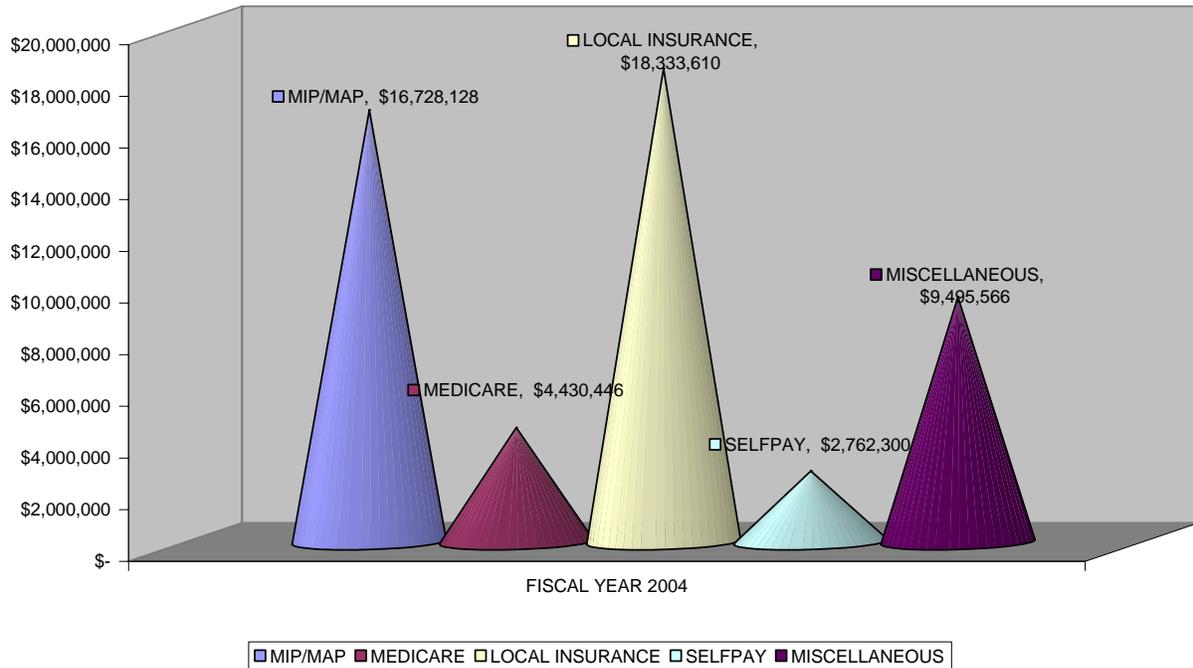


Chart 9

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2004



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GUAM MEMORIAL HOSPITAL AUTHORITY
FISCAL YEAR 2003
PATIENT COLLECTIONS

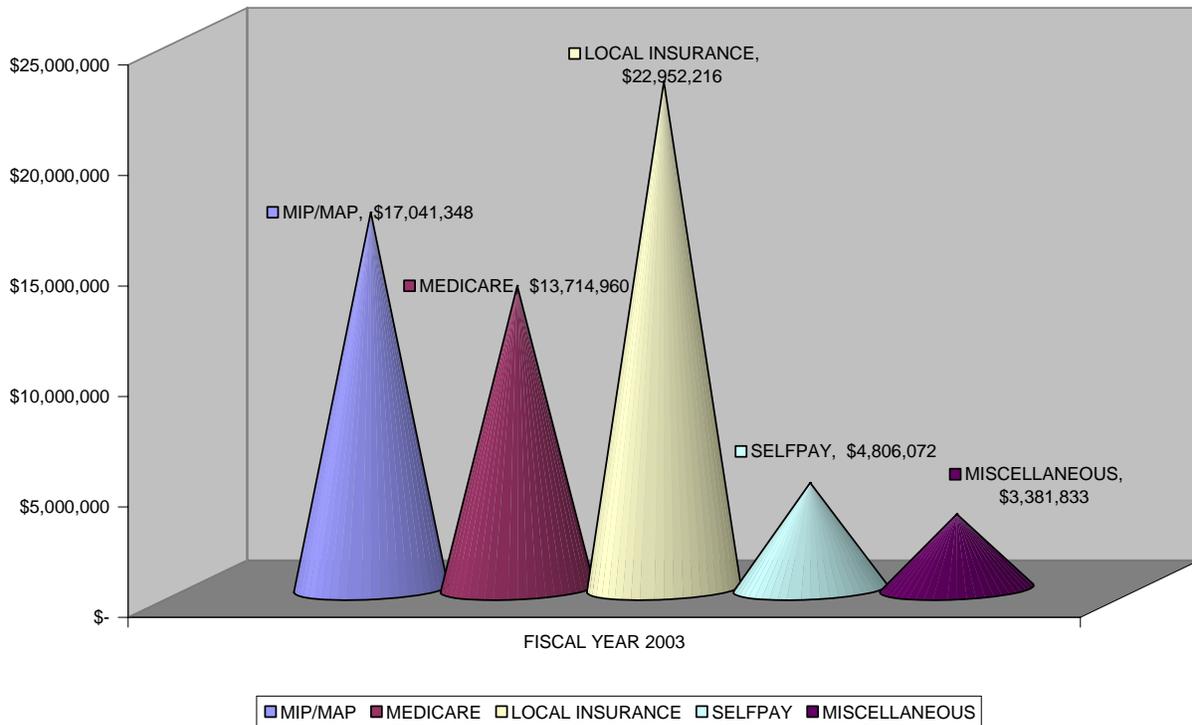


Chart 10

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2003



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GUAM MEMORIAL HOSPITAL AUTHORITY
FISCAL YEAR 2002
PATIENT COLLECTIONS

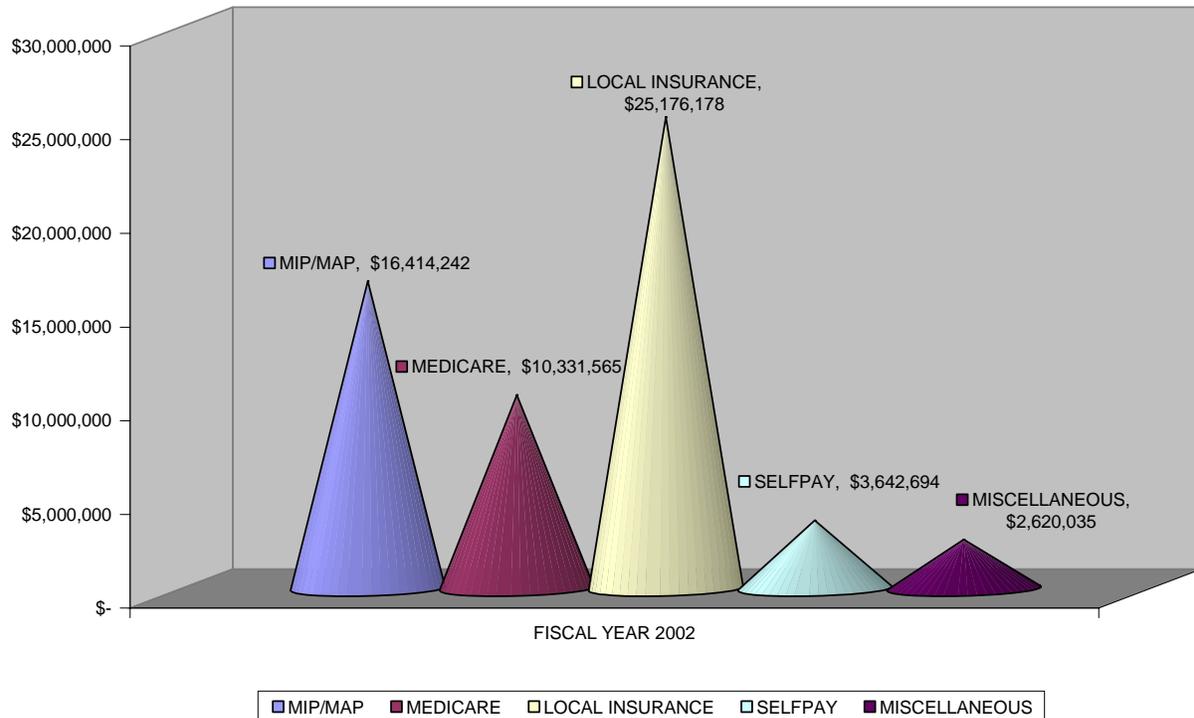


Chart 11

Source: Hospital Information System – AS400 Patient Information Module
Fiscal Year 2002

Conversely, it's should be noted that the Hospital did see a dramatic increase in it accounts payable. In order for the Hospital to provide quality care to its patients, it expended its own funds to purchase equipment and pharmaceuticals with the understanding that monies from the "Pharmaceutical fund" and the "Advance Appropriation" would either reimburse or supplement Hospital Funds. Due to the timely subsequent receipt of the Medicare reimbursement, the Hospital was able to disburse payments for outstanding accounts payable and thus reflected in a decrease in Accounts Payable in October 2006. Note that the Hospital continued to drawdown funds under both Advance Appropriations and the Pharmaceutical Fund for qualified purchases from the approving authorities. This subsidization enabled the Hospital to reduce the amount of its outstanding vendor payments. This was validated by the fact that during FY2006 and through FY 2007, the times that the Hospital was placed on "Credit Hold" by vendors was significantly reduced. Additionally, the complaints from physicians and staff about "not in stock" items was also dramatically lessened.



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Management's Discussion and Analysis
Year Ended September 30, 2006



Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006, 2005 and 2004

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|----------------------|----------------------|----------------------|
| Operating revenues | \$ 67,230,727 | \$ 57,688,765 | \$ 56,926,390 |
| Operating expenses | <u>79,323,475</u> | <u>75,764,442</u> | <u>67,896,478</u> |
| Operating loss | (\$12,092,748) | (\$18,075,677) | (\$10,970,088) |
| Non-operating revenues (expenses), net | <u>9,597,120</u> | <u>10,099,505</u> | <u>5,293,543</u> |
| Excess of expenses over revenues | (\$2,495,628) | (\$7,976,172) | (\$5,676,545) |
| Capital grants from the GovGuam general fund | 2,431,878 | - | - |
| Federal Awards capital grants and contributions | <u>5,369,506</u> | <u>8,076,205</u> | <u>4,593,977</u> |
| Increase (decrease) net in assets | \$5,305,756 | \$100,033 | (\$1,082,568) |
| Net assets beginning of the year | <u>41,605,948</u> | <u>41,505,915</u> | <u>42,588,483</u> |
| Net assets end of the year | <u>\$ 46,911,704</u> | <u>\$ 41,605,948</u> | <u>\$ 41,505,915</u> |

Although the Hospital did see an increase in net assets approximately five million (\$5M), it is representative of outstanding patient revenues – or outstanding patient accounts. Reflected in the statement are patient accounts that have been netted against the Hospital's estimated allowance for bad debt accounts and estimated contractual allowance. At any given point of time, total gross current accounts receivable can average \$70 million to \$80 million with gross long term accounts receivable averaging another \$70 million to \$80 million giving the Hospital a combined gross accounts receivable of \$160 million. Again, this increase in patient accounts receivable can be attributed to the Hospital diligently working towards identifying and capturing patient charges, services, supplies, and pharmaceuticals.

With the enactment of Public Law 27-156 on December 30, 2004, the Hospital has had to sustain an increase in total employee payroll costs as noted below (Table Weekend Pay 1 represents total work hours worked vs. total gross payroll costs). The law mandated the payment of weekend pay for nurses or any Hospital employee who is responsible for direct delivery of patient services at the Hospital. This is paid at the rate of one and one-half (1-1/2) times the employee's regular straight time rate. Hours of compensation relative to the Public Law are between 12:00 midnight



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Management's Discussion and Analysis
Year Ended September 30, 2006



on Friday to 12:00 midnight the following Sunday night. During fiscal year 2004, the former Hospital Administrator extended weekend pay to all employees who were regularly scheduled to work the weekend shift would be entitled to the additional compensation (GMHA memorandum dated January 31, 2005 from the former Hospital Administrator). The only exceptions would be Per Diem employees (as exempted by Guam Public Law 25-12) and physicians (as exempted by the Authority). Note that the Public Law did not identify a funding source to offset this additional payroll burden for the Hospital.

| Fiscal Years | Total Weekend Work Hours | Gross Weekend Payroll Costs |
|--------------|--------------------------|-----------------------------|
| FY 2004 | 45,458 | \$ 506,282 |
| FY 2005 | 216,131 | \$ 1,881,816 |
| FY 2006 | 277,585 | \$ 2,311,310 |

Weekend Pay

Source: AS400 query of Payroll worked hours and \$ by employee for FY 2004, 2005, 2006

In reviewing the increase of expenditures associated with personnel costs, the reader has to understand the complexity of the pay schedule for Nurses working at the Hospital. They are not tied to the normal Government of Guam pay scale as are other Government of Guam workers. There is a separate pay scale and pay incentives dedicated solely for nurses at the Hospital. The purpose of the difference in pay scale is to allow nurses to be uniform with the national average rate of pay for nurse. This pay difference also helps the Hospital to be competitive with other hospitals around the world that are also experiencing nursing shortages. As you can gather from the various pay available specifically for our nurses, payroll costs will be expected to grow each fiscal year. The pay scale is as follows:

Registered Nurses (RN) are classified under the following positions at the Hospital:

| <u>Position Title</u> | <u># of Employees as of 09/30/06</u> |
|---|--------------------------------------|
| ❖ Assistant Administrator of Nursing Services/Director of Nursing | 2 |
| ❖ Nursing Supervisor II | 8 |
| ❖ Unit Supervisor | 10 |
| ❖ Staff Nurse I | 52 |
| ❖ Staff Nurse II | <u>198</u> |
| | <u>270</u> |



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Licensed Practical Nurses (LPN) are classified under the following positions at the Hospital:

| <u>Position Title</u> | <u># of Employees as of 09/30/06</u> |
|-------------------------------|--------------------------------------|
| ❖ Licensed Practical Nurse I | 10 |
| ❖ Licensed Practical Nurse II | <u>22</u> |
| | <u>32</u> |

Available Pay for LPN positions

| | |
|--------------------|--|
| Base Pay | Based on the Gov Guam pay scale |
| Overtime | 1.5x for works hours after 8 regular work hours |
| Weekend Pay | 1.5x for every hour worked from Saturday 0001 to Sunday 0001 |
| Holiday Pay | 2.5x for work hours worked |
| Night Differential | 10% for every work hour from 6pm to 6am with a minimum of 4 work hours |
| Call Back | 1.5x with a minimum of 2 hours |
| On Call | Paid at \$5.5 per hour or the prevailing minimum hourly wage |
| Double Time Pay | 2x for work hours after 12 worked hours |

Available Pay for RN positions

| | |
|--------------------|--|
| Base Pay | Dependent upon pay grade and 44% build into hourly rate |
| Overtime | 1.5x for works hours after 8 regular work hours |
| Weekend Pay | 1.5x for every hour worked from Saturday 0001 to Sunday 0001 |
| Holiday Pay | 2.5x for work hours worked |
| Night Differential | 10% for every work hour from 6pm to 6am with a minimum of 4 work hours |
| Call Back | 1.5x with a minimum of 2 hours |
| On Call | Paid at \$5.5 per hour or the prevailing minimum hourly wage |
| Double Time Pay | 2x for work hours after 12 worked hours |
| Certification Pay | 15% of hours work |

Source: Guam Memorial Hospital Authority-Nursing Department
 Authenticated by: Guam Memorial Hospital Authority-Payroll Department



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Note that other non-nursing positions at the Hospital are paid in accordance with the Government of Guam Pay Scale as other Government of Guam employees.

Statements of Cash Flows
Years Ended September 30, 2006, 2005, and 2004

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-----------------------|-----------------------|-----------------------|
| Cash flows used in operating activities | (\$11,719,821) | (\$ 16,170,945) | (\$ 7,468,503) |
| Cash flows from non-capital financing activities | 10,017,547 | 9,556,661 | 4,756,150 |
| Cash flows from capital and related financing activities | <u>793,142</u> | <u>7,390,381</u> | <u>1,672,353</u> |
| Net increase (decrease) in cash | (909,132) | 776,097 | (1,040,000) |
| Cash at beginning of year | <u>1,407,334</u> | <u>631,237</u> | <u>1,671,237</u> |
| Cash at end of year | <u>\$ 498,202</u> | <u>\$ 1,407,334</u> | <u>\$ 631,237</u> |
| Reconciliation of operating loss to net cash provided by operating activities | | | |
| Operating loss | (\$12,092,748) | (\$18,075,677) | (\$10,970,088) |
| Adjustments to reconcile operating loss to net cash provided by operating operating activities: | | | |
| Depreciation | 3,897,223 | 3,494,095 | 3,683,158 |
| Bad debts | 14,483,704 | 12,621,157 | 12,495,905 |
| (Increase) decrease in assets: | (23,802,901) | (14,233,740) | (8,560,220) |
| Increase (decrease) in liabilities: | <u>5,794,901</u> | <u>23,220</u> | <u>(4,117,258)</u> |
| Net cash used in operating activities | <u>(\$11,719,821)</u> | <u>(\$16,170,945)</u> | <u>(\$ 7,468,503)</u> |

The Hospital has made great strides in collecting from local health insurance companies. Beginning in early 2006, one Hospital staff has been assigned to do a one-to-one, account-by-account reconciliation with the respective local third party payors or insurance companies. Although the local insurance companies only represent 15% of the total patient account billings, they provide a steady revenue stream as payments are made on a weekly basis to the Hospital. Payments from the Government of Guam for both MIP and MAP patient account billings have also been consistent. The Hospital receives reimbursement from the Department of Administration on a bi-weekly basis and meetings with the Department of Public Health and



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Social Services staff have been held to discuss reconciliation of MIP and MAP accounts dating all the way back to FY 2001. These two factors account for the increase in patient revenues of over \$7 million for the FY 2006. What hurt the Hospital's revenue stream is the settlement to Medicare of over \$1.6 million that was taken in FY 2006 for FY 2004 & FY 2005. Offsets were made to reimbursement intended for the Hospital Medicare patient billings until the settlement was satisfied. It took over six months for Medicare to realize the full payment.

FINANCIAL RATIOS

Current Ratio = Current Assets divided by Current Liabilities

| | |
|------|--------------------------------------|
| FY06 | $\$46,208,777 / \$36,531,195 = 1.27$ |
| FY05 | $\$33,480,430 / \$27,598,181 = 1.21$ |
| FY04 | $\$31,248,725 / \$27,289,345 = 1.14$ |

The current ratio is an indication of the Hospital's liquidity and ability to meet short term debt obligations. If current liabilities exceed current assets (current ratio is below 1), then the Hospital would have problems meeting its short term obligations. If the current ratio is too high, then the Hospital is not efficiently utilizing its current assets.

As you can see the current ratio for the Hospital is just above 1. The Hospital is just meeting its financial obligations as evident in the monthly accounts payable. Incoming cash is quickly spent on vendor and payroll priorities. Full collection of its outstanding accounts receivable becomes a critical need in order for the Hospital to maintain financial solvency.

Examples of the Hospital's short term liabilities would be all of its outstanding vendor debt which averages about four to five million (\$4 - \$5M) a month. Vendor debt represents services rendered or supplies provided to the Hospital such as dietary, pharmaceutical, cleaning, blood products, medical waste removal, maintenance of ancillary services (laboratory, radiology, respiratory, etc). As many of these services and supplies are procured from local vendors, the consequences of the Hospital being unable to render payment would definitely have a negative impact on the island's local economy.



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Working Capital = Current Assets less Current Liabilities

| | |
|------|---|
| FY06 | \$46,208,777 – \$36,531,195 = \$9,677,582 |
| FY05 | \$33,480,430 – \$27,598,181 = \$5,882,249 |
| FY04 | \$31,248,725 – \$27,289,345 – \$3,959,380 |

This ratio represents what is left after if the Hospital raised all of its short term resources and used them to pay off its short term liabilities.

If the Hospital had to pay off its current liabilities based on current assets, the Hospital would be put in a very difficult position. Over half of its current liabilities is represented by Accounts Receivable, patient accounts that have proven to be difficult to collect on. Thus, the amount of \$9,677,582 is misleading. The Hospital barely has enough cash on hand to properly reimburse its creditors on a timely basis because of the slow or lack of timely self pay patient reimbursements.

Quick Ratio = Cash divided by Current Liabilities

| | |
|------|-----------------------------------|
| FY06 | \$ 498,202 / \$36,531,195 = .014 |
| FY05 | \$1,407,334 / \$27,598,181 = .051 |
| FY04 | \$ 631,237 / \$27,289,345 = .023 |

Measures the Hospital's ability to use "near cash" or quick assets (in this instance only cash was taken into consideration for this ratio) to immediately extinguish its current liabilities.

As evident in the first two ratios (Current Ratio and Working Capital), the Hospital has a poor quick ratio. An entity would want to maintain a quick ratio of at least 1:1 as anything less indicates financial difficulties.

Accounts Receivable Turn Over = Number of days in a year divided by (Revenue divided by the average Accounts Receivable).

| | |
|------|---|
| FY06 | 365 days / \$67,230,727 / (\$30,187,231 + \$27,223,963 / 2) = 2.34 turns = 156 day |
| FY05 | 365 days / \$57,688,765 / (\$27,223,963 + \$26,229,935 / 2) = 2.16 turns = 169 days |
| FY04 | 365 days / \$56,926,390 / (\$26,229,935 + \$30,587,286 / 2) = 2.00 turns = 182 days |

This ratio determines how quickly the Hospital turns its accounts receivable into cash. This ratio shows that the Hospital has improved its ability to collect over the past three fiscal years but one must take into consideration the amount of patient accounts receivable that were written-off in fiscal years 2004 & 2005 as such would affect the ratio. The ratio above is very telling of the actualization of the Hospital's patient accounts. At first glance, it is understandable how the Hospital can accumulate the amount of patient accounts receivable. The Hospital often finds itself at full capacity with patients waiting for a room, being temporarily placed in the hallway until the room becomes available. The number of patients seen at the Emergency Room has



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been consistently high. Translating the number of patients treated into actual cash for the Hospital is difficult to do. Such an explanation can be further understood in “Currently Known Facts” section of the MD&A.

It should be clearly noted that if the Hospital were to be a private hospital as opposed to government owed hospital and had Accounts Receivable Turnover as indicated above, it would probably be forced to close it's door soon after being opened. No private business would be able to survive with such alarming return on rendered services.

All the above ratios indicate that the Hospital is and has been facing financial challenges. The working capital ratio is slightly misleading as it includes patient receivables. Looking further, the accounts receivable turn over ratio shows on average that it takes over half the year for the Hospital to turn that receivable into cash. If the Hospital was able to turn its patient receivables into a steady stream of incoming cash, it would improve the Hospital's cash flow position. As the Hospital's mandate states, quality medical care will be rendered despite the patient's ability or inability to pay. Due to the variability of the patients admitted, it is difficult for the Hospital to rely solely on revenue from operations in order to be solvent. The Hospital admits and bills over \$2 million a month for true self pay patients. These are patients who do not have any health insurance or the financial ability to attain health insurance. If you take that \$2 million and multiply that by twelve (12) months, the Hospital would recognize over \$24 million in self pay billings alone. Compound this over three years and the Hospital's financial position is further compromised. The amount of \$24 million can change very quickly. A general observation is that over the past several years, patients seen at the Hospital are more ill and suffer more complications which means a higher acuity level and more intensive services are required as part of their Hospital quality care. The Hospital must have a steady stream of cash in order to maintain the quality of medical services the public deserves. Whether that steady cash infusion is identified from a local or federal source, the Hospital will continue to be in a financial crunch. The health needs of the public are one that is delicate and unpredictable. Notwithstanding the much needed infusion of cash, the Hospital and its staff will continue to provide quality medical services to all who walk through its doors.

On a final note, illustrated below in chart 12 is a graph of total revenues, expenditures, and subsidies received from the Government of Guam over a five year period. As you can see, the gap between what the Hospital has expended versus Hospital revenues is growing.

Subsidies received by the Hospital in the form of both Compact Impact and Government of Guam appropriations has helped the Hospital close that gap and keep financially afloat. The purpose of the graph is to illustrate the fact that in order for the Hospital to maintain and render the level of quality medical services to the public, subsidies must continue to be provided to the Hospital. We want to point out that the Hospital is working to be able to quantify the value of the true “self-pay” patient. As long as the mandate to provide care to anyone regardless of their ability or inability to pay, if the Hospital is to do its due diligence in securing reimbursement for services it provides, then it is critical that this information is made available to the appropriate policy makers to identify the true level of subsidies needed for the category of indigent self pay



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patients. Guam is not immune to the growing cost of health care, supplies, staffing, and equipment, all which are taking a toll on the cash stream of the Hospital. Our location, mandate, and uniqueness of the island's healthcare system forces the issue of the Hospital's solvency to be a concern that must be addressed by all parties involved.

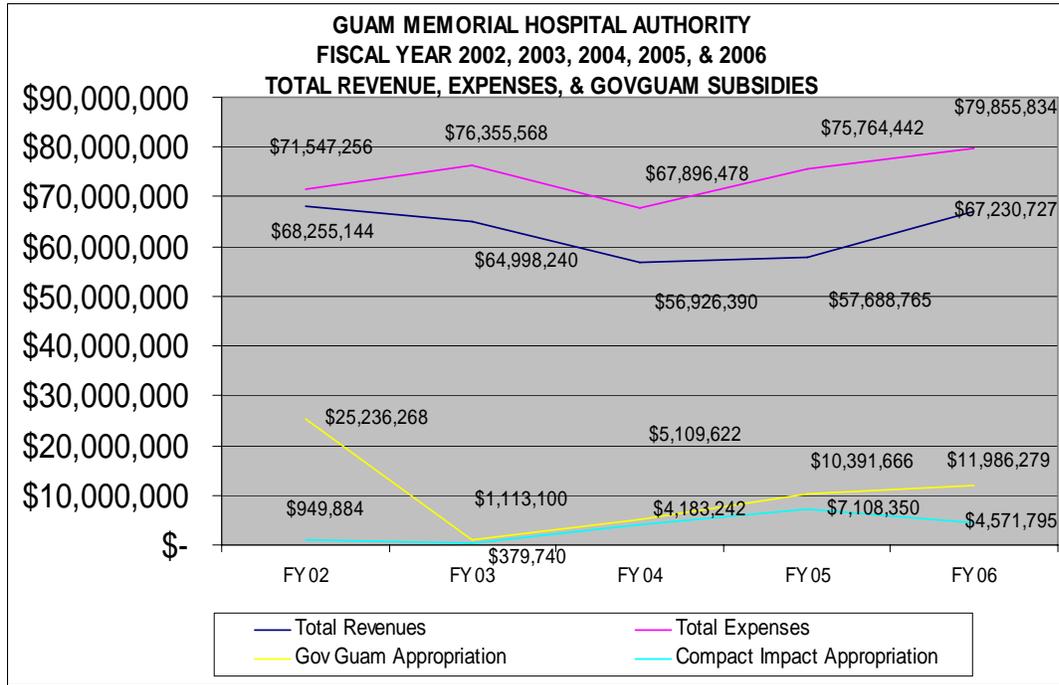


Chart 12

Source: Office of the Public Auditor, Guam
 As presented to GMHA on May 7, 2007 Audit Status Meeting



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The Guam Memorial Hospital Authority is governed by a nine-member Board of Trustees, selected from the community, and appointed by the Governor, as follows (four (4) members representing the general public, who shall possess background and experience in healthcare, management, finance or any other business-related field; one (1) member representing the Allied Health Professions; two (2) members representing the Guam Nursing Association; and two (2) members representing the Guam Medical Society). The Guam Legislature confirms hospital Board members as Trustees who shall serve a term of five (5) years. The Hospital Board elects its Chairperson, Vice-Chairman, Secretary, and Treasurer from amongst its members.

Members for the Audit, Planning and Finance, Quality Improvement, Joint Advisory, and the Personnel Committees are also selected amongst its members.

The Board of Trustees is responsible for guiding the Hospital in its policies and decision-making processes as defined in 10 GCA 80104 and shall be liable as fiduciaries in the execution of their duties. Other responsibilities of the Hospital Board as outlined in the GMHA Board of Trustees Bylaws include ensuring the development of a mission and goals for GMHA; ensuring the quality of healthcare delivery; overseeing the management of the Authority's operations, finances and property; granting clinical privileges to Medical Staff; and empowering volunteer organizations to perform functions within the Hospital.

The Hospital's bed capacity is licensed for two hundred (200) beds broken down into various wards. Admission into one of the competently staffed wards would be dependent upon the level of care duly prescribed by the patient's attending physician. It must be noted that the availability of beds for actual admission, however, varies from time to time in accordance with the availability of fully trained and licensed staff.



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The Skilled Nursing Facility (SNF), located in Barrigada Heights, is licensed for thirty (30) beds but has a bed capacity of sixty (60). SNF acts as a complement to Hospital services as patients requiring medical care but not at the acute level.

| Name of Wards | Number of Beds |
|------------------------------------|-------------------|
| Medical | 14 |
| Surgical | 33 |
| Medical Surgical | 27 |
| Telemetry | 12 |
| Intensive Care Unit | 10 |
| Progressive Care Unit | 3 |
| Pediatrics | 22 |
| Nursery Intensive Care Unit | 4 |
| Intermediate Nursery | 21 |
| OB Maternity | 21 |
| Pediatrics Intensive Care Unit | 3 |
| <i>SubTotal</i> | <i>170</i> |
| Skilled Nursing Facility | 30 |
| <i>Total Number of Beds</i> | <u>200</u> |

Hospital Wards and Number of Beds

Source: Hospital Information System AS400 Patient Information Module



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In support of its mission and in striving to achieve its vision, the Hospital offers a wide range of services. These services include acute care, skilled nursing, Emergency care, surgical services, diagnostic, therapeutic, and a host of professional support services, as follows:

| | |
|--|--|
| Acute Care Units | Provides all customary acute care services such as pediatric and adult medical services; neonatal, pediatric and adult intensive care services; adult progressive care and telemetry; obstetrics services to include labor & delivery, nursery, postpartum, and birthing. |
| Emergency Care | Is a twenty four (24) hour service for trauma cases, full spectrum of medical and surgical emergencies, and extended emergency services such as short stay observation. |
| Comprehensive Inpatient & Outpatient Surgical Services | Is available in the operating room for four surgical suites, one cystoscopy room, one endoscopy unit, a post anesthesia recovery area, and one room in Labor & Delivery for C-sections. |
| Inpatient and Outpatient Diagnostic and Therapeutic Services | Include laboratory and comprehensive blood bank services, that are CAP accredited and FDA registered, radiology, nuclear medicine, nuclear cardiology, thallium stress tests, CT scan, mammography, ultrasonography, and angiography imaging services; inpatient pharmacy, respiratory and cardiopulmonary services; physical, speech, occupational, cardiac, and recreational therapies; and inpatient and outpatient hemodialysis. |
| Other Professional Support Services | Include dietary/nutritional counseling; spiritual care; medical social services; patient/family education; staff education, guest relations and special services which includes echocardiogram, stress test, EKG, EE, and ortho clinic services. |
| Magnetic Resonance Imaging (MRI) | Are available to inpatient through contractual arrangement with an appropriate source. |
| Telemedicine and Teleradiology Services | Are available for specialty consultations and follow-ups; as well as distance education programs for physicians, nursing staff, and allied health professionals. |

Source: GMHA Administrative Policy 6100-34



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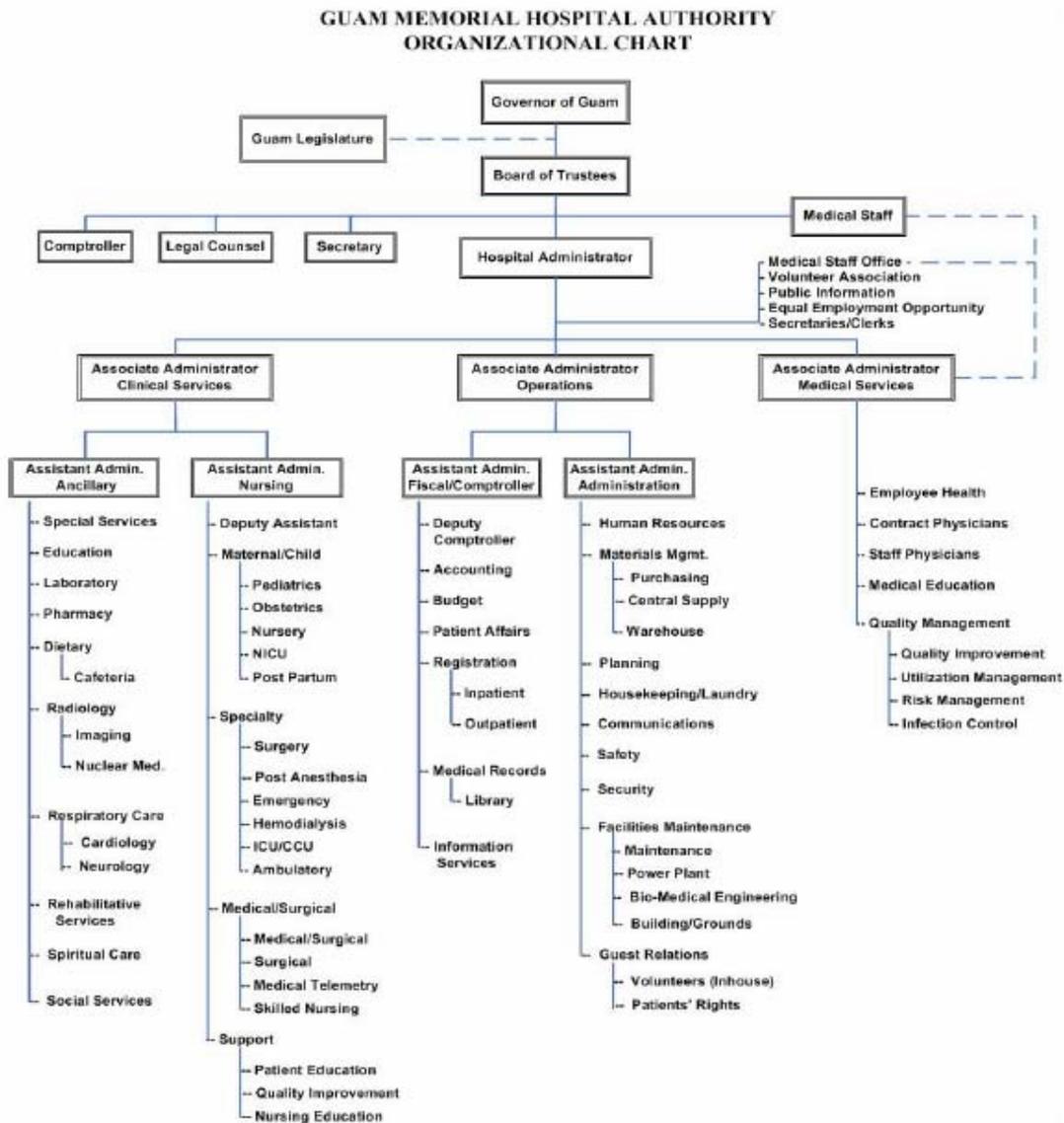
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The Hospital is presently certified by the Centers for Medicare and Medicaid Services (CMS), formerly known as the Health Care Financing Administration (HCFA), and its Blood Bank is accredited by the College of Pathology (CAP) and registered by Food and Drug Administration (FDA). The mammography machine is also certified by the American College of Radiology.

Illustrated below is the Hospital employee count for fiscal years 2002 through 2006. As you can see that at any one point in time, the Hospital has on staff an average of 850 to 900 employees on hand to render quality medical services, ranging from the clinical to administrative services. The staffing is strategically positioned into one of the many departments as seen in the Hospital's organizational chart:





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FISCAL YEAR 2006
EMPLOYEE COUNT - FILLED VS VACANT

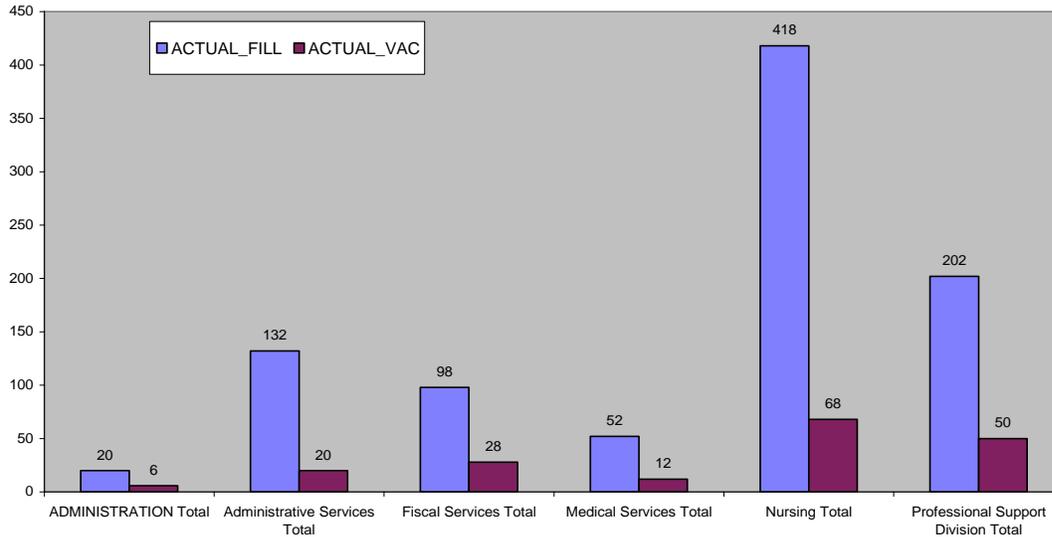


Chart 13 – FY 2006 Total Employee Count – Filled Positions vs. Vacant Positions

Source: GMHA Personnel Department

| | | | |
|-----------------------------|-------|-----|--|
| FY2006 Total employee count | 1,106 | | |
| Filled | 922 | 83% | |
| Vacant | 184 | 17% | |

Note that chart 13 takes into account the total employee count and Full Time Equivalent (FTEs). Because of the uniqueness of the Hospital, part time positions are enumerated into .33, .34, or .50. Thus one position can be used to employ either three or two employees at the same time.

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .50 |
| 4567b | .50 |
| Or | |

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .33 |
| 4567b | .33 |
| 4567c | .34 |



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FISCAL YEAR 2006
TOTAL EMPLOYEE COUNT

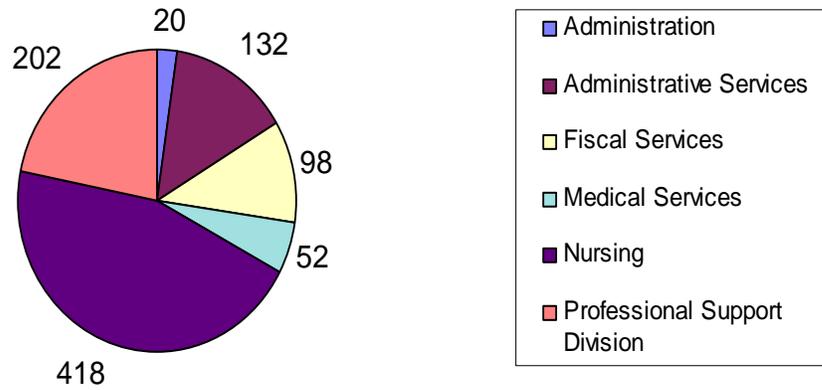


Chart 14 – FY 2006 Total Employee Count by Division – Filled Positions

Source: GMHA Personnel Department



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FISCAL YEAR 2005
EMPLOYEE COUNT - FILLED VS VACANT

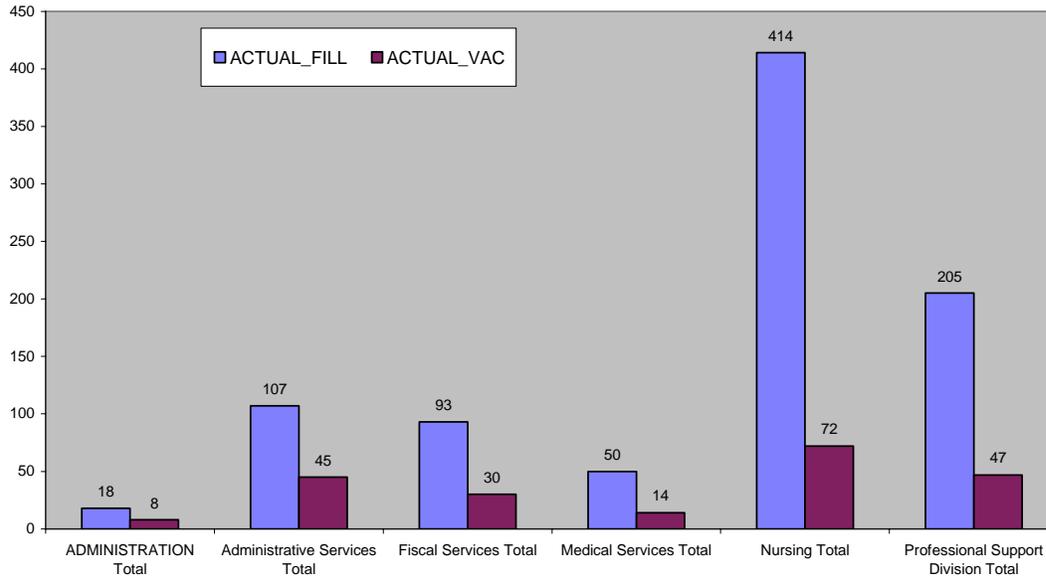


Chart 15 - Total Employee Count – Filled Positions vs. Vacant Positions

Source: GMHA Personnel Department

| | | |
|-----------------------------|-------|-----|
| FY2005 Total employee count | 1,103 | |
| Filled | 887 | 80% |
| Vacant | 216 | 20% |

Note that chart 15 takes into account the total employee count and Full Time Equivalents (FTEs). Because of the uniqueness of the Hospital, part time positions are enumerated into .33, .34, or .50. Thus one position can be used to employ either three or two employees at the same time.

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .50 |
| 4567b | .50 |

Or

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .33 |
| 4567b | .33 |
| 4567c | .34 |



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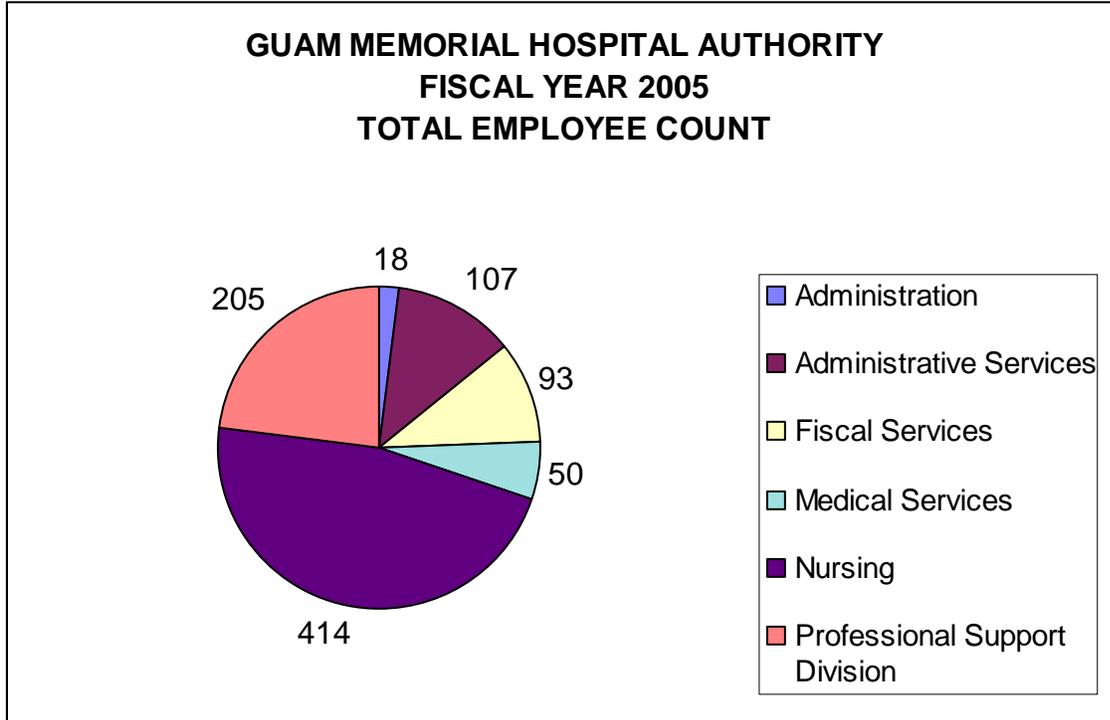


Chart 16 - FY 2005 Total Employee Count by Division – Filled Positions

Source: GMHA Personnel Department



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FISCAL YEAR 2004
EMPLOYEE COUNT- FILLED VS VACANT

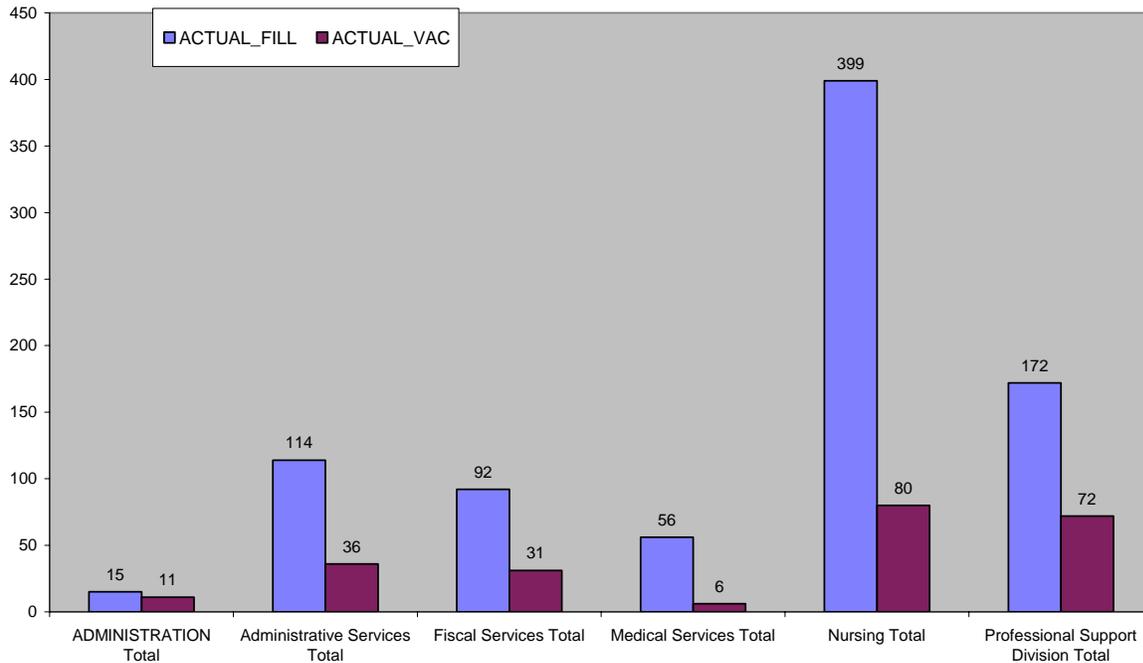


Chart 17 - Total Employee Count – Filled Positions vs. Vacant Positions

Source: GMHA Personnel Department

| | | |
|-----------------------------|-------|-----|
| FY2004 Total employee count | 1,084 | |
| Filled | 848 | 78% |
| Vacant | 236 | 22% |

Note that chart 17 takes into account the total employee count and Full Time Equivalents (FTEs). Because of the uniqueness of the Hospital, part time positions are enumerated into .33, .34, or .50. Thus one position can be used to employ either three or two employees at the same time.

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .50 |
| 4567b | .50 |

Or

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .33 |
| 4567b | .33 |
| 4567c | .34 |



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FISCAL YEAR 2004
TOTAL EMPLOYEE COUNT

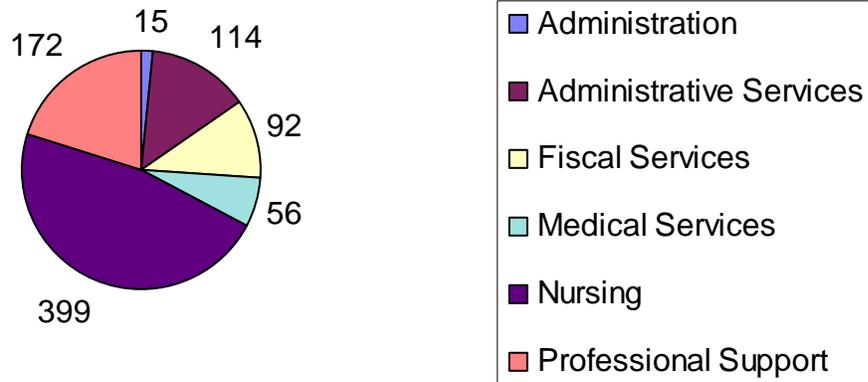


Chart 18 - FY 2004 Total Employee Count by Division – Filled Positions

Source: GMHA Personnel Department



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FISCAL YEAR 2003
EMPLOYEE COUNT - FILLED VS VACANT

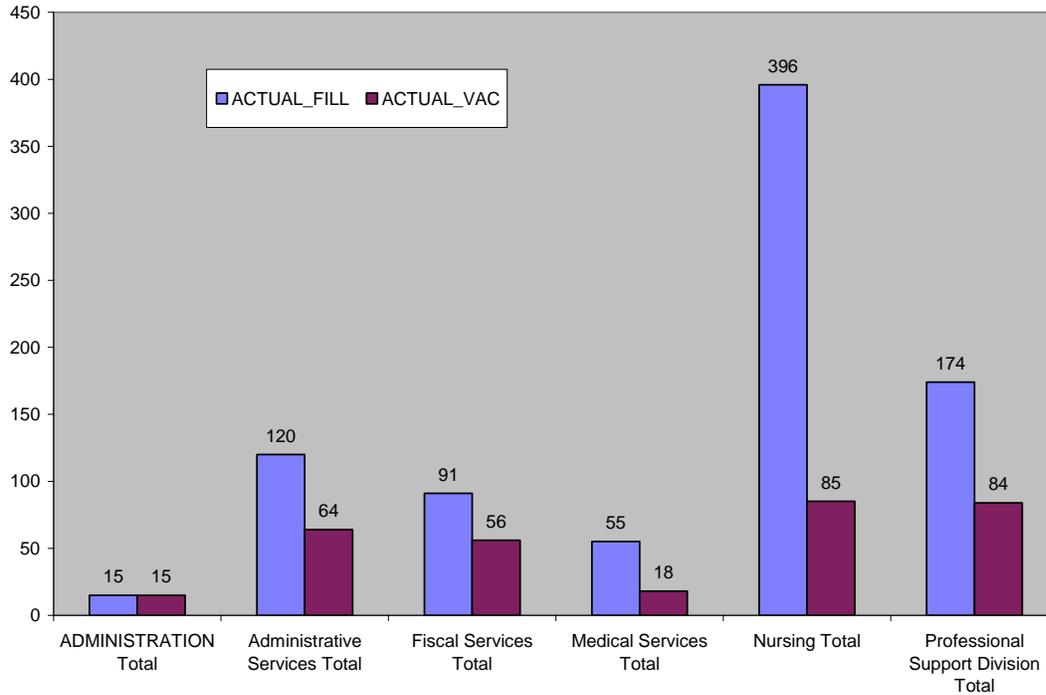


Chart 19 - Total Employee Count – Filled Positions vs. Vacant Positions
 Source: GMHA Personnel Department

| | | | |
|-----------------------------|-------|-----|--|
| FY2003 Total employee count | 1,173 | | |
| Filled | 851 | 73% | |
| Vacant | 322 | 27% | |

Note that chart 19 takes into account the total employee count and Full Time Equivalents (FTEs). Because of the uniqueness of the Hospital, part time positions are enumerated into .33, .34, or .50. Thus one position can be used to employ either three or two employees at the same time.

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .50 |
| 4567b | .50 |

Or

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .33 |
| 4567b | .33 |
| 4567c | .34 |



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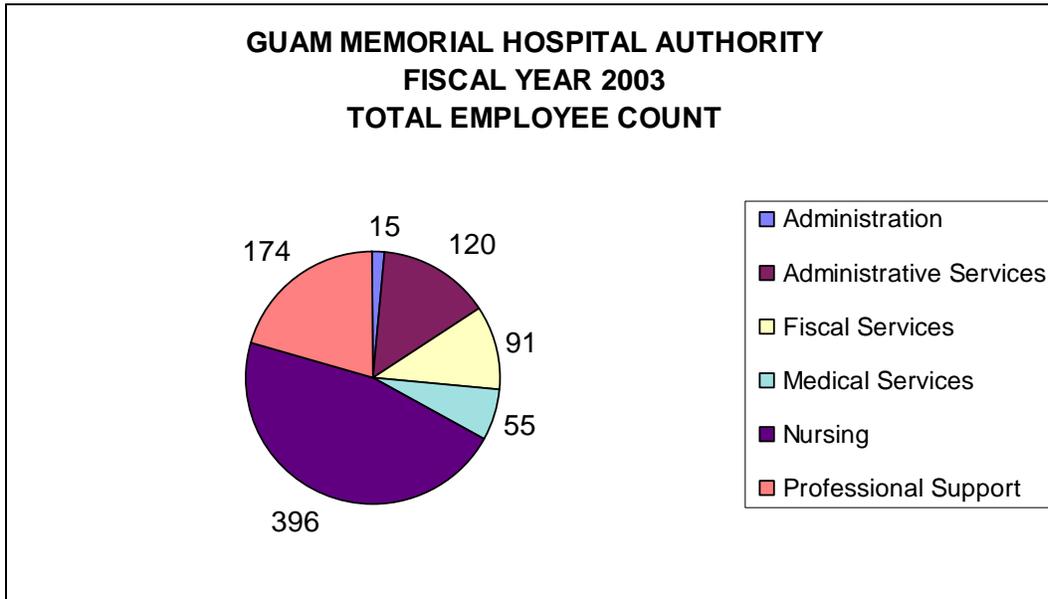


Chart 20 - FY 2003 Total Employee Count by Division – Filled Positions

Source: GMHA Personnel Department



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FISCAL YEAR 2002
EMPLOYEE COUNT - FILLED VS ACTUAL

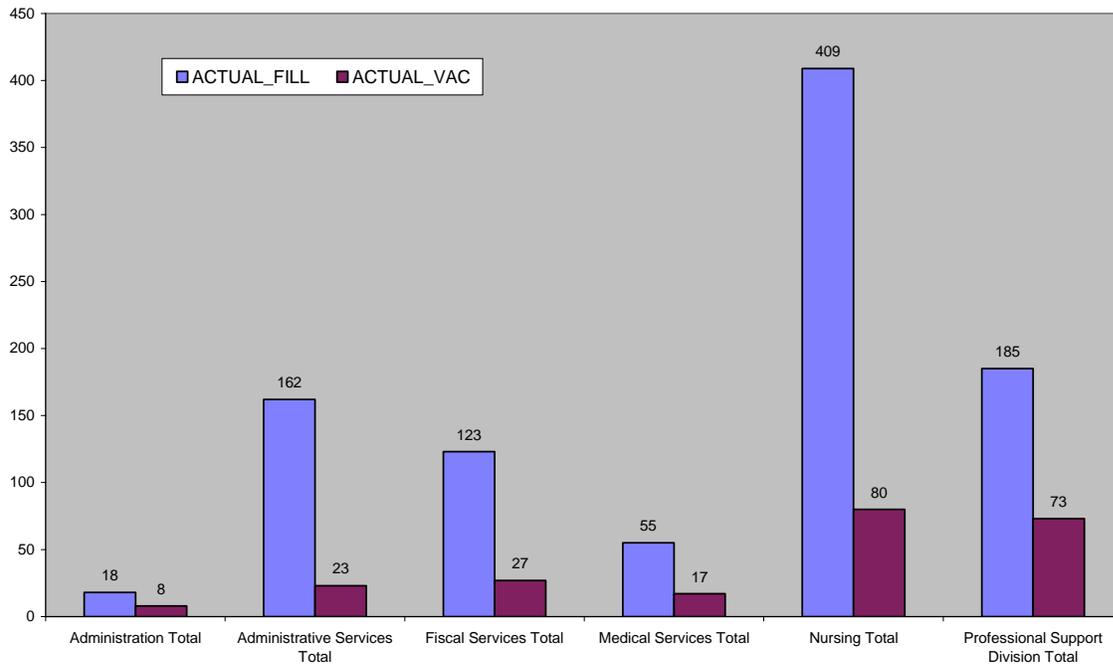


Chart 21 - Total Employee Count – Filled Positions vs. Vacant Positions
 Source: GMHA Personnel Department

| | | |
|-----------------------------|-------|-----|
| FY2002 Total employee count | 1,180 | |
| Filled | 952 | 81% |
| Vacant | 228 | 19% |

Note that chart 21 takes into account the total employee count and Full Time Equivalents (FTEs). Because of the uniqueness of the Hospital, part time positions are enumerated into .33, .34, or .50. Thus one position can be used to employ either three or two employees at the same time.

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .50 |
| 4567b | .50 |

Or

| | |
|------------|-----------|
| FTE number | FTE count |
| 4567a | .33 |
| 4567b | .33 |
| 4567c | .34 |



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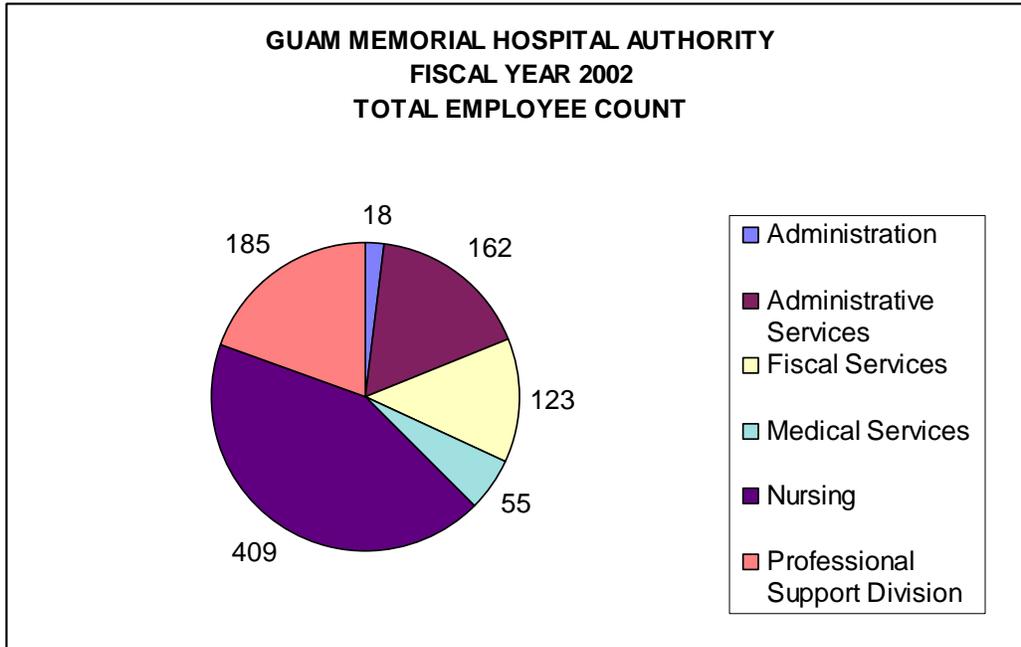


Chart 22 - FY 2002 Total Employee Count by Division – Filled Positions
Source: GMHA Personnel Department

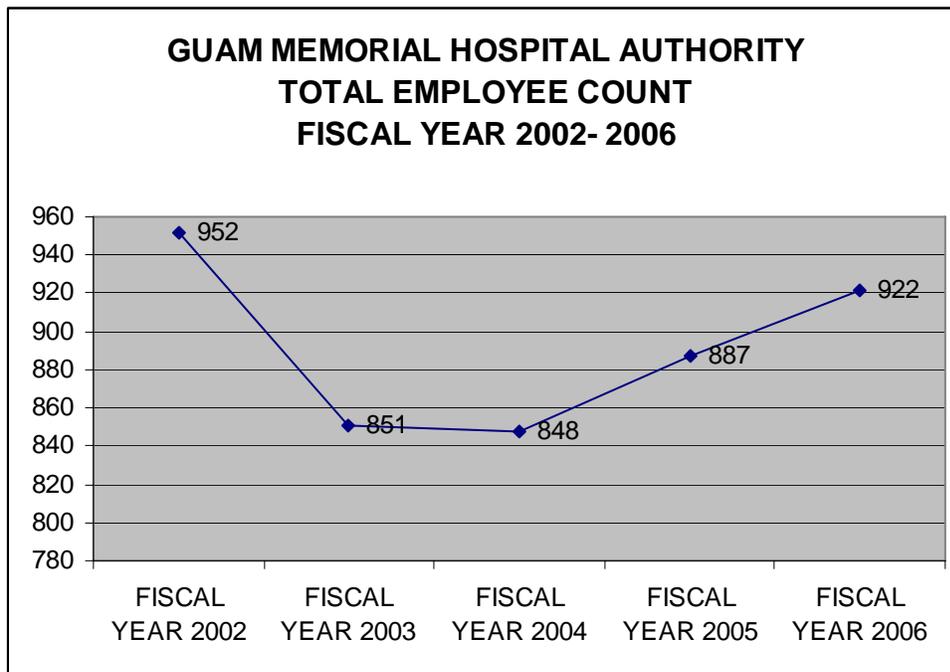


Chart 23 - FY 2002 thru 2006 Total Employee Count – Filled Positions
Source: GMHA Personnel Department



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Note that the downward trend in employees between fiscal year 2003 and 2004 was due to the Hospital Administration at the time attempting to proceed with furloughing of employees. Employees whose positions were administrative in nature were identified to be furloughed. This attempt was later overturned by the Civil Service Commission and the Hospital was ordered to return all employees that were laid off to their original position. The Hospital was also ordered to compensate the employees for the time they were off which was not taken into consideration during the budgeting process for fiscal year 2005.

The Hospital has been criticized for being “overstaffed”. As a part of the Hospital’s Financial Management Improvement Plan (FMIP), one of the areas of technical assistance requested is training on “Workload Analysis” that can be used to identify staffing requirements needs. This important project is slated for the next phase (Phase IV) of our FMIP. Anecdotally, many of those comparisons about how GMHA compares to other Hospitals of similar size is missing one very important caveat. Many of those hospitals have other like or higher level facilities within a certain radius. Even those truly rural areas can transport a patient who requires services they are unable to provide to another one a few hours away. For GMHA, we are the only civilian hospital and transporting a patient to another facility outside of Guam requires the participation of a commercial airline plus hours of air travel that is generally not required on the mainland.

There is no doubt that the Hospital has had its challenges throughout the years - instability of management and other key positions in the Hospital, difficulties in the recruitment and continued permanence of medical workforce (a problem experienced throughout the world but especially challenging for this Hospital, in addition to the national and global shortage of nursing personnel, the Hospital is impacted by its isolated location, and non-competitive compensation practices even when compared to private sector positions on island), numerous requirements of regulatory compliances (the preservation of patient rights and privacy as dictated by the Health Insurance and Portability and Accountability Act (HIPAA), ensuring that all patients received by the Emergency Room are medically treated despite their ability to pay as dictated by the Emergency Medical Treatment and Active Labor Act), ensuring both the Hospital and the Skilled Nursing Unit adhere to quality of care standards to continue good standing with the Center for Medicare and Medicaid Services (CMS), existing as a government-owned and operated entity (adhering to local procurement, personnel rules and regulations, local legislative enactments despite its inherent congruency to the Hospital’s mission), the rise of competing services in the private sector that erodes the Hospital’s business base, amidst being financially vulnerable has played into widely divergent environmental constraints that has influenced how the Hospital is today and how the Hospital’s future will eventually be shaped. Each constraint listed entails that the Hospital alter and adapt its internal systems to ensure not only compliance but also system improvements. Properly implementing such changes into the Hospital’s internal working systems takes coordinated planning and time, in addition to adequate financial sustenance. The Hospital has and will continue to put forth all efforts to meet existing and unforeseen obligations as it has in the past despite the growing financial demands.



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The instability of top management has caused a great deal of uncertainty for the Hospital. The legislatively mandated qualifications for the Hospital Administrator/CEO and the Chief Financial Officer have provided at the very least, a benchmark that applicants must meet in order to be considered for these respective positions.

The frequent changes in leadership that are coupled with the strains caused by its financial condition results in the organization having to shift its focus to the new leadership's vision as well as having to constantly struggle to bring in critically needed cash instead of developing and energizing the organization towards its strategic goals. This point can be best illustrated by the chart below that shows over a ten (10) year span, the Hospital has seen a change in leadership eleven (11) times, with some Hospital Administrators serving the office for only a couple of days. Eleven (11) times the Hospital has had to change gears towards the current incumbents' management approach. Eleven (11) years in which the Hospital has had to struggle to gain financial stability and independence.

| Name | Term |
|---------------------------------------|--|
| Tyrone Taitano | January 1997 to March 2000 |
| Lillian Posadas (Acting) | March 16, 2000 to March 23, 2000 |
| Eloy Hara | March 23, 2000 to May 30, 2000 |
| Dr. Micheal Cruz (Acting) | May 31, 2000 to June 1, 2000 |
| Gil Shinohara (Interim) | June 2, 2000 to June 21, 2000 |
| Governor Car T. C. Gutierrez (Acting) | June 2000 to October 2000 |
| Dr. Davina Lujan | November 15, 2000 to February 19, 2002 |
| Therese Hart | February 20, 2002 to May 2002 |
| David L.G. Shimizu | May 28, 2002 to January 24, 2003 |
| William I. McMillan | January 24, 2003 to April 14, 2005 |
| PeterJohn D. Camacho (Interim) | April 12, 2005 to October 10, 2005 |
| PeterJohn D. Camacho | October 11, 2005 to Present |

Source: GMHA Administration



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The financial demands of the Hospital are heavily contingent upon a steady stream of revenue sources. Legislative appropriations such as the Healthy Future Funds, the Pharmaceutical Funds, Bad Debt Funding, Advance Appropriations Authority, and Special Appropriations have certainly assisted in enhancing the Hospital's cash flow stream, but it is the patient revenue stream that has been the mainstay for the Hospital. Patient revenues represent close to 90% of monthly collections which is used to reimburse for Hospital operational needs, such as personnel costs, patient services (dietary, oxygen, and housekeeping needs), building necessities (medical waste removal, building infrastructure requirements such as fire and alarm), computer system maintenance. Detailing the method in which the Hospital is reimbursed based on its patient revenue stream is simple but conversely complicated. Simple in that the basis for the patient revenue stream is found on the Hospital's Charge Master. Determination of prices for supplies and services on the Charge Master is based on P.L. 26-66. The rationale was to allow the Hospital to break even by using a pricing methodology. The complication comes in when the pricing model was not framed to be flexible to meet the current economic conditions of the Hospital and the growing cost of medical supplies and services. The breaking even concept has been problematic for the Hospital. Anecdotally, local insurance companies have shared with Hospital Fiscal staff that the Hospital's charge master is much lower in comparison to that of other hospitals stateside. The exorbitant cost of freight and shipping absorbed by the Hospital to have on stock items such as required pharmaceutical items and have charges lower than US based hospital further compounds the Hospital's challenges. At this time, the Hospital's Charge Master consists of over twelve thousand (12,000) charge items with twenty six (26) of them representing room rates, sixty five hundred (6,500) charges pertaining to professional fees (physician charges), and fifty eight hundred (5,800) signifying medical supplies and pharmaceutical items.

On May 3, 2007, the Board of Trustees through Resolution no. 07-73 approved for the Hospital to explore other pricing models that would address this problem.

Another challenge facing the Hospital is the untimely reimbursement from the patients themselves. More than 20% of monthly billings are representative of patients who are self insured. Such patients require and are provided with health services the same as those with health insurance. Medical services are delivered without question. The financial ability of the self insured patients to pay the Hospital impacts the Hospital revenue stream. In order to minimize the impact of self pay patients, the Hospital offers assistance to self insured patients via the local funded Medically Indigent Program (MIP) and the local and federally funded Medicaid (MAP). Helping self insured patients with the application for such programs only shifts the burden from the patient to that of the Government of Guam noting that the Hospital is not the only vendor for the MIP and MAP program. The Hospital has to share such legislative appropriations with other participating medical entities (clinics and pharmacies – both on and off- island). Combined, the MIP and MAP billings reflect another 40% of the total estimated \$9 million a month in gross hospital patient billings, the remaining 40% to represent patients with health insurance (local and off-island).



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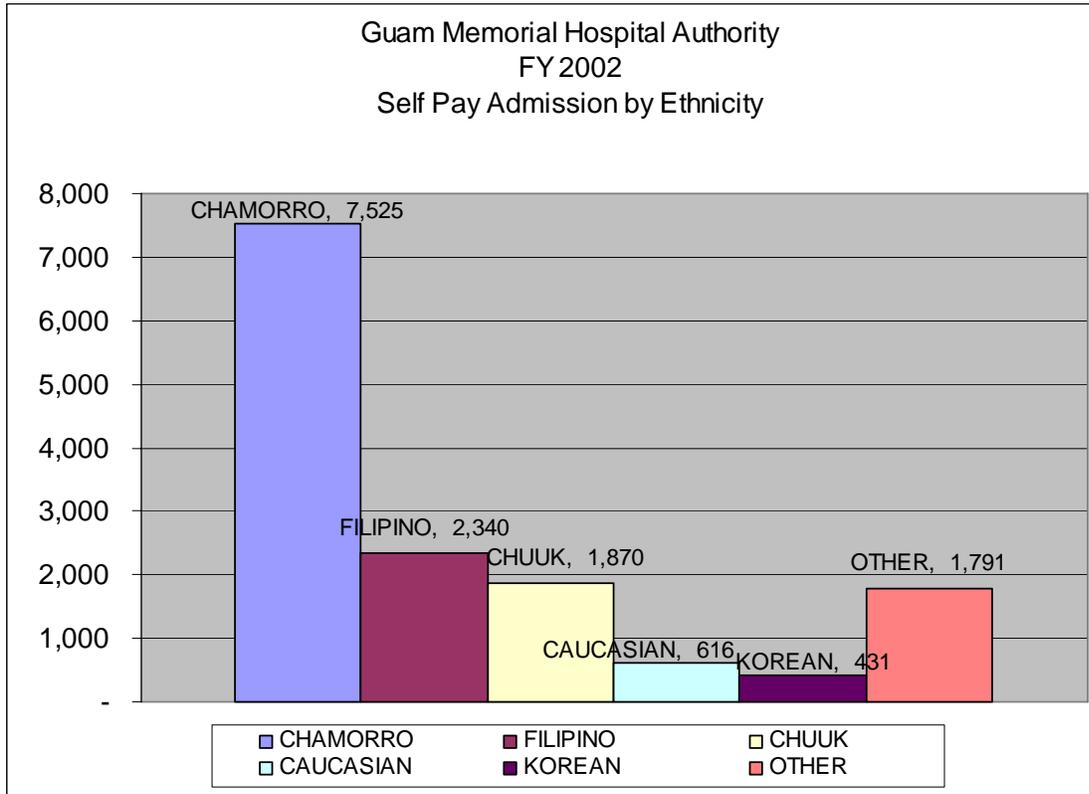


Reflected below (charts 24 through 28) is a breakdown of admission of patients by specific financial classes by ethnicity. The intent of the tables is to show the disparity between payor and ethnicity. The data represented must be noted with the following facts:

- } Ethnicity Data is solely based on the input of the patient at the time of registration and the Hospital is unable to attest as to the veracity of the ethnicity given.
- } The Hospital Information System (HIS) does not take into consideration patients who are of varying ethnicities. The Hospital's HIS can only recognize one ethnicity per registration process.
- } Other Payors not represented: Payroll Deduction, Payroll Agreement, Workman's Compensation – Local and Private, Commercial Insurance – AETNA, Champus, Blue Cross
- } Other ethnicities not represented in the charts but are accounted for in the Hospital's HIS: Hawaiian, Kosrae, Malaysian, Chinese, Palauan, Pohnpein, Yapese Taiwanese, Hispanic, Japanese, Saipanese, Indian, Vietnamese, African American, Marshallese, Rotanese, German, Burmese, Samoan, Ulithian, and Australian.



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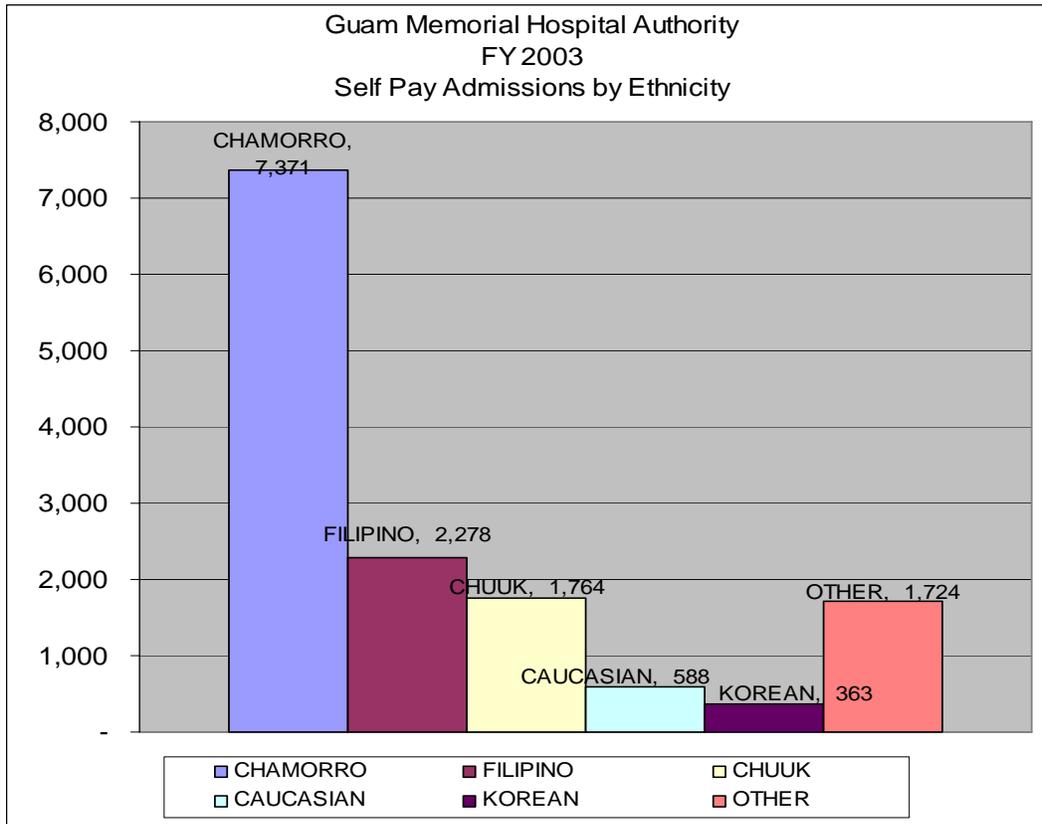
| Payors | Chamorro | Filipino | Chuukese | Caucasian | Korean | Other | Total |
|-----------------|----------|----------|----------|-----------|--------|-------|--------|
| MIP | 2,351 | 1,148 | 819 | 80 | 82 | 403 | 4,883 |
| MAP | 6,680 | 757 | 863 | 159 | 24 | 578 | 9,061 |
| Medicare | 295 | 186 | 4 | 22 | 5 | 40 | 552 |
| Local Insurance | 2,994 | 1,475 | 58 | 258 | 49 | 554 | 5,388 |
| Self Pay | 7,525 | 2,340 | 1,870 | 616 | 431 | 1,791 | 14,573 |

Chart 24

Source: Hospital Information System AS400 – Patient Information Module
 FY 2002 Admission by Ethnicity by Major Payors



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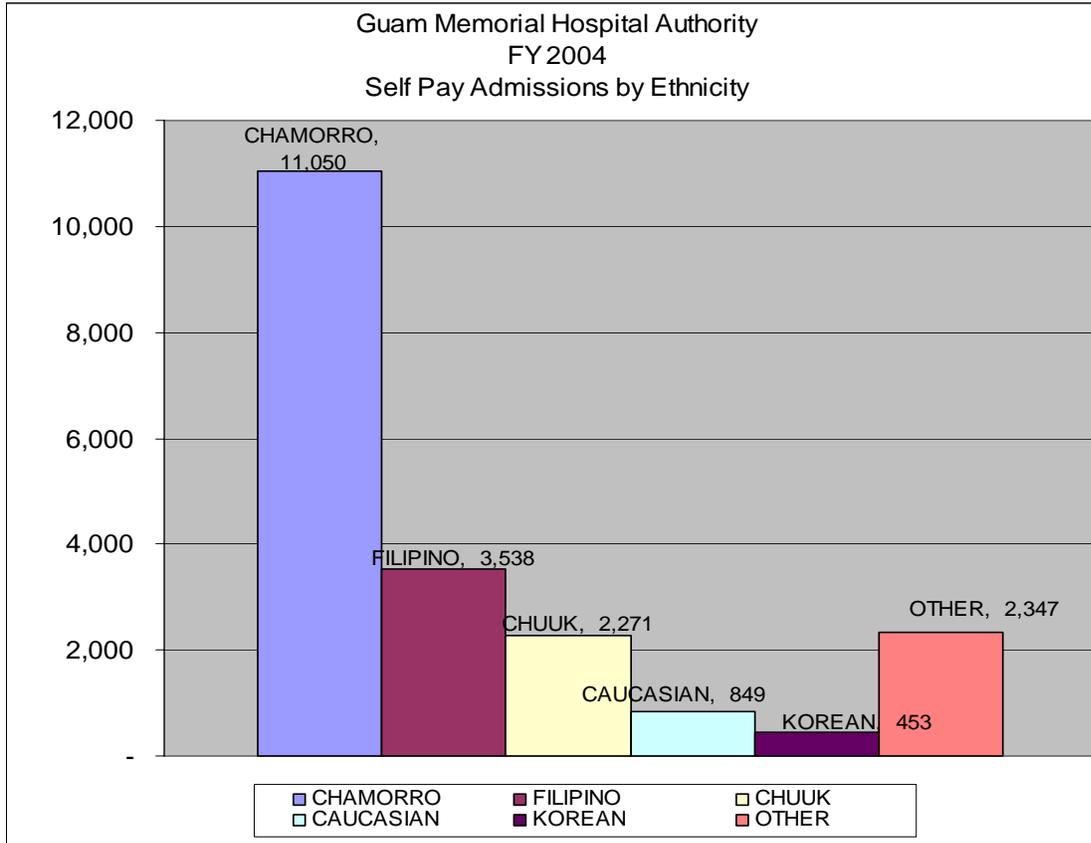
| Payors | Chamorro | Filipino | Chuukese | Caucasian | Korean | Other | Total |
|-----------------|----------|----------|----------|-----------|--------|-------|--------|
| MIP | 1,447 | 931 | 848 | 38 | 43 | 372 | 3,679 |
| MAP | 7,196 | 819 | 927 | 166 | 35 | 529 | 9,672 |
| Medicare | 276 | 187 | 1 | 36 | 7 | 51 | 558 |
| Local Insurance | 2,977 | 1,260 | 56 | 290 | 46 | 346 | 4,975 |
| Self Pay | 7,371 | 2,278 | 1,764 | 558 | 363 | 1,754 | 14,088 |

Chart 25

Source: Hospital Information System AS400 – Patient Information Module
 FY 2003 Admission by Ethnicity by Major Payors



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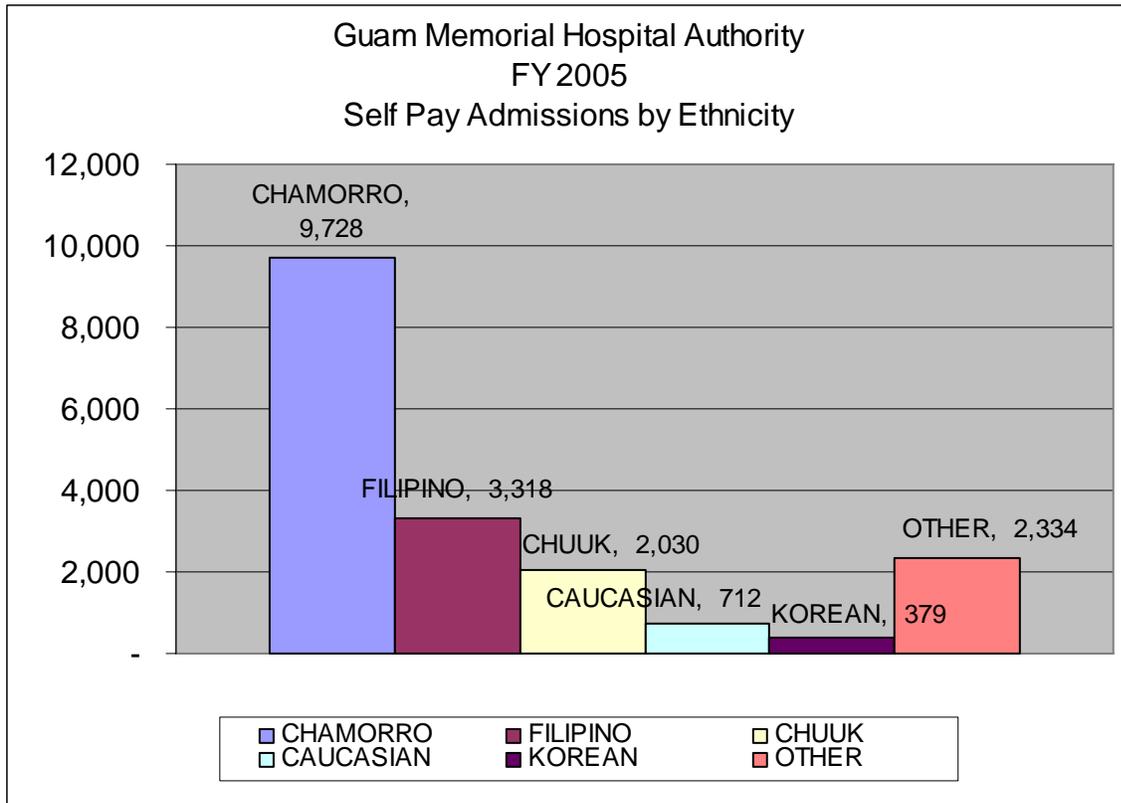
| Payors | Chamorro | Filipino | Chuukese | Caucasian | Korean | Other | Total |
|-----------------|----------|----------|----------|-----------|--------|-------|--------|
| MIP | 1,313 | 594 | 916 | 44 | 41 | 313 | 3,221 |
| MAP | 7,407 | 786 | 977 | 187 | 39 | 554 | 9,950 |
| Medicare | 347 | 208 | 1 | 30 | 0 | 45 | 631 |
| Local Insurance | 2,690 | 1,352 | 61 | 208 | 53 | 437 | 4,801 |
| Self Pay | 11,050 | 3,538 | 2,271 | 849 | 453 | 2,347 | 20,508 |

Chart 26

Source: Hospital Information System AS400 – Patient Information Module
 FY 2004 Admission by Ethnicity by Major Payors



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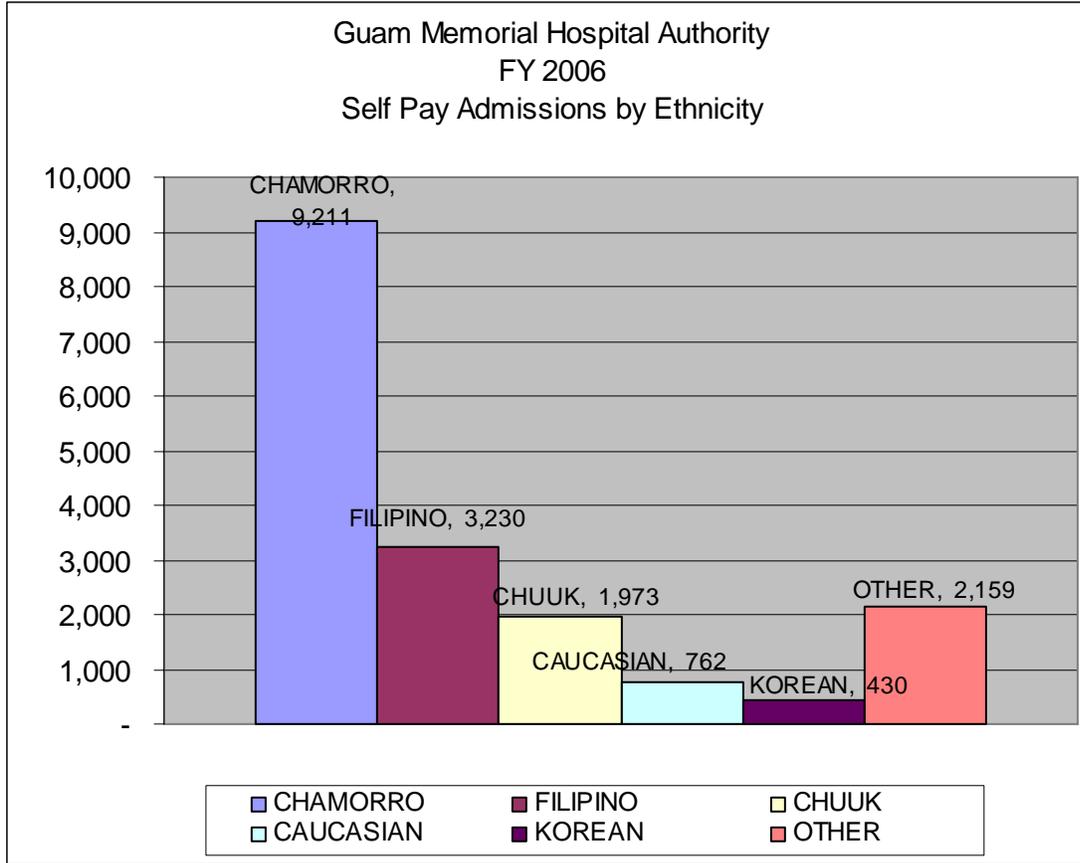
| Financial Class | Chamorro | Filipino | Chuukese | Caucasian | Korean | Other | Total |
|-----------------|----------|----------|----------|-----------|--------|-------|--------|
| MIP | 1,372 | 571 | 1,144 | 53 | 40 | 384 | 3,564 |
| MAP | 8,134 | 959 | 965 | 165 | 36 | 682 | 10,941 |
| Medicare | 367 | 189 | 0 | 37 | 0 | 81 | 674 |
| Local Insurance | 2,025 | 1,046 | 54 | 168 | 47 | 338 | 3,678 |
| Self Pay | 9,728 | 3,318 | 2,030 | 712 | 379 | 2,334 | 18,501 |

Chart 27

Source: Hospital Information System AS400 – Patient Information Module
 FY 2005 Admission by Ethnicity by Major Payors



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| Financial Class | Chamorro | Filipino | Chuukese | Caucasian | Korean | Other | Total |
|-----------------|----------|----------|----------|-----------|--------|-------|--------|
| MIP | 1,326 | 499 | 1,208 | 72 | 48 | 467 | 3,620 |
| MAP | 8,501 | 999 | 979 | 144 | 26 | 654 | 11,303 |
| Medicare | 417 | 273 | 2 | 50 | 8 | 65 | 815 |
| Local Insurance | 2,580 | 1,037 | 51 | 191 | 60 | 319 | 4,238 |
| Self Pay | 9,211 | 3,230 | 1,973 | 762 | 430 | 2,159 | 17,765 |

Chart 28

Source: Hospital Information System AS400 – Patient Information Module
 FY 2006 Admission by Ethnicity by Major Payors



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Our neighbors from the Freely Associated States of Micronesia have also had an impact on Hospital services. The island receives over \$14 million in Compact Impact reimbursement on an annual basis. The Governor allocates these dollars among the government agencies that provide vital services to the citizens of the Freely Associated States (FAS), such as the Guam Public School Systems, the Hospital, and the Guam Police Department. The Hospital has expended close to over \$20 million over the last five years for patients identifying themselves as citizens of the FAS which is solely dependent upon the patient providing the correct ethnicity at the time of registration.

It must be further understood that the Hospital does not receive a dollar to dollar reimbursement from the billings for services it provides. The third party payors are on a specific reimbursement structure. Medicare, the Medically Indigent Program, and Medicaid adhere to CMS reimbursement program in which the Hospital receives either a per diem (acute services) or percentage basis (outpatient services). Guam is tied to the Federally derived by Tax Equity and Fiscal Responsibility Relief Act of 1982, Federal P.L. 97-248 (TEFRA) that calls for a per diem basis reimbursement of medical services rendered to Medicare patients (note that all other qualified Medicare providers are reimbursed on a Fee for Service basis, meaning they receive a dollar for dollar reimbursement). The creators of the Medically Indigent Program and Medicaid programs mirrored it after the Medicare reimbursement program.

Health insurance which is contracted with the Hospital receives a negotiated percentage discount. That negotiated percentage is represented in the Hospital's financial statements as "Contractual Allowances". Non-covered benefits and patient share are billed separately to the patient. The Prompt Payment Act or P.L. 25-189 allows for any health provider to submit their billings within ninety (90) days of the service being rendered. The Act was designed to reimburse the health provider forty five (45) days from the date of receipt of the health claims. The negotiated percentage discount acts as an incentive for the insurance companies to reimburse the Hospital before the legal time allotment of forty five (45) days. The impact of the negotiated percentage discount can be best exemplified in the illustration below:

| Fiscal Years | Local Insurances | Recognized Contractual Allowance | | |
|--------------|------------------|----------------------------------|--------------|-------------|
| | | Medicare | MIP | MAP |
| FY 2002 | \$2,682,903 | \$9,669,803 | \$778,466 | \$3,433,109 |
| FY 2003 | \$2,078,641 | \$5,819,177 | \$2,480,131 | \$3,295,200 |
| FY 2004 | \$1,977,404 | \$ 9,534,681 | \$12,126,876 | \$3,098,750 |
| FY 2005 | \$1,901,434 | \$12,856,203 | \$5,469,719 | \$2,753,181 |
| FY 2006 | \$2,206,646 | \$13,849,819 | \$7,191,420 | \$6,379,780 |

Source: Hospital Information System AS400 Patient Information module



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As stated in the fiscal year 2005 audit report as issued by J.Scott Magliari and Company, the Hospital had initiated a Financial Management Improvement Plan (FMIP) that would result in the internal processes being performed effectively and efficiently with the goal of achieving greater financial stability.

Since the implementation the FMIP, the core group has been working diligently in accomplishing the many and varied objectives for the five major goals:

- Reviewing previous plans, reports and financial analysis;
- A strategic planning session to identify major goals;
- Develop detail action plans for all goals identified;
- Communicate Financial Management Improvement Plan with all stakeholders; and
- Implement the Plan.

For your information and to account for the progress of the FMIP group at the Hospital, please visit the Hospital's website at www.gmha.org/GMHA_Financials_Page.html. The FMIP group is committed to posting on a regular basis their progress on the Hospital's FMIP plan so please visit our webpage regularly.

For the general public's edification of the Hospital's progress in reducing the number of audit findings, the following is an inventory of audit findings for fiscal years 2002 through 2006. If you wish to obtain further information as to the findings and the Hospital's responses, please refer to: http://www.gmha.org/GMHA_Financials_Audits_Page.html for further information.

| Fiscal Years | Number of Findings |
|--------------|--------------------|
| 2002 | 24 |
| 2003 | 45 |
| 2004 | 39 |
| 2005 | 22 |
| 2006 | 19 |

The Hospital is looking into clearly defining 'true' indigent self pay patient – a patient with no apparent and proven means of attaining health insurance or financial ability to reimburse to the Hospital. This will include patients who are unable to qualify under either the Medically Indigent Program and or the Medicaid program. After the Hospital has developed the proper classification and qualification of a true indigent self pay patient, the process would be that after performing the proper screening, the charges associated with the identified patient are categorized into the proper financial class. These historical data can than be used by policy



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makers in determining how to address the need to reimburse the Hospital for services provided to indigent patients. This would enable the Hospital to recoup those costs and continue to provide medical care. The health need of the island continues to evolve. Different threats both man-made and natural require constant review and planning to try and anticipate needs. The Hospital must be ready for any type of medical situation at all times despite anyone's level or ability to render payment. The Hospital will continue to provide medical services to persons who walk through our doors regardless of their ability to reimburse the Hospital. And because of the location of the island, the Hospital is the only source of acute medical care besides that of Naval Hospital. If further medical treatment is needed, the Hospital must be able to at least stabilize the patient for mobilization to their choice of medical facility, either five (5) (Philippines), seven (7) (Honolulu) or eighteen (18) (Los Angeles) hours away.

The reality of the situation is that the Hospital does have its share of obstacles to overcome. Having a steady stream of adequate funding the Hospital can rely on without having to worry it will be shortchanged or diminished is fundamental. Hospital management must continuously work to secure reimbursement to ensure that critical services are not disrupted. Everyone on Guam have a vested interest to ensure the accessibility of health care services for all. Providing quality medical health care in all its different dimensions from prevention to acute care must be a priority of the entire community.

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's Office at 647-2418/2367 or the GMHA Chief Financial Officer's Office at 647-2381/2190, Monday thru Friday, 0800 to 0500, closed Saturday, Sunday, and Government of Guam Holidays. You may also refer to the Hospital's website at www.ghma.org if you wish to contact any one of the Hospital's Board of Trustees.



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

Statements of Net Assets
September 30, 2006 and 2005

| | <u>ASSETS</u> | |
|--|-----------------------------------|----------------------|
| | <u>2006</u> | <u>2005</u> |
| Current assets: | | |
| Cash | \$ 498,202 | \$ 1,407,334 |
| Patient accounts receivable, net | 30,187,231 | 27,223,963 |
| Due from the Government of Guam | 6,061,465 | 1,743,183 |
| Other receivables, net | 47,387 | 614,226 |
| Due from third - party payor (Medicare) | 4,938,554 | - |
| Inventory | 4,105,934 | 1,798,862 |
| Prepaid expenses | <u>370,004</u> | <u>692,862</u> |
| Total current assets | 46,208,777 | 33,480,430 |
| Capital assets, net | <u>41,863,452</u> | <u>40,619,500</u> |
| Total assets | <u>\$ 88,072,229</u> | <u>\$ 74,099,930</u> |
| | <u>LIABILITIES AND NET ASSETS</u> | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 6,704,969 | \$ 7,310,546 |
| Accounts payable - retirement fund | 11,199,860 | 10,811,563 |
| Accounts payable - trade | 8,957,387 | 3,577,648 |
| Accrued payroll and benefits | 1,631,156 | 1,667,227 |
| Current portion of accrued annual and sick leave | 1,991,299 | 1,511,805 |
| Due to United Government Service (Medicare) | - | 1,264,909 |
| Deferred revenue | 3,529,240 | 1,078,025 |
| Other accrued liabilities | <u>2,517,284</u> | <u>376,458</u> |
| Total current liabilities | <u>36,531,195</u> | <u>27,598,181</u> |
| Long-term liabilities: | | |
| Unfunded retirement liability | 2,102,345 | 2,634,704 |
| Note payable, net of current portion | 261,767 | - |
| Accrued annual leave, net of current portion | 1,049,024 | 1,092,750 |
| Accrued sick leave, net of current portion | <u>1,216,194</u> | <u>1,168,347</u> |
| Total long-term liabilities | <u>4,629,330</u> | <u>4,895,801</u> |
| Total liabilities | <u>41,160,525</u> | <u>32,493,982</u> |
| Commitments and contingencies | | |
| Net assets: | | |
| Invested in capital assets net of related debt | 41,863,452 | 40,619,500 |
| Unrestricted | <u>5,048,252</u> | <u>986,448</u> |
| Total net assets | <u>46,911,704</u> | <u>41,605,948</u> |
| Total liabilities and net assets | <u>\$ 88,072,229</u> | <u>\$ 74,099,930</u> |

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|---|----------------------|----------------------|
| Operating revenues: | | |
| Net patient service revenue | \$ 66,664,787 | \$ 57,134,243 |
| Other operating revenues: | | |
| Cafeteria food sales | 463,943 | 436,228 |
| Other revenue | <u>101,997</u> | <u>118,294</u> |
| Total operating revenues | <u>67,230,727</u> | <u>57,688,765</u> |
| Operating expenses: | | |
| Nursing | 34,447,408 | 31,164,890 |
| Ancillary | 19,693,317 | 18,635,002 |
| General services | 10,271,543 | 9,797,403 |
| Administrative support | 6,447,329 | 6,306,909 |
| Administration | 2,596,724 | 4,347,876 |
| Depreciation | 3,897,223 | 3,494,096 |
| Medical staff | <u>1,969,931</u> | <u>2,018,266</u> |
| Total operating expenses | <u>79,323,475</u> | <u>75,764,442</u> |
| Operating loss | <u>(12,092,748)</u> | <u>(18,075,677)</u> |
| Non-operating revenues (expenses): | | |
| Transfers from the Government of Guam | 11,986,279 | 10,391,666 |
| Contributions | 79,484 | 71,762 |
| Interest and penalties | <u>(2,468,643)</u> | <u>(363,923)</u> |
| Total non-operating revenues | <u>9,597,120</u> | <u>10,099,505</u> |
| Excess of expenses over revenues before capital grants and contributions | (2,495,628) | (7,976,172) |
| Capital grant from the Government of Guam general fund | 2,431,878 | - |
| Federal capital grants and contributions | <u>5,369,506</u> | <u>8,076,205</u> |
| Increase in net assets | 5,305,756 | 100,033 |
| Net assets, beginning of the year | <u>41,605,948</u> | <u>41,505,915</u> |
| Net assets, end of the year | <u>\$ 46,911,704</u> | <u>\$ 41,605,948</u> |

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2006 and 2005

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Receipts from and on behalf of patients | \$ 58,762,966 | \$ 56,140,214 |
| Payments to suppliers and contractors | (20,996,733) | (29,074,588) |
| Payments to employees | (48,787,085) | (44,647,557) |
| Third party payor settlements receipts (payments) (Medicare Program), net | (1,264,909) | 856,464 |
| Other receipts and payments, net | <u>565,940</u> | <u>554,522</u> |
| Net cash used in operating activities | <u>(11,719,821)</u> | <u>(16,170,945)</u> |
| Cash flows from noncapital financing activities: | | |
| Transfers from the Government of Guam | 11,986,279 | 10,391,666 |
| Repayment of notes payable, net of proceeds | (661,407) | (600,032) |
| Interest paid | (1,386,809) | (306,735) |
| Contributions from FEMA and non-profit organizations | <u>79,484</u> | <u>71,762</u> |
| Net cash provided by non-capital financing activities | <u>10,017,547</u> | <u>9,556,661</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (5,141,175) | (1,920,823) |
| Receipts (payments) from grantor agency, net | 564,811 | 504,155 |
| Capital grants and contributions | 5,369,506 | 8,076,205 |
| Proceeds from insurance claim | <u>-</u> | <u>730,844</u> |
| Net cash provided by capital and related financing activities | <u>793,142</u> | <u>7,390,381</u> |
| Net increase (decrease) in cash | (909,132) | 776,097 |
| Cash at beginning of year | <u>1,407,334</u> | <u>631,237</u> |
| Cash at end of year | <u>\$ 498,202</u> | <u>\$ 1,407,334</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, 2006 and 2005

| | 2006 | 2005 |
|--|-----------------|-----------------|
| Reconciliation of operating loss to net cash provided | | |
| by operating activities: | | |
| Operating loss | \$ (12,092,748) | \$ (18,075,677) |
| Adjustments to reconcile operating loss to net cash provided | | |
| by operating activities: | | |
| Depreciation | 3,897,223 | 3,494,095 |
| Bad debts | 14,483,704 | 12,621,157 |
| (Increase) decrease in assets: | | |
| Patient accounts receivable | (16,826,336) | (13,615,186) |
| Other receivables | (53,797) | 121,848 |
| Due from third- party payor (Medicare) | (4,938,554) | - |
| Inventory | (2,307,072) | (296,744) |
| Prepaid expenses | 322,858 | (443,658) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 5,003,800 | (1,116,841) |
| Accrued payroll and employees benefits | (36,071) | 309,849 |
| Accrued annual leave and sick leave | 483,614 | 438,009 |
| Due to United Government Service (Medicare) | (1,264,909) | 856,464 |
| Other accrued liabilities | 2,140,826 | (464,261) |
| Unfunded retirement liability | (532,359) | - |
| Net cash used in operating activities | \$ (11,719,821) | \$ (16,170,945) |

See accompanying notes to financial statements.

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Notes to Financial Statements
September 30, 2006 and 2005

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

Reporting Entity

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

Use of Estimates

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

Measurement Focus, Basis of Presentation and Basis of Accounting

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

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

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

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

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

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

Pursuant to GASB Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*”, GMHA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

During 2002, GMHA also implemented 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.*”

GASB Statement Nos. 33 and 36 establish accounting and financial reporting standards for non-exchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from non-exchange transactions will be the same whether the accrual or modified accrual basis of accounting is required. For revenue recognition to occur on the modified accrual basis, the criteria established for accrual basis revenue recognition must be met and the revenue must be available.

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

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

New Accounting Standards Implemented during the fiscal year 2005

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

GASB Statement No. 42, “*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*”, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.

GASB Statement No. 44, “*Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*”, improves the understandability and usefulness of statistical section information and further adds information from the new financial reporting model for State and Local governments required by GASB Statement No. 34.

GASB Statement No. 47, “*Accounting for Termination Benefits*”, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations.

GASB Technical Bulletin No. 2004-2, “*Recognition of Pension and Other Postemployment Benefits/Expenses and Liabilities by Cost-Sharing Employers*”, which clarifies the requirements of GASB Statements No. 27 and No. 45 for recognition of pension and other postemployment benefits expense/expenditures and liabilities by cost-sharing employers.

The implementation of the above pronouncements did not have a material impact on the accompanying financial statements.

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

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

Accounting Standards Not Yet Adopted

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

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

In December 2004, GASB issued Statement No. 46, “*Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*”, which will be effective for the GMHA beginning with its fiscal year ending September 30, 2007. GMHA’s Management has not yet determined the effect this statement will have on its financial statements.

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

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Notes to Financial Statements
September 30, 2006 and 2005

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

Cash

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

Patient Accounts Receivable

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

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

The patient accounts receivable balances from September 30, 2001 through September 30, 2005 were not reconciled to the subsidiary ledgers in which the variance was \$15.6 million in each year. During 2006, GMHA has accounted for the variance and was able to reconcile the two controlling accounts.

Due from the Government of Guam

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

Other Receivable

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

Inventory

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

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Notes to Financial Statements
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(1) Description of Reporting Entity and Summary of Significant Accounting Policies,
Continued

Capital Assets

Capital assets consists of building and land improvements, long-term care facilities and equipment. Building and land improvements acquired prior to June 30, 1978, are recorded at their appraised values at June 30, 1978. Subsequent additions are primarily valued at cost. GMHA generally capitalize all expenditures of property and equipment that equal or exceed \$500 with a minimum useful life of at least three years. Subsequent to September 30, 2006, the capitalization policy for acquisitions was increased to \$5,000. Major renewals and betterments are capitalized, while maintenance and repairs which do not improve or extend the life of an asset are charged to expense. Donated capital assets are recorded at their fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the respective assets through use of the straight-line method. Useful lives for capital assets are based on the American Hospital Association Guide “*Estimated Useful Lives of Depreciable Hospital Assets*” as follows:

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

Operating Revenues and Expenses

GMHA’s statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is GMHA’s principal activity. Nonexchange revenues, supplemental subsidies from the Government of Guam, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. At September 30, 2006 and 2005, GMHA Federal award reimbursements received (pass-through from the Government of Guam) comprise both capital awards and financial resources for specific purposes and were reported after the nonoperating revenues. Operating expenses are expenses incurred to provide health care services other than financing costs.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2006 and 2005

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

Net Patient Service Revenue

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

Transfers from the Government of Guam

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

Beginning in October 2005, 5.61% of Gross Receipts Taxes collected by the Government of Guam was appropriated to GMHA to fund pharmaceutical, drug and medicine. The appropriation of the pharmaceutical subsidy from the Government of Guam is continuous and contingent on the annual submission of a detailed budget every 30th of January to the Governor of Guam. At September 30, 2006 the pharmaceutical subsidy funds received was \$8,421,521 and is included in the Note 9 -Transfers from the Government of Guam in the accompanying financial statements.

Federal Grant Award Revenues and Contributions

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

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

Compensated Absences

For fiscal years 2006 and 2005, employees were credited vacation leave at rates of 104 and 160 hours depending upon their lengths of service with GMHA. During the year ended September 30, 2003, Public Law 27-05 was implemented, reducing the maximum accumulation amount of annual leave to 320 hours except for registered nurses which the accumulation of annual leave remains unchanged. Any annual leave earned by eligible employees in excess of 320 hours up to 100 hours was credited to employees' sick leave at February 28, 2003. Pursuant to Public Law 27-106, employees with accumulated annual leave in excess 320 hours at February 28, 2003 may carry over their excess and use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave is credited and the remainder of the excess leave, if any, is lost.

GMHA recognizes all vested vacation leave benefits accrued by its employees as a long-term liability in the statements of net assets. Amounts to be paid during the next fiscal year based on management's estimate are reported as current. When employees use vacation leave benefits, the liability account is reduced. At September 30, 2006 and 2005, vacation leave taken was \$1,737,560 and \$1,496,635, respectively.

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

Pursuant to Public Law 26-86, upon the retirement of the employees under the Defined Contribution Retirement System (DCRS) plan, such employees will be paid by its employer, a lump sum payment of their unused sick leave hours up to one-half of their accumulated sick leave. At September 30, 2006 and 2005, GMHA's estimated liability of unused sick leave for members under the DCRS plan was \$1,351,326 and \$1,168,347, respectively. At September 30, 2006 and 2005, Management's estimate of the current portion of this accrued sick leave was \$135,132 and \$0, and long-term liability of \$1,216,194 and \$1,168,347, respectively, in the accompanying statements of net assets. However, these amounts are estimates and actual payout could be materially different than estimated.

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Notes to Financial Statements
September 30, 2006 and 2005

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

Deferred Revenue

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

Risk Management

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

(2) Cash and Investments

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

Cash

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

Category 1 Deposits that are federally insured or collateralized with securities held by the GMHA or its agent in the GMHA’s name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution’s trust department or agent in GMHA’s name; or

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2006 and 2005

(2) Cash and Investments, Continued

Cash, Continued

- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in GMHA's name and noncollateralized deposits.

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

For credit risk in the case of deposits, there is that in the event of a bank failure, the GMHA's deposits may not be returned to it. At September 30, 2006 and 2005, the carrying amount of the GMHA's total cash and cash equivalents was \$498,202 and \$1,407,334, respectively, and the corresponding bank balances were \$1,179,299 and \$2,180,266, respectively, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC). Of the bank balance of \$1,179,299 and \$2,180,266, bank deposits in the amount of \$182,562 and \$113,480, respectively, were FDIC insured. GMHA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Investments

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

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

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September 30, 2006 and 2005

(2) Cash and Investments, Continued

Investments, Continued

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

At September 30, 2006 and 2005, the GMHA did not have any investments subject to GASB Statement No. 40.

(3) Capital Assets

A summary of capital asset additions, retirements, and transfer balances for the years ended September 30, 2006 and 2005 is as follows:

| <u>For Fiscal Year 2006:</u> | <u>Beginning Balance October 1, 2005</u> | <u>Transfers and Additions</u> | <u>Transfers and Deletions</u> | <u>Ending Balance September 30, 2006</u> |
|--|--|------------------------------------|------------------------------------|--|
| <u>Capital assets, being depreciated:</u> | | | | |
| Building and land improvements | \$ 56,525,432 | \$ 961,418 | \$ - | \$ 57,486,850 |
| Long-term care facility | 10,660,987 | 165,001 | - | 10,825,988 |
| Movable equipment | <u>24,989,172</u> | <u>4,603,007</u> | <u>(921,355)</u> | <u>28,670,824</u> |
| Total capital assets | 92,175,591 | 5,729,426 | (921,355) | 96,983,662 |
| Less: Accumulated depreciation and amortization | <u>52,331,191</u> | <u>3,897,223</u> | <u>(905,463)</u> | <u>55,322,951</u> |
| Total net capital assets being depreciated | 39,844,400 | 1,832,203 | (15,892) | 41,660,711 |
| <u>Capital assets, not being depreciated:</u> | | | | |
| Construction in progress | <u>775,100</u> | <u>462,646</u> | <u>(1,035,005)</u> | <u>202,741</u> |
| Total capital assets, net | <u>\$ 40,619,500</u> | <u>\$ 2,294,849</u> | <u>(\$ 1,050,897)</u> | <u>\$ 41,863,452</u> |

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Notes to Financial Statements
September 30, 2006 and 2005

(3) Capital Assets, Continued

| <u>For Fiscal Year 2005:</u> | <u>Beginning Balance October 1, 2004</u> | <u>Transfers and Additions</u> | <u>Transfers and Deletions</u> | <u>Ending Balance September 30, 2005</u> |
|--|--|------------------------------------|------------------------------------|--|
| <u>Capital assets, being depreciated:</u> | | | | |
| Building and land improvements | \$ 54,885,257 | \$ 1,640,175 | \$ - | \$ 56,525,432 |
| Long-term care facility | 10,660,987 | - | - | 10,660,987 |
| Movable equipment | <u>24,054,428</u> | <u>934,744</u> | <u>-</u> | <u>24,989,172</u> |
| Total capital assets | 89,600,672 | 2,574,919 | - | 92,175,591 |
| Less: Accumulated depreciation and amortization | <u>48,837,096</u> | <u>3,494,095</u> | <u>-</u> | <u>52,331,191</u> |
| Total net capital assets being depreciated | 40,763,576 | (919,176) | - | 39,844,400 |
| <u>Capital assets, not being depreciated:</u> | | | | |
| Construction in progress | <u>1,429,195</u> | <u>896,454</u> | <u>(1,550,549)</u> | <u>775,100</u> |
| Total capital assets, net | <u>\$ 42,192,771</u> | <u>(\$ 22,722)</u> | <u>(\$ 1,550,549)</u> | <u>\$ 40,619,500</u> |

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Notes to Financial Statements
September 30, 2006 and 2005

(4) Accounts Receivable and Payable

GMHA's patient accounts receivable and accounts payable reported as current assets and liabilities at September 30, 2006 and 2005 consisted of the following:

Patient Accounts Receivable

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------|----------------------|
| Current Receivable-Subsidiary Ledger: | | |
| Self-pay patients | \$ 48,208,645 | \$ 32,879,070 |
| Medically Indigent Program | 14,511,265 | 14,914,245 |
| Medicaid Assistance Program | 17,534,750 | 11,265,920 |
| Local insurance carriers | 5,112,246 | 8,348,429 |
| Medicare | 6,155,571 | 5,434,519 |
| Other payor | <u>4,683,695</u> | <u>3,538,948</u> |
| | <u>96,206,172</u> | <u>76,381,131</u> |
| Bad Debt Receivable (Account Referrals): | | |
| Collection agencies and other | 9,779,667 | 11,426,472 |
| Department of Revenue and Taxation | <u>24,790,667</u> | <u>21,702,247</u> |
| | <u>34,570,334</u> | <u>33,128,719</u> |
| Total per Subsidiary Ledger | 130,776,506 | 109,509,850 |
| Unaccounted variance to the general ledger | - | (15,557,199) |
| Patient receivables recorded in the General Ledger (Referral to Dept. of Revenue and Taxation but not in the subsidiary ledger) | 93,142 | 247,852 |
| Accounts Receivable-unmatched cash receipts | <u>(334,103)</u> | <u>(211,791)</u> |
| Total per general ledger | <u>130,535,545</u> | <u>93,988,712</u> |
| Less: Allowance for bad debts | (78,062,185) | (50,228,115) |
| Allowance for contractual adjustments | <u>(22,286,129)</u> | <u>(16,536,634)</u> |
| Total allowance for bad debts and contractual adjustments | <u>(100,348,314)</u> | <u>(66,764,749)</u> |
| Patient accounts receivable, net | <u>\$ 30,187,231</u> | <u>\$ 27,223,963</u> |

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Notes to Financial Statements
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(4) Accounts Receivable and Payable, Continued

Patient Accounts Receivable, continued:

During 2006, GMHA reconciled the variances between the patient subsidiary ledgers and the general ledger, and consequently accounted for the variance that had existed in fiscal years 2001 through 2005. The adjustments made in the general ledger at September 30, 2006 resulted in a \$15,557,199 net increase in the patient accounts receivable and allowance for bad debts.

During fiscal year 2005, the Government of Guam appropriated \$4,000,000 under Public Law 27-106, Section 9, for subsidizing portion of GMHA's bad debts accounts that had been referred to collection agencies. At September 30, 2006 and 2005, amounts recovered and received were \$1,838,222 and \$2,119,744, respectively, through rebilling of medical services to the Department of Public Health and Social Services (DPHSS). At September 30, 2006, the amounts received from this appropriation applied to the patient subsidiary ledgers, and amounts recorded as transfers from Government of Guam were \$810,695, and \$1,027,527, respectively. At September 30, 2005, the amounts received from this appropriation were \$2,119,744 and were applied to patient subsidiary ledgers as collections.

Accounts Payable- trade

| | 2006 | 2005 |
|------------------------------|--------------|--------------|
| Payable to vendors | \$ 8,728,952 | \$ 2,938,402 |
| Government of Guam Agencies: | | |
| Guam Water Works | 81,248 | 38,035 |
| Guam Power Authority | 131,420 | 594,439 |
| Other | 15,767 | 6,772 |
| | \$ 8,957,387 | \$ 3,577,648 |

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Notes to Financial Statements
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(4) Accounts Receivable and Payable, Continued

Accounts payable-Retirement Fund

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

At September 30, 2006 and 2005, the accounts payable-Retirement Fund in the current liabilities is as follows:

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Unpaid employer and member contributions of prior years (DB Plan) | \$ 7,000,579 | \$ 7,479,892 |
| Employer and member contribution of current fiscal year (DB and DCRS Plan) | 166,480 | 152,770 |
| FY 2002 Supplemental/COLA Annuities for Retirees | 1,507,004 | 1,507,004 |
| Other | 125,758 | 36,095 |
| Interest and penalties | <u>2,400,039</u> | <u>1,635,802</u> |
| Total | <u>\$11,199,860</u> | <u>\$10,811,563</u> |

During 2005, GMHA recorded supplemental benefits due to GGRF for the retirees who retired prior to October 1, 1995 and COLA benefits for those employees who retired prior to October 1, 2001. The recognition of this obligation was pursuant to Fiscal Year 2002 Budget Act (PL 26-35) and as amended by Public Law 26-49. GMHA was among various autonomous agencies required to remit certain supplemental benefits to its employees.

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

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Notes to Financial Statements
September 30, 2006 and 2005

(4) Accounts Receivable and Payable, Continued

Accounts payable-Retirement Fund

As of September 30, 2006 and 2005, the balance of the above outstanding deficiencies in retirement contributions consists of the following:

| | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| Classified in current accounts payables: | | |
| Unpaid members and government contributions | \$ 7,000,579 | \$ 7,479,892 |
| Interest and penalties | <u>2,400,039</u> | <u>1,635,802</u> |
| | <u>9,400,618</u> | <u>9,115,694</u> |
| Classified in notes payable: | | |
| Unpaid members and government contributions | 4,838,430 | 5,503,118 |
| Interest and penalties | <u>1,368,707</u> | <u>1,025,396</u> |
| | <u>6,207,137</u> | <u>6,528,514</u> |
| Total | <u>\$15,607,755</u> | <u>\$15,644,208</u> |

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

Third Party Rate Adjustments

GMHA has various third-party payor agreements that provide for payments to be made to the hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at current interim rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology.

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

Third Party Rate Adjustments, Continued

Medicare, Continued

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

During the year, GMHA made an appeal to Centers for Medicare and Medicaid Services to address certain operating expenses disallowed by the Program in its determination of interim rates which resulted in poor reimbursement rates from the Medicare program for fiscal years 2004 and 2005. The appeal was substantiated by the resubmission of the annual Cost Medicare Report for 2004 and 2005 and resulted in a favorable re-determination of final settlement rates. The total adjustments of program reimbursements for the years appealed aggregated \$6,378,546 of which GMHA partially received \$1,457,016 as of September 30, 2006 and \$4,921,530 in October 2006. The effect of these settlements decreased the estimate of contractual adjustments by approximately 17%, and increased the net patient revenue of approximately \$4.5 million in fiscal year 2006.

Medicaid Program and Medically Indigent Program (MIP)

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

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

Local Insurance Carriers and Other Third Party Payors

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

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

Net Patient Service Revenue

A summary of Patient Service Revenue at September 30, 2006 and 2005 is as follows:

| <u>Fiscal Year 2006</u> | <u>Gross Patient Service Revenues</u> | <u>Less: Estimates for Contractual Adjustments and Bad Debts</u> | <u>Net Patient Service Revenues</u> |
|---|---|--|---|
| <u>Inpatient and outpatient acute care services:</u> | | | |
| Medicare | \$ 24,449,260 | \$ 7,041,344 | \$ 17,407,916 |
| Medicaid | 13,833,839 | 8,332,376 | 5,501,463 |
| Medically Indigent Program | 10,519,951 | 3,122,927 | 7,397,024 |
| Local Insurances | 11,644,673 | 2,987,985 | 8,656,688 |
| Self-Pay | 23,944,606 | 18,613,192 | 5,331,414 |
| Other Providers | <u>20,361,843</u> | <u>4,066,525</u> | <u>16,295,318</u> |
| Total inpatient and outpatient acute care services | <u>\$104,754,172</u> | <u>\$ 44,164,349</u> | <u>\$ 60,589,823</u> |
| <u>Inpatient and outpatient support services:</u> | | | |
| Medicare | \$ 2,792,432 | \$ - | \$ 2,792,432 |
| Medicaid | 231,418 | - | 231,418 |
| Medically Indigent Program | 1,163,082 | - | 1,163,082 |
| Other Local Insurance | 270,554 | - | 270,554 |
| Self-Pay | 608,724 | - | 608,724 |
| Other Providers | <u>1,008,754</u> | <u>-</u> | <u>1,008,754</u> |
| Total inpatient and outpatient support services | <u>6,074,964</u> | <u>-</u> | <u>6,074,964</u> |
| Total | <u>\$110,829,136</u> | <u>\$ 44,164,349</u> | <u>\$ 66,664,787</u> |

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

Net Patient Service Revenue, Continued

| <u>Fiscal Year 2005</u> | <u>Gross Patient Service Revenues</u> | <u>Less: Estimates for Contractual Adjustments and Bad Debts</u> | <u>Net Patient Service Revenues</u> |
|---|---|--|---|
| <u>Inpatient and outpatient acute care services:</u> | | | |
| Medicare | \$ 23,494,888 | \$ 11,491,110 | \$ 12,003,778 |
| Medicaid | 11,357,389 | 6,845,563 | 4,511,826 |
| Medically Indigent Program | 9,487,268 | 2,817,549 | 6,669,719 |
| Local Insurances | 11,959,981 | 3,223,653 | 8,736,328 |
| Self-Pay | 23,377,076 | 18,173,625 | 5,203,451 |
| Other Providers | <u>17,410,962</u> | <u>3,476,003</u> | <u>13,934,959</u> |
| Total inpatient and outpatient acute care services | <u>\$ 97,087,564</u> | <u>\$ 46,027,503</u> | <u>\$ 51,060,061</u> |
| <u>Inpatient and outpatient support services:</u> | | | |
| Medicare | \$ 2,081,323 | \$ - | \$ 2,081,323 |
| Medicaid | 290,813 | - | 290,813 |
| Medically Indigent Program | 1,560,834 | - | 1,560,834 |
| Other Local Insurance | 533,939 | - | 533,939 |
| Self-Pay | 729,969 | - | 729,969 |
| Other Providers | <u>877,304</u> | <u>-</u> | <u>877,304</u> |
| Total inpatient and outpatient support services | <u>6,074,182</u> | <u>-</u> | <u>6,074,182</u> |
| Total | <u>\$103,161,746</u> | <u>\$ 46,027,503</u> | <u>\$ 57,134,243</u> |

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Notes to Financial Statements
September 30, 2006 and 2005

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

Net Patient Service Revenue, Continued

In 2006 and 2005, management wrote-off accounts receivable of \$0 and \$25,000,000, respectively. During 2006, approximately \$890,000 of bad debt written-off accounts was collected by GMHA's collection agencies.

Concentrations of Credit Risk

GMHA grants credit without collateral to its patients, most of who are residents of the Territory of Guam and are uninsured. The mix of receivables from patients and third-party payors, net of management's estimates of allowance for contractual adjustments and uncollectible accounts at September 30, 2006 and 2005, are as follows:

| | 2006 | 2005 |
|-----------------------------|------|------|
| Self-pay patients | 24% | 8% |
| Medically Indigent Program | 21% | 32% |
| Medicaid Assistance Program | 25% | 20% |
| Local insurance carriers | 15% | 18% |
| Medicare | 9% | 16% |
| All Other Third Party Payor | 6% | 6% |
| | 100% | 100% |

(6) Employees' Retirement Plan

Plan Description

Defined Benefit Plan (DB)

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

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(6) Employees' Retirement Plan

Plan Description, Continued

Defined Contribution Retirement System Plan (DCRS)

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

Contributions

Contributions under both the DB and DCRS Plans are set by law and are administered by the Government of Guam Retirement Fund. For the year ended September 30, 2006 the statutory contribution rates for employers and employees under the DB Plan was 21.81% and 9.5%. For the years ended September 30, 2005 and 2004, statutory contributions rates for employer and employee contributions were 20.81% and 9.5%, in each year.

As a result of the actuarial valuation performed as of September 30, 2004, 2003 and 2002, the annual actuarially required contribution rates for the years ended September 30, 2006, 2005 and 2004, respectively, have been determined as follows:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|---------------|---------------|---------------|
| Normal Cost (as % of expected Defined Benefit Plan payroll) | 17.83% | 18.30% | 17.66% |
| Unfunded liability costs, as % of total payroll (DB and DCRS) | <u>21.36%</u> | <u>19.93%</u> | <u>16.23%</u> |
| Employee contributions (DB Plan employees) | <u>9.50%</u> | <u>9.50%</u> | <u>9.50%</u> |
| Government contribution as % of DB Plan payroll | <u>29.69%</u> | <u>28.73%</u> | <u>24.39%</u> |
| Government required contribution, as % of total payroll (DB and DCRS) | <u>26.00%</u> | <u>24.89%</u> | <u>20.81%</u> |

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September 30, 2006 and 2005

(6) Employees' Retirement Plan, Continued

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

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

Statutory employer contributions into the DCRS for the years ended September 30, 2006 and 2005, are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited in the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

Retirement expense for the years ended September 30, 2006, 2005 and 2004 was \$6,928,976, \$5,881,597 and \$5,518,946.

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

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Notes to Financial Statements
September 30, 2006 and 2005

(7) Long-Term Liabilities

At September 30, 2006 and 2005, long-term liabilities consist of the following:

| | 2006 | 2005 |
|--|--------------|--------------|
| Promissory note payable due to the Government of Guam Retirement Fund, payable in equal quarterly installments of \$366,064 beginning March 1998, later revised to \$401,330 beginning March 2002, including interest at the Bank of Hawaii's prime rate plus 1% (8% interest at September 30, 2006 and 2005. The note was due in March 2003 and is uncollateralized. (See Note 4 in page 73). | \$ 6,207,013 | \$ 6,528,514 |
| Promissory note payable due to the Guam Power Authority (GPA) for balances due on electrical service with electric utility, payable in monthly installments of \$45,965, beginning October 13, 2001, including interest at 4.47% per annum, due September 30, 2005, uncollateralized. | - | 782,032 |
| Promissory note due to the Guam Power Authority (GPA) for balances payable on electrical service with electric utility, payable in total monthly installments of \$43,483, beginning October 2005, including interest at 4.47% per annum, due April 2007, uncollateralized. | 759,723 | - |
| Total notes payable | 6,966,736 | 7,310,546 |
| Less current portion | 6,704,969 | 7,310,546 |
| Long-term debt | \$ 261,767 | \$ - |

On November 21, 2002, the Superior Court of Guam ordered GMHA to pay its outstanding liability the Government of Guam Retirement Fund, which at September 30, 2002 approximates \$16 million. In March 2003, GMHA defaulted on this note by failing to make the final balloon payment.

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September 30, 2006 and 2005

(7) Long-Term Liabilities, Continued

As discussed in Note 4, the Government of Guam Legislature passed Public Law 28-38 in fiscal year 2005 to address special retirement provisions for GMHA and GPSS, and for the purpose of permitting employees eligible to retire. Pursuant to Public Law 28-38, beginning July 2005, a monthly interest payments of \$190,501 will be remitted directly to GGRF from the Government of Guam's general fund to compensate GMHA's deficiencies and be allowed eligible employees' retirement application be accepted and processed by the GGRF. The provisions of monthly payment of interest of \$190,501 to GGRF by the Government of Guam will continue until the outstanding balances are fully paid from general obligation bond or alternate means.

Changes in the long term liabilities:

At September 30, 2006 and 2005, the changes in the long-term liabilities are as follows:

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

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September 30, 2006 and 2005

(7) Long-Term Liabilities, Continued

Changes in the long term liabilities, Continued

| <u>2005</u> | <u>Outstanding Balance 09/30/04</u> | <u>Increases</u> | <u>Decreases</u> | <u>Outstanding Balance 09/30/05</u> | <u>Current</u> | <u>Noncurrent</u> |
|---|---|---------------------|----------------------|---|---------------------|---------------------|
| Government of Guam Retirement Fund note payable | \$ 6,496,549 | \$ 316,980 | \$ (285,015) | \$ 6,528,514 | \$ 6,528,514 | \$ - |
| Guam Power Authority note payable | 1,094,112 | - | (312,080) | 782,032 | 782,032 | - |
| Unfunded retirement liability | 2,634,704 | - | - | 2,634,704 | - | 2,634,704 |
| Accrued annual leave | 2,450,671 | 1,650,519 | (1,496,635) | 2,604,555 | 1,511,805 | 1,092,750 |
| Accrued sick leave of employees under DCRS Retirement Plan | <u>884,223</u> | <u>284,124</u> | <u>-</u> | <u>1,168,347</u> | <u>-</u> | <u>1,168,347</u> |
| | <u>\$ 13,560,259</u> | <u>\$ 2,251,623</u> | <u>\$(2,093,730)</u> | <u>\$ 13,718,152</u> | <u>\$ 8,822,351</u> | <u>\$ 4,895,801</u> |

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(8) Related Party Transactions

At September 30, 2006 and 2005, a summary of related party transactions with the Government Agencies are as follows:

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Payables to Government Agencies: | | |
| Government of Guam Retirement Fund: | | |
| Members and employers contribution, supplemental/COLA annuities for retirees as of September 30, 2001, and accrued interest and penalties (Note 4) | \$ 11,199,860 | \$ 10,811,563 |
| Principal and interest on promissory note | <u>6,207,013</u> | <u>6,528,514</u> |
| Total due to Government of Guam Retirement Fund | 17,406,873 | 17,340,077 |
| Guam Power Authority promissory note and current electric service | 891,144 | 1,376,471 |
| Department of Revenue and Taxation for employee withholding taxes | 2,189,071 | 167,001 |
| Guam Waterworks Authority | <u>81,248</u> | <u>38,035</u> |
| Total | <u>\$ 20,568,336</u> | <u>\$ 18,921,584</u> |

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Operations Receivable from Government Agencies: | | |
| Department of Public Health and Social Services (DPHSS) for the following programs: | | |
| Medicaid, net of estimated allowance for contractual adjustments of \$9,994,808 and \$5,874,606 for 2006 and 2005, respectively. | \$ 7,539,942 | \$ 5,391,314 |
| MIP, net of estimated allowance for contractual adjustments of \$8,271,421 and \$6,198,515 for 2006 and 2005, respectively. | <u>6,239,844</u> | <u>8,715,730</u> |
| Total | <u>\$ 13,779,786</u> | <u>\$ 14,107,044</u> |

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Notes to Financial Statements
September 30, 2006 and 2005

(8) Related Party Transactions, Continued

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Due from the Government of Guam for supplemental appropriations from the General Fund and Special Funds: | | |
| Unreimbursed expenditures on 2007 advance appropriations for capital expenditures | \$ 2,431,878 | \$ - |
| Unreimbursed expenditures for Federal grant programs | 100,347 | 665,158 |
| Deferred revenues | <u>3,529,240</u> | <u>1,078,025</u> |
| | <u>\$ 6,061,465</u> | <u>\$ 1,743,183</u> |
| Other Receivables: | | |
| Department of Mental Health and Substance Abuse (catering services and supplies issues) | \$ 296,904 | \$ 261,178 |
| Fire Department (supplies and incinerations services) | 265,551 | 244,364 |
| DPHSS | <u>1,480</u> | <u>7,510</u> |
| Sub-total | 563,935 | 513,052 |
| Less: Allowance for bad debts | (560,130) | (-) |
| Net | <u>\$ 3,805</u> | <u>\$ 513,052</u> |

At September 30, 2006 and 2005, GMHA had not reconciled balances with the DPHSS who administers the Medicare and Medicaid program. Therefore, amounts disclosed above may differ materially as compared to the records of related government agencies.

Related Party Expenses

For the years ended September 30, 2006 and 2005, utilities expense incurred in electrical services with Guam Power Authority were \$1,428,278 and \$1,212,010, respectively.

For the years ended September 30, 2005 and 2004, water services incurred with Guam Waterworks Authority were \$259,151 and \$268,655, respectively.

For the years ended September 30, 2006 and 2005, related parties interests and penalties included in the nonoperating expenses of the Statement of Activities are as follows:

| | <u>2006</u> | <u>2005</u> |
|------------------------------------|--------------------|-------------------|
| Guam Retirement Fund | \$2,132,244 | \$ 318,284 |
| Department of Revenue and Taxation | 274,676 | - |
| Guam Power Authority | <u>43,901</u> | <u>13,126</u> |
| Total | <u>\$2,450,821</u> | <u>\$ 331,410</u> |

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(9) Transfers from the Government of Guam

During the years ended 2006 and 2005, the Government of Guam passed supplemental appropriations in public laws from its general fund and special revenue fund for certain specific programs and financial assistance for the operations of GMHA as follows:

| <u>Fiscal Year 2006</u> | <u>Appropriation</u> | Transfers from the GovGuam (Amount received in FY 2006) | <u>Balance of the Appropriation</u> |
|--|----------------------|--|---|
| Public Law 8-68, Section 22, (2006 Budget Law), from the Special Fund Pharmaceutical Fund. | \$ 8,421,521 | \$ 8,421,521 | \$ - |
| Public Law 28-68, Section 23, from the Special Fund-Health Securities Trust for pharma- ceutical supports and education program of the hospital. | 283,130 | 283,130 | - |
| <u>Financial Assistance</u> | | | |
| Public Law 28-66, Section 4, an authority to directly pay the Retirement Fund from the General Fund for the GMHA's 2005 retirement contributions payable and for outstanding retirement contributions of employees who applied for retirement as of September 30, 2005. | 1,460,000 | 1,460,000 | - |
| Public Law 27-106, Section 22, (2005 Budget Act), from General Fund, final balance continuing in 2006, used for payment of GMHA's outstanding retirement fund payable for employees who applied for retirement as of September 30, 2004. | <u>600,000</u> | <u>600,000</u> | - |
| Sub-total | <u>\$ 10,764,651</u> | <u>\$ 10,764,651</u> | <u>\$ -</u> |

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September 30, 2006 and 2005

(9) Transfers from the Government of Guam, Continued

| <u>Fiscal Year 2006, Continued</u> | <u>Appropriation</u> | Transfers from the GovGuam (Amount received in FY 2006) | Balance of the <u>Appropriation</u> |
|--|----------------------|--|--|
| <u>Financial Assistance, Continued</u> | | | |
| Sub-total, Forwarded | \$ 10,764,651 | \$ 10,764,651 | \$ - |
| Public Law 28-68, Section 32, appropriation from the General Fund for the continued funding of 2005 appropriation subsidy for bad debt losses of GMHA. | 1,027,527 | 1,027,527 | - |
| Supplemental assistance on Financial Improvement Management Plan and other | <u>194,101</u> | <u>194,101</u> | <u>-</u> |
| Total | <u>\$ 11,986,279</u> | <u>\$ 11,986,279</u> | <u>\$ -</u> |

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(9) Transfers from the Government of Guam, Continued

| <u>Fiscal Year 2005</u> | | Transfers from the GovGuam (Amount received in FY 2005) | Balance of the Appropriation |
|---|----------------------|--|---------------------------------|
| <u>Specific Purpose Program</u> | <u>Appropriation</u> | <u>in FY 2005)</u> | <u>Appropriation</u> |
| Public Law 27-106 (2005 Budget Law), from Healthy Futures Fund, used for the treatments that are necessary as a result of tobacco, alcohol, substance abuse and supplies and equipment for patient education. | \$ 3,800,000 | \$ 3,791,666 | \$ 8,334 |
| <u>Financial Assistance</u> | | | |
| Public Law 28-64, used for payments of medicines, medical supplies, medical equipment and maintenance contracts. Funds appropriated from: | | | |
| GTA Privatization Proceeds Fund | 5,000,000 | 5,000,000 | - |
| Healthy Futures Fund | 1,591,000 | 1,000,000 | 591,000 |
| Public Law 27-106 (2005 Budget Act), from General Fund, used for payment of GMHA's outstanding retirement fund payable for employees who applied for retirement as of September 30, 2004. | <u>1,200,000</u> | <u>600,000</u> | <u>600,000</u> |
| Total | <u>\$ 11,591,000</u> | <u>\$ 10,391,666</u> | <u>\$ 1,199,334</u> |

At September 30, 2006 and 2005, the balances of appropriations from enabling legislations were \$-0- and \$1,199,334. Of the \$1,199,334 appropriation balance for fiscal year 2005, \$883,130 was carried over and received during the fiscal year ending September 30, 2006.

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(9) Transfers from the Government of Guam, Continued

During the fiscal years ended September 30, 2006 and 2005, transfers made from special revenue funds of the Government of Guam for the reimbursements of eligible expenditures under various Federal program grant activities were \$5,369,506 and \$8,076,205, respectively, comprising of capital expenditures and specific program assistance.

(10) Capital Expenditures for 2007 Advance Appropriation

The fiscal year 2006 Government of Guam Budget Act (Public Law 28-68 §25) appropriated \$7,800,000 in advance from the 2007 General Fund revenues to GMHA, on a reimbursement basis, for capital outlays, equipment purchases, facility repairs, renovations and improvements. During 2006, expended its funds for such capital outlays related to the 2007 advance appropriation and at September 30, 2006, the amount receivable from the Government of Guam for unreimbursed capital expenditures from this appropriation totaled \$2,431,878 with a remaining balance of \$5,368,122 for which procurement and disbursement activities were carried over in 2007.

(11) Commitments and Contingencies

Commitments

Purchase Commitments

At September 30, 2006, the GMHA had purchase commitments of approximately \$2.3 million for the acquisition of various capital equipment, equipment modernization, information technology upgrade and pharmaceutical and medical supplies, all expected to be received in 2007.

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(11) Commitments and Contingencies

Commitments, Continued

Operating Leases

GMHA leases storage space, laboratory and office equipment for various monthly amounts and terms expiring through September 30, 2007. The monthly lease payments are charged to expense as incurred. At September 30, 2006 and 2005, lease expense was \$302,291 and \$418,727, respectively. The scheduled future minimum payments under these leases are as follows:

| Year Ending September 30, | <u>Amount</u> |
|------------------------------|-------------------|
| 2007 | <u>\$ 401,943</u> |

Contingencies

Self-Insurance

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

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Notes to Financial Statements
September 30, 2006 and 2005

(11) Commitments and Contingencies

Contingencies, Continued

Medical Malpractice Claims and Employment/Personnel Matter Claims

GMHA is the defendant in several malpractice claims and has received several claims including employment and personnel matter 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. GMHA's known maximum exposure under these claims is approximately \$3.2 million of asserted and unasserted claims. For all other malpractice claims asserted and unasserted, GMHA is unable to estimate the actual monetary damages. Therefore, no liability for these contingencies has been made in the accompanying financial statements.

Medicare

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

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Notes to Financial Statements
September 30, 2006 and 2005

(11) Commitments and Contingencies, Continued

Contingencies, Continued

Federal Award Programs

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

At September 30, 2006, the Federal awards questioned cost was \$195,943. The prior year's questioned cost of \$1,692,678 was reduced to \$1,072,178 upon GMHA's review of the status of the prior year Federal award findings.

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

The GMHA has five major suppliers that accounted for approximately 59% and 71% of the total pharmaceutical and general stores supplies as of September 30, 2006 and 2005, respectively. Three of the major supplier which account for 38% and 44% for 2006 and 2005, respectively, of the total pharmaceuticals and general stores were from outside of Guam. GMHA is dependent on the ability of its suppliers both local and outside to provide pharmaceuticals and medical supplies on a timely basis and on a favorable pricing terms. The loss of certain principal suppliers or a significant reduction in product availability from principal suppliers could have a material adverse effect on the operations of the GMHA. Additionally, a failure to maintain a satisfactory relationship to these suppliers in meeting required terms of payments on products purchased could also negatively effect the operations of the GMHA. At September 30, 2006, the enabling legislation of Public Law 28-68 has established a Pharmaceutical Funds which provides for 5.61% of the gross receipts tax collected in Guam to be used for the purchase of pharmaceutical, medical and drugs.

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Notes to Financial Statements
September 30, 2006 and 2005

(13) Economic Dependency

The Statement of Financial Accounting Standard (SFAS) No 14 requires disclosure in the financial statements of a situation where one entity provides more than 10% of the audit entity's revenues. At September 30, 2006 and 2005, GMHA has the following major third-party payer agencies that account for 59% of its gross patients revenues in each year as follows:

| | 2006 | 2005 |
|--|------|------|
| Department of Public Health and Social Services, a component unit of the Government of Guam, administering Medicaid and Medically Indigent Program | 23% | 22% |
| US Department of Health and Human Services administering the Medicare Program | 25% | 25% |
| Local Health Maintenance Organizations | 11% | 12% |
| | 59% | 59% |

At September 30, 2006 and 2005, GMHA also received in supplemental subsidies for the patient care operations of the hospitals which account for approximately 11% and 10%, respectively, of the GMHA's gross patient revenues.

(14) Typhoon and Earthquake Damages and Related Insurance Claims

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

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Notes to Financial Statements
September 30, 2006 and 2005

(15) Going Concern

GMHA has incurred recurring losses from operations of \$12,092,748 and \$18,075,677 and negative cash flows from operations of \$11,719,821 and \$16,170,945 for the years ended September 30, 2006 and 2005, respectively. At September 30, 2006 and 2005, GMHA in arrears of unpaid retirement contributions with the Government of Guam Retirement Fund disclosed in Note 4 was \$15,607,755 and \$15,644,208, respectively. During the year 2006, GMHA has experienced late remittances of its employees' Federal withholding taxes to the Department of Revenue and Taxation. Subsequent to September 30, 2006, GMHA remitted total eleven payroll periods of delinquent withholding taxes amounting to \$2,046,341. At September 30, 2006 and 2005, management estimates of uncollectible accounts mainly from the Self-pay patient's accounts were \$78,062,185 and \$50,228,115, which negatively impact the operations and cash flows of the Hospital. As a result of these conditions, GMHA's management expects to continue experiencing negative operating losses and cash flows, as well as an on-going substantial subsidy from the Government of Guam to accomplish its mission and continue as going concern entity.

The Government of Guam has taken several actions through various enabling legislation to ensure the Hospital to continue as a going concern, and addressed issues of deficiencies with the Government of Guam Retirement Fund as disclosed in Notes 4 and 7 of these accompanying notes to financial statements. The Budget Act of 2006 (Public Law 28-68), mandated GMHA to submit a Mandatory Annual Budget detailing its comprehensive program and financial plan, starting March 30, 2006 for fiscal year 2007 and every 30th of January, for seeking appropriation approval by the Governor of Guam. During the fiscal year 2006, GMHA received funds from various enabling legislation for specific program and financial assistance totaling \$11,986,279 and \$5,369,506 in federal programs assistance disclosed in Note 9 of these accompanying notes to financial statements. For fiscal year 2007, the Government of Guam appropriated GMHA approximately \$26,000,000 from the General Fund and Special Funds to fund various specific program, capital expenditures, and financial assistance earmarked for all pharmaceutical, drug medical supplies, medical equipment, blood products and medicine requirements for GMHA. The management of GMHA believes that continuing appropriations from the Government of Guam will enable the hospital to continue as a going concern. There is no assurance, however, that the Government of Guam will be able to fund such appropriations due to its liquidity issues disclosed in Note 16 subsequent to the balance sheet date. The accompanying financial statements do not include any adjustments that might be necessary if the GMHA is unable to continue as a going concern.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2006 and 2005

(16) Subsequent Event

Government of Guam's Liquidity Crisis

In March 2007, Standard & Poor's Rating Services (SP) placed its "B" rating on the Government of Guam's general obligation debt on CreditWatch with negative implications for liquidity. According to SP, the liquidity crisis facing the Government of Guam is directly attributed to Guam's long-term structural imbalance, recurring deficits, a large and growing negative general fund balance, and massive long-term liabilities. The CreditWatch placement also reflects the possibility that these matters will further diminish the government's ability to meet current operational responsibilities while addressing long-term obligations. Consequently, the Government of Guam's liquidity crisis could negatively impact the Guam Memorial Hospital Authority if monies appropriated from the Government of Guam general fund are not received within the next fiscal year.

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

In October 2006, the Superior Court of Guam issued the declaratory judgment on the interpretation of the effective date of the implementation of the "Nurses and Other Healthcare Professional Incentive and Retention Act". The Superior Court of Guam declares October 1, 2001 to be the effective date of salary adjustments under the Act. The case was brought by certain nurses of the GMHA and the Guam Federation of Teachers relevant to the directive issued by the Civil Service Commission under the CSC Memorandum #2002-124 approving the implementation of the across the board increase of 39% for professional nursing positions throughout the Government of Guam, and additional 5% for professional nursing positions at the Guam Memorial Hospital Authority and Department of Mental Health Abuse effective October 1, 2001, in accordance with Public Law 25-72. The GMHA in response to the Commission's directive implementing the Act have implemented the salary adjustments beginning April 25, 2002 for the 39%, and in October 24, 2002 for the additional 5%.

Management believes that the effect of above declaratory judgment by the Superior Court on the effective date of the "Nurses and Other Healthcare Professional Incentive Retention Act" will have a material effect on the GMHA's financial condition or results of operation, upon the nurses' formal filing of the claim against GMHA through the Superior Court of Guam. At September 30, 2006, no provision has been made in the financial statements for the liability that may arise from the above declaratory judgment.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Notes to Financial Statements
September 30, 2006 and 2005

(17) Reclassifications

Expense allocation and presentation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities. During 2006, legislation was passed requiring the submission of an annual budget plan for legislature approval, which resulted in GMHA reclassifying certain 2006 functional costs to conform to the budget presentation of the Bureau of Budget and Management Research of the Government of Guam. Therefore, certain functional costs in the 2005 financial statements have been reclassified to conform to the 2006 presentation. These reclassifications had no effect on previously reported results of operations.

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Supplemental Information
Schedule of Expenses, Operating encumbrances, and Full time employees (FTE) count
Years Ended September 30, 2006 and 2005

| | Approved Budget (Modified) | Actual | | Encumbrance Balance at 30-Sep-06 | Functional Department | | | | | | | | | | | | | |
|------------------------|----------------------------------|----------------------|----------------------|--|------------------------|-----------------------------------|-----------------|---------------------|----------------------|-----------------|-------------------------|--------------------------------|-------------------|--------------------|-------------------|-------------------|-------------------|----|
| | | 2006 | 2005 | | Intensive Care Unit | Nursery Intensive Care Unit | Surgical | Medical Surgical | Medical Telemetry | Pediatrics | Obstetric/ Maternity | Skilled Nursing Facility | Emergency Care | Labor & Delivey | Operating Room | Hemo- dialysis | Nursing Admin. | |
| | | | | | | | | | | | | | | | | | | |
| <u>NURSING</u> | | | | | | | | | | | | | | | | | | |
| Salaries | \$ 19,362,396 | \$ 18,829,806 | \$ 16,728,000 | | | | | | | | | | | | | | | |
| Overtime | 1,881,175 | 1,838,771 | 1,363,966 | | | | | | | | | | | | | | | |
| Other pay | 2,002,065 | 3,145,821 | 2,925,733 | | | | | | | | | | | | | | | |
| Fringe benefits | 5,551,941 | 4,627,887 | 4,209,151 | | | | | | | | | | | | | | | |
| Total personnel costs | 28,797,577 | 28,442,285 | 25,226,850 | \$ 10,498 | \$ 8,011 | \$ 60 | \$ 35 | \$ 90 | \$ - | \$ 587 | \$ 123 | \$ 124 | \$ 21 | \$ 82 | \$ 14 | \$ 1,001 | \$ 350 | |
| Supplies and materials | 3,573,483 | 3,353,957 | 3,558,906 | 33,369 | 4,752 | 144 | 28 | 72 | 228 | 208 | 158 | 19,993 | 563 | 1,148 | 803 | 5,226 | 46 | |
| Utilities | 283,450 | 334,616 | 326,768 | 6,775 | - | - | - | - | - | - | - | 6,775 | - | - | - | - | - | |
| Contractual services | 1,349,225 | 2,239,493 | 1,799,591 | 24,215 | 77 | 11 | 719 | 516 | 418 | 223 | 804 | 1,418 | 11,863 | 592 | 2,308 | 3,076 | 2,190 | |
| Miscellaneous | 121,314 | 77,057 | 252,775 | 28,608 | 699 | 4,102 | 3,902 | 80 | 118 | 207 | 1,096 | 13,226 | 990 | 606 | 1,707 | 362 | 1,513 | |
| | <u>\$ 34,125,049</u> | <u>\$ 34,447,408</u> | <u>\$ 31,164,890</u> | <u>\$ 103,465</u> | <u>\$ 13,539</u> | <u>\$ 4,317</u> | <u>\$ 4,684</u> | <u>\$ 758</u> | <u>\$ 764</u> | <u>\$ 1,225</u> | <u>\$ 2,181</u> | <u>\$ 41,536</u> | <u>\$ 13,437</u> | <u>\$ 2,428</u> | <u>\$ 4,832</u> | <u>\$ 9,665</u> | <u>\$ 4,099</u> | |
| FTE count | | <u>455</u> | | | | 29 | 36 | 39 | 41 | 44 | 33 | 25 | 35 | 50 | 47 | 34 | 30 | 12 |
| FTE count | | | <u>438</u> | | | 29 | 35 | 40 | 40 | 45 | 34 | 24 | 34 | 33 | 47 | 35 | 29 | 13 |

| | Approved Budget (Modified) | Actual | | Encumbrance Balance at 30-Sep-06 | Functional Department | | | | | | | | | |
|-------------------------|----------------------------------|----------------------|----------------------|--|-----------------------|------------------|------------------------|----------------------------|------------------|-----------------|---------------------------|------------------|-----------------|---|
| | | 2006 | 2005 | | Laboratory | Radiology | Respiratory Therapy | Rehabilitation Services | Education | Dietary | Social Worker Services | Pharmacy | Pastoral | |
| | | | | | | | | | | | | | | |
| <u>ANCILLARY</u> | | | | | | | | | | | | | | |
| Salaries and leave pay | \$ 6,985,870 | \$ 6,788,298 | \$ 5,477,350 | | | | | | | | | | | |
| Overtime | 587,272 | 398,032 | 499,174 | | | | | | | | | | | |
| Other pay | 976,625 | 1,304,890 | 1,172,201 | | | | | | | | | | | |
| Fringe benefits | 1,841,333 | 1,696,546 | 1,536,679 | | | | | | | | | | | |
| Total personnel costs | 10,391,100 | 10,187,766 | 8,685,404 | \$ 83,639 | \$ 32,383 | \$ 41 | \$ 66 | \$ 43,053 | \$ 7,566 | \$ 168 | \$ 25 | \$ 337 | \$ - | |
| Supplies and materials | 7,454,832 | 6,821,164 | 7,757,220 | 123,355 | 105,349 | 8,968 | 420 | 4,858 | 1,953 | 230 | 960 | 28 | 589 | |
| Contractual services | 2,063,313 | 2,224,161 | 2,040,388 | 105,887 | 30,922 | 340 | 5,475 | 3,735 | 15,696 | 236 | 588 | 47,895 | 1,000 | |
| Miscellaneous-Bad debts | - | 293,100 | - | - | - | - | - | - | - | - | - | - | - | |
| Miscellaneous | 227,395 | 167,126 | 151,990 | 51,742 | 14,938 | 844 | 1,816 | 5,070 | 11,547 | 8,026 | 1,567 | 7,081 | 853 | |
| Capital outlay | 143,997 | - | - | 5,513 | 5,513 | - | - | - | - | - | - | - | - | |
| | <u>\$ 20,280,637</u> | <u>\$ 19,693,317</u> | <u>\$ 18,635,002</u> | <u>\$ 370,136</u> | <u>\$ 189,105</u> | <u>\$ 10,193</u> | <u>\$ 7,777</u> | <u>\$ 56,716</u> | <u>\$ 36,762</u> | <u>\$ 8,660</u> | <u>\$ 3,140</u> | <u>\$ 55,341</u> | <u>\$ 2,442</u> | |
| FTE count | | <u>216</u> | | | | 43 | 32 | 28 | 21 | 5 | 54 | 6 | 26 | 1 |
| FTE count | | | <u>209</u> | | | 43 | 31 | 25 | 20 | 4 | 53 | 6 | 26 | 1 |

Supplemental notes to Schedule of Expenditures:

At September 30, 2006 and 2005, amount of salaries charged to Federal awards program costs of ANA Grant was \$25,385 and \$0, respectively.

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Supplemental Information
Schedule of Expenses, Operating encumbrances, and Full time employees (FTE) count, continued
Years Ended September 30, 2006 and 2005

| | Approved Budget (Modified) | Actual | | Encumbrance Balance at 30-Sep-06 | Functional Department | | | | | | | | | |
|--------------------------------|----------------------------------|----------------------|---------------------|--|-----------------------|-------------------|------------------|------------------|---------------|-----------------|------------------|-------------------------|--------------------|-----------------|
| | | 2006 | 2005 | | Laundry Services | Central Supply | Purchasing | Safety | Security | Housekeeping | Facilities | Communication Center | Guest Relations | Planning |
| GENERAL SERVICES | | | | | | | | | | | | | | |
| Salaries-regular | \$ 3,448,580 | \$ 3,341,660 | \$ 2,686,196 | | | | | | | | | | | |
| Salaries-overtime | 200,000 | 185,879 | 95,107 | | | | | | | | | | | |
| Other pay | 246,004 | 338,845 | 298,360 | | | | | | | | | | | |
| Fringe benefits | 1,037,684 | 987,848 | 864,915 | | | | | | | | | | | |
| Total personnel costs | 4,932,268 | 4,854,232 | 3,944,578 | \$ 15,650 | \$ 1,455 | \$ 608 | \$ 1,350 | \$ 9,755 | \$ 910 | \$ 1,043 | \$ 30 | \$ 444 | \$ 31 | \$ 24 |
| Utilities, water and telephone | 1,541,712 | 1,817,290 | 1,510,274 | - | - | - | - | - | - | - | - | - | - | - |
| Supplies and materials | 753,800 | 1,428,451 | 1,378,123 | 5,735 | 12 | - | 2,856 | - | - | 443 | 96 | 1,220 | 1,066 | 42 |
| Contractual services | 2,013,583 | 1,542,544 | 2,736,538 | 49,045 | - | 500 | 41,406 | 2,450 | - | 28 | 2,717 | 1,176 | - | 768 |
| Capital outlay | 94,229 | - | - | 90,510 | - | 43,010 | 47,500 | - | - | - | - | - | - | - |
| Miscellaneous-Bad debts | - | 327,536 | - | - | - | - | - | - | - | - | - | - | - | - |
| Miscellaneous | 62,018 | 301,490 | 227,890 | 17,126 | - | - | 3,004 | 2,594 | - | 578 | 8,965 | 1,543 | 100 | 342 |
| | <u>\$ 9,397,610</u> | <u>\$ 10,271,543</u> | <u>\$ 9,797,403</u> | <u>\$ 178,066</u> | <u>\$ 1,467</u> | <u>\$ 44,118</u> | <u>\$ 96,116</u> | <u>\$ 14,799</u> | <u>\$ 910</u> | <u>\$ 2,092</u> | <u>\$ 11,808</u> | <u>\$ 4,383</u> | <u>\$ 1,197</u> | <u>\$ 1,176</u> |
| FTE count | | <u>119</u> | | | 11 | 10 | 19 | 4 | 8 | 16 | 38 | 9 | 1 | 3 |
| FTE count | | | <u>132</u> | | 10 | 10 | 24 | 4 | 11 | 18 | 43 | 8 | 1 | 3 |

| | Approved Budget (Modified) | Actual | | Encumbrance Balance at 30-Sep-06 | Functional Department | | | | |
|-------------------------------|----------------------------------|---------------------|---------------------|--|-----------------------|-----------------------|--------------------|-------------------------|--------------------|
| | | 2006 | 2005 | | Data Processing | General Accounting | Patient Affairs | Patient Registration | Medical Records |
| ADMINISTRATIVE SUPPORT | | | | | | | | | |
| Salaries - regular | \$ 3,125,123 | \$ 3,060,176 | \$ 2,763,828 | | | | | | |
| Salaries - overtime | 141,653 | 124,296 | 58,598 | | | | | | |
| Other pay | 198,531 | 197,282 | 163,384 | | | | | | |
| Fringe benefits | 896,367 | 860,551 | 836,521 | | | | | | |
| Annual leave lump sum pay | - | 419,796 | 283,138 | | | | | | |
| Sick leave (DC plan) | - | 226,986 | 284,124 | | | | | | |
| Total personnel costs | 4,361,674 | 4,889,087 | 4,389,593 | \$ 15,147 | \$ 478 | \$ 2,689 | \$ 3,640 | \$ 8,203 | \$ 137 |
| Contractual services | 1,125,641 | 1,301,313 | 1,616,646 | 94,984 | 74,371 | 7,063 | 12,982 | 477 | 91 |
| Supplies and materials | 169,250 | 162,779 | 157,420 | 13,172 | 344 | 7,093 | 5,591 | 59 | 85 |
| Capital outlay | 69,452 | - | - | 57,473 | 57,473 | - | - | - | - |
| Miscellaneous | 149,362 | 94,150 | 143,250 | 45,818 | 37,163 | 8,157 | 254 | - | 244 |
| | <u>\$ 5,875,379</u> | <u>\$ 6,447,329</u> | <u>\$ 6,306,909</u> | <u>\$ 226,594</u> | <u>\$ 169,829</u> | <u>\$ 25,002</u> | <u>\$ 22,467</u> | <u>\$ 8,739</u> | <u>\$ 557</u> |
| FTE count | | <u>100</u> | | | 10 | 18 | 30 | 21 | 21 |
| FTE count | | | <u>112</u> | | 10 | 17 | 37 | 21 | 27 |

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Supplemental Information
Schedule of Expenses, Operating encumbrances, and Full time employees (FTE) count, continued
Years Ended September 30, 2006 and 2005

| | Approved Budget (Modified) | Actual | | Encumbrance Balance at 30-Sep-06 | Functional Department | | | |
|--------------------------------|----------------------------------|---------------------|---------------------|--|-----------------------|-----------------|------------------|------------------|
| | | 2006 | 2005 | | Administration | Personnel | Med Staff-Admin | Equal Employment |
| <u>ADMINISTRATION</u> | | | | | | | | |
| Salaries - regular | \$ 911,793 | \$ 899,823 | \$ 845,329 | | | | | |
| Salaries - overtime | 7,000 | 695 | 2,529 | | | | | |
| Other pay | 129 | 2,820 | 6,300 | | | | | |
| Fringe benefits | <u>222,497</u> | <u>229,614</u> | <u>243,979</u> | | | | | |
| Total personnel costs | 1,141,419 | 1,132,952 | 1,098,137 | \$ 47,957 | \$ 29,308 | \$ - | \$ 18,649 | \$ - |
| Contractual services | 724,095 | 423,314 | 307,124 | 84,621 | 82,424 | 1,962 | 235 | - |
| FY 2002 supplemental | | | | | | | | |
| COLA benefit for GMHA retirees | - | - | 1,507,004 | - | - | - | - | - |
| Insurance (Property) | 725,244 | 892,958 | 1,213,334 | - | - | - | - | - |
| Miscellaneous | <u>158,908</u> | <u>147,500</u> | <u>222,277</u> | <u>45,535</u> | <u>42,731</u> | <u>143</u> | <u>2,661</u> | <u>-</u> |
| | <u>\$ 2,749,666</u> | <u>\$ 2,596,724</u> | <u>\$ 4,347,876</u> | <u>\$ 178,113</u> | <u>\$ 154,463</u> | <u>\$ 2,105</u> | <u>\$ 21,545</u> | <u>\$ -</u> |
| FTE count | | <u>26</u> | | | 12 | 9 | 4 | 1 |
| FTE count | | | <u>26</u> | | 14 | 7 | 4 | 1 |
| <u>MEDICAL STAFF</u> | | | | | | | | |
| Salaries - regular | \$ 1,504,144 | \$ 1,503,896 | \$ 1,236,813 | | | | | |
| Salaries - overtime | 1,000 | - | - | | | | | |
| Other pay | 60,133 | 60,396 | 44,766 | | | | | |
| Fringe benefits | <u>326,793</u> | <u>304,840</u> | <u>305,013</u> | | | | | |
| Total personnel costs | 1,892,070 | 1,869,132 | 1,586,592 | \$ - | \$ - | \$ 762 | \$ - | \$ - |
| Contractual services | 5,068 | 100 | 353,517 | - | - | 600 | - | 4,290 |
| Miscellaneous | <u>77,850</u> | <u>100,699</u> | <u>78,157</u> | <u>-</u> | <u>452</u> | <u>19</u> | <u>-</u> | <u>1,307</u> |
| | <u>\$ 1,974,988</u> | <u>\$ 1,969,931</u> | <u>\$ 2,018,266</u> | <u>\$ -</u> | <u>\$ 452</u> | <u>\$ 1,381</u> | <u>\$ -</u> | <u>\$ 5,597</u> |
| FTE count | | <u>17</u> | | | 8 | 1 | - | 8 |
| FTE count | | | <u>18</u> | | 6 | 1 | - | 11 |
| Total expenses | | | | | | | | |
| Total FTE count | | <u>933</u> | <u>935</u> | | | | | |

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