

**GUAM MEMORIAL HOSPITAL AUTHORITY**

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

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

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**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Guam Memorial Hospital Authority:

We have audited the accompanying statements of net assets of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GMHA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

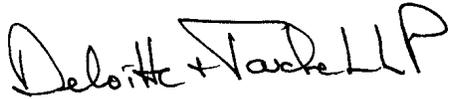
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Memorial Hospital Authority as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of GMHA's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of GMHA taken as a whole. The accompanying schedules on pages 37 through 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements of GMHA. These schedules are the responsibility of GMHA's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010, on our consideration of GMHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.

December 29, 2010

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Management Discussion and Analysis  
Year Ended September 30, 2010

## INTRODUCTION

The Guam Memorial Hospital Authority's management discussion and analysis serves to provide an overview of the Hospital's financial activities for the fiscal year ended September 30, 2010 through the eyes of management. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the entire audit report. Remembering that the financial statements reflect what happened during a reporting period, while the MD&A explains why these changes occurred with further clarification found in the notes to the financial statements.

The Guam Memorial Hospital Authority is a component unit of the Government of Guam located in the village of Tamuning. The Guam Memorial Hospital Authority is the island's only civilian and government-operated public acute care Hospital. From its humble beginning at the Oka Point in 1956 to retaining Joint Commission (JC) Accreditation in July 2010, our mission has remained constant - providing quality medical care in a safe environment to the people of Guam three hundred sixty five days a year. The Hospital provides a wide range of services, emergency room care, cardio-catheterization, hemodialysis, surgical/anesthesia services, adult and pediatric acute care, orthopedic, respiratory care, rehabilitation services, dietary services, laboratory services, radiological and imaging services, and long term rehabilitative care.

If we were to summarize both the goals and challenges we faced in 2010, it would be all focused in our journey towards accreditation. The goal of actively pursuing accreditation was crystallized by our former Board of Trustees Chairperson, Mr. Daniel L. Webb, in 2008. He believed without any hesitation in this Hospital's ability to achieve that goal. It was eventually memorialized in the Hospital's 2009 Strategic Plan.<sup>1</sup> Once the decision was made to pursue accreditation, it was clearly understood by those involved that it would *not* only translate into an increase in Hospital costs, but also an intensification of time, effort, and hard work by all *our* employees.

Let us first explain what accreditation means. Basically it means that the level of medical care provided by the facility has been assessed to be of quality standards and that the accredited organization has demonstrated compliance to the most stringent standards of performance. The JC organization is governed by physicians, nurses, and others in the medical field. The ability of the facility to maintain adherence to the standards of care are carefully examined periodically by JC via on-site visits. These standards drill down to basic system operations and processes such as, life safety aspects of the building and how care is provided. As a part of the continual self assessment, the facility executes monthly and quarterly evaluations of performance indicators that are geared toward determining compliance with JC standards. This evaluation stems from all aspects of the Hospital's system operations and processes – housekeeping, security, financials, facility stability, physician, and nursing services are evaluated and measured.

Now, how does this equate to what happened financially for fiscal year 2010 for the Hospital?

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<sup>1</sup> Guam Memorial Hospital Authority 2009 – 2014 Strategic Plan. [www.gmha.org](http://www.gmha.org)

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**OVERVIEW OF THE FINANCIAL STATEMENT AND FINANCIAL ANALYSIS**

The Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets report information about the Hospital as a whole and its activities in a way that helps answer this question. A summary is presented below:

Summarized Statements of Net Assets

<u>Assets</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>
Current and other assets	\$ 51,170,293	\$ 47,604,208	\$ 41,931,001
Capital assets, net	<u>38,236,491</u>	<u>39,214,276</u>	<u>41,003,267</u>
Total assets	\$ <u>89,406,784</u>	\$ <u>86,818,484</u>	\$ <u>82,934,268</u>
 <u>Liabilities and Net Assets</u>			
Liabilities:			
Current liabilities	\$ 37,473,712	\$ 22,598,999	\$ 30,446,412
Long-term liabilities	<u>4,631,431</u>	<u>4,476,413</u>	<u>3,603,395</u>
Total liabilities	42,105,143	27,075,412	34,049,807
Net Assets:			
Invested in capital assets	38,236,491	39,214,276	41,003,267
Unrestricted	<u>9,065,150</u>	<u>20,528,796</u>	<u>7,881,194</u>
Total net assets	<u>47,301,641</u>	<u>59,743,072</u>	<u>48,884,461</u>
Total liabilities and net assets	\$ <u>87,406,784</u>	\$ <u>86,818,484</u>	\$ <u>82,934,268</u>

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

	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>
Operating revenues	\$ 84,626,368	\$ 93,539,681	\$ 89,178,514
Operating expenses	<u>105,762,500</u>	<u>99,355,376</u>	<u>92,423,621</u>
Operating loss	(21,135,832)	(5,815,695)	(3,245,107)
Non-operating revenues (expenses), net	<u>5,749,554</u>	<u>14,543,999</u>	<u>8,054,367</u>
Excess (deficiency) of revenues over (under) expenses	(15,386,278)	8,728,304	4,809,260
Capital Grants from GovGuam General Fund	1,006,397	22,862	-
Federal award capital grants and contributions	<u>1,938,450</u>	<u>2,107,445</u>	<u>1,920,307</u>
Change in net assets	(12,441,431)	10,858,611	6,729,567
Net assets at the beginning of the year	<u>59,743,072</u>	<u>48,884,461</u>	<u>42,154,894</u>
Net assets at the end of the year	\$ <u>47,301,641</u>	\$ <u>59,743,072</u>	\$ <u>48,884,461</u>

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If one were to compare the Hospital’s financial state from each fiscal year to present, one would easily discern that two financial accounts had significant changes - patient revenue and accounts receivable. Our patient revenue equates to the total patient charges incurred for the year which also means the total level of services provided to our patients for the year. Patient revenue is the core of Hospital’s revenue cycle. Just as with any business, the more revenues the Hospital is able to generate, the more opportunities for the Hospital to be reimbursed for the care that was provided.

Fiscal Year	Gross Patient Revenues	Patient Admissions
2008	\$124,775,322	47,975
2009	\$142,620,383	48,636
2010	\$146,691,202	46,302

Figure 1

As you can see from the table above, the number of admissions does not necessarily correlate to the amount of revenue the Hospital can generate. The increase can be attributed to two dependent factors, the increase in the number of fees the Hospital is authorized to charge a patient and the open communication between department managers. As of the end of fiscal year 2010, the Hospital had over eighteen thousand valid charges that encompassed all the services, pharmaceuticals, and supplies that can be rendered to our patients. All these charges would be of no value if it were not for the employees directly involved in the delivery of care. Through each of the department heads, it was clearly communicated as to the importance of charging for all the services, pharmaceuticals, and supplies that were provided to each and every patient. Each department head was accountable to ensure that patients were properly charged for care that was provided.

The growth in the gross patient revenues through fiscal year 2008 to 2010 is not without accompanying challenges. One should bear in mind, that if you visit a Government of Guam agency, you will be expected to pay for the services provided. If you wish to connect to the island’s power grid, as a consumer you would be expected to pay the Guam Power Authority for the connection. If you wish to obtain a driver’s license, you would be expected to pay the Department of Revenue and Taxation for the issuance of the license. ***The Hospital is the only component of the Government of Guam in which services cannot be withheld due to the financial ability of the patient.*** The negative impact of this mandate is clearly illustrated below. In fiscal year 2010, the Hospital has charged for all the services provided but yet the reimbursement averages a 60% total return. This continues to be the single largest factor in the Hospital’s financial instability. The charges to patients include the cost of providing the services, recruiting and retaining qualified clinical personnel, required capital investment/reinvestment, and acquiring medical supplies and pharmaceuticals – when these charges are not paid, these costs cannot be recouped.

Fiscal Year	Total Gross Patient Revenues	Patient Receipts
2008	\$124,775,322	\$82,004,402
2009	\$142,620,383	\$87,335,190
2010	\$146,691,202	\$83,471,869

Figure 2

There is another factor – the patient mix which also greatly affects our financial position that must be considered. On average the Hospital generates over eleven million dollars in gross patient billings each month. Of these monthly billings, the patient mix for those billings is as follows:

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Patient Mix	Method of Reimbursement to the Hospital	Average Billing Percentage Breakdown
Medically Indigent Program	Daily per diem funded 100% by the Government of Guam	15%
Medicaid	Daily per diem which is 50% funded by Government of Guam and 50% by the Federal Government	19%
Medicare	Daily per diem funded 100% by the Federal Government	20%
Self Pay – Insured and Uninsured	100% from the Patient and/or Guarantor	16%
All other	Based on allowed covered benefits of the medical health plan	30%

Figure 3

For over 50% of patients treated at the Hospital, (those in the MIP, Medicaid and Medicare categories), the level of reimbursement to the Hospital for all the services provided is on a per diem basis or a daily allowance. This daily allowance is tied directly to the results of the required annual Cost Report filed with the Center for Medicare Medicaid Services (CMS). The report can be thought of as the Hospital's tax return to CMS. The report is a compilation of varying information of the Hospital's system processes, from square footage of the Hospital, specific costs associated with the hemodialysis services, how physicians' time is allocated in comparison to how much they are paid, total expenditures, total revenues by department. Upon review of the report, CMS determines the Hospital's per diem rate for the fiscal year. As per Guam public law 27-30, §2916, reimbursement for MIP services is directly tied to the yearly Interim Reimbursement Rate from CMS. Medicaid reimbursement is dictated by the Guam State Plan as administered by the Department of Public Health and Social Services which has not been updated since 2003 with the passage of P.L. 27-30.

The Hospital would also like to bring to light one particular payor of which historical billing/collection data has also shown minimal to no reimbursement – Agencies of the Government of Guam, such as the Department of Corrections (DOC), the Guam Police Department (GPD), and the Guam Fire Department (GFD). Clients of DOC are regularly brought to the Hospital to receive services, from the Emergency Room to receiving regular Hemodialysis services. For GPD, persons who were injured while in the process of being arrested are brought to the Hospital for medical clearance prior to being incarcerated. GFD EMTs regularly replenish their ambulances with linens, pharmaceuticals, and medical supplies. The Hospital generates the billing for the appropriate agency. The agency receives the bills but may not process payment. These agencies are unable to process payment due their budgetary shortfalls. Consequently, medical services provided to our sister agencies are not considered a priority. This fiscal year, the Hospital has recorded the receivable as deferred revenue in the amount of \$2.6 million. Discussions will be held between senior management and legal counsel to ascertain the proper and best course of action to seek proper reimbursement.

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The other component of the Hospital's financial equation is its expenses. The Hospital's Financial Plan is prepared each fiscal year and presented for review and approval by its Board of Trustees. Since the 2008 Budget, the Hospital has planned and incorporated into the budget costs associated with attaining and maintaining accreditation. A major challenge in this pursuit was meeting the facility and life safety code standards. The original parts of the facility are over thirty (30) years old. There have also been additions to the original Hospital over the past twenty years. Additionally, the salaries and benefits budget category continues to dominate the total budgeted amount, 80% of total budgeted S&B each fiscal year are tied directly to clinical staff compensation, such as Registered Nurses, Licensed Practical Nurses, Certified Nurse Aides, Physicians, Radiological Technicians, Operating Room Technicians, Emergency Room Technicians, Rehabilitative personnel, Respiratory personnel, Laboratory technicians, etc. The Hospital does not have any room to reduce S&B for the clinical staff as their compensation is in many cases mandated either by Guam Law or via negotiated union contract. As clinical staff represents 80% of the annual budgeted S&B, 70% of the authorized full time equivalency is dedicated to them. Please note below the FY2010 and FY2009 budgets illustrating our financial commitment towards JC accreditation.<sup>2</sup> Confirmed by our auditors, the Hospital was determined to have maintained expenditures below the Board authorized spending authority despite its many competing budgetary needs.

FY2009	Administration	Operations	Fiscal	Medical	Nursing	Professional Support	Total Budget
Salaries & Benefits	\$1,187,936	\$5,572,179	\$4,349,304	\$11,390,298	\$26,247,040	\$10,260,378	\$59,007,135
Operational Expenses	\$2,072,463	\$7,451,607	\$1,975,031	\$1,657,094	\$4,467,631	\$13,293,781	\$30,917,607
Total Budget	\$3,260,399	\$13,023,786	\$6,324,335	\$13,047,392	\$30,714,671	\$23,554,159	\$89,924,742
Total FTE	23	183	105	56	512	233	1,112

Figure 4

FY2010	Administration	Operations	Fiscal	Medical	Nursing	Professional Support	Total Budget
Salaries & Benefits	\$1,220,529	\$5,816,379	\$4,462,680	\$15,313,369	\$28,779,940	\$10,509,148	\$66,102,045
Operational Expenses	\$4,567,709	\$7,625,725	\$2,518,405	\$1,636,693	\$4,339,585	\$13,201,688	\$33,889,805
Total Budget	\$5,788,238	\$13,442,104	\$6,981,085	\$16,950,062	\$33,119,525	\$23,710,836	\$99,991,850
Total FTE	19	222	100	94	554	264	1,253

Figure 5

<sup>2</sup> FY2009 Annual Budget as authorized under BOT Resolution 08-18.  
FY2010 Annual Budget as authorized under BOT Resolution 09-29

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Further elaborating on the impact of our pursuit for JC accreditation, the Hospital did realize an increase in operational expenses each fiscal year. Recruiting and maintaining clinical staff is expensive due to the worldwide shortage of licensed/registered clinical staff. The American Association of Colleges for Nurses (AACN) has been and continues to work aggressively to address the projected shortage of licensed/registered nurses in the United States. What is interesting is that the projected shortage is not due to the lack of students wishing to pursue a nursing career but is because of the decrease in the number of qualified nursing faculty/teachers. The AACN reported that in FY2009, over 54,000 baccalaureate and graduate nursing students were turned away or were unable to register for nursing programs in United States Nursing colleges due to insufficient available faculty. Consequently, recruiting and maintaining licensed/registered nurses to Guam is that much more difficult. The increase in expenses for the Hospital between FY2009 and FY2010 can be directly attributed to the nursing recruitment efforts. The Hospital has had to resort to using what are called „travelling nurses“ in order to maintain sufficient number of licensed/registered nurses to meet our patient load. Specifically, our Nursing Administrator wanted to ensure the patient to nurse ratio for the patient specialty areas of the Intensive Care Unit and the Emergency Room were met. It is especially challenging to recruit for ICU and ER nurses due to the intensified level of patient care that is required to be administered by the nurse. The Hospital looks specifically to obtain such specialized nurses from the Nursing Recruitment Firm hired by the Hospital. Although the Hospital does recognize that this continues to be an expensive alternative to recruiting much needed nursing staff, the Hospital does not have a choice in the matter. The level of care the Hospital provides to our patients has grown. The number of patients treated with the medical conditions of Diabetes, cardiovascular diseases, and cancer continues to increase. Specific to addressing the increase of patient admissions with varying cardiovascular disease, Nursing implemented the Rapid Response Team (RRT) program in early FY2010. Despite the challenges of redirecting qualified season nursing staff for the RRT, Nursing realized the importance of proceeding with the program. A team of ten (10) to fifteen (15) nurses were dedicated to the RRT program in order to provide 24 hour patient care coverage. The RRT is aimed at identifying potential patients of possible cardiac arrest (when your heart suddenly stops pumping blood). They monitor the patients and provide higher level of care in order to prevent a cardiac arrest. This life saving program has improved the quality of life for our patients as they are able to forgo any possible side affects of a cardiac arrest.

Fiscal Year	Total Operating Expense	Increase from previous year	% increase
FY 2010	\$105,762,200	\$ 6,426,824	6.5%
FY 2009	\$ 99,335,376	\$ 4,429,995	4.7%
FY 2008	\$ 94,905,381	\$ 5,026,492	5.6%
FY 2007	\$ 89,878,889	\$ 3,559,033	4.5%
FY 2006	\$ 79,323,475		

Figure 6

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As a recap,

- 1) The Hospital has shown it has the capacity to generate sufficient gross patient revenues;
- 2) Legislative mandate requires the Hospital to accept every person who presents themselves with a medical condition;
- 3) The Hospital does not receive dollar to dollar reimbursement for the quality medical services provided which is **standard** across the health industry; and
- 4) The Hospital's Board approved annual financial plan reflects compensation that has been set by legislation and complies with elements needed for JC accreditation.

The last factor that has helped to shape Fiscal Year 2010 for the Hospital is P.L. 29-132.<sup>3</sup> Prior to its enactment, the Hospital received three (3) sources of funding from the Government of Guam, for Medically Indigent Program (MIP) adjudicated claims, for Medical Assistance Program (MAP) adjudicated claims, and from the Pharmaceutical Fund (PF).<sup>4</sup> Beginning January 8, 2009, funding stream from the Government of Guam was reduced by one (1). The PF were viewed as payment for adjudicated MIP claims. The distribution of the PF is tied to the monthly collected business privilege tax which is capped by both a percentage of the monthly collection and capped by the total annual collection. Figure 7 and Figure 8 illustrate the amount of funding received prior to the enactment of P.L. 29-132.

	FY 2007 COLLECTIONS	FY 2007 BILLINGS	COLLECTIONS OVER BILLINGS
<b>PAYOR CLASS:</b>			
MIP, GRT AND MEDICAID			
MIP	\$ 7,028,754.28	\$ 15,667,830.46	
MIP/GRT	9,813,753.97	-	
Medicaid	<u>12,076,642.84</u>	<u>19,297,450.18</u>	
Total	\$ <u>28,919,151.09</u>	\$ <u>34,965,280.64</u>	83%
Note: FY 2007 GRT collection was based on pure GRT.			

Figure 7

<sup>3</sup> January 8, 2009 P.L. 29-132 was signed by the Governor of Guam.

<sup>4</sup> FY2006-P.L. 28-68, FY2007 – P.L. 28-150, FY 2008 – P.L. 29-19, FY 2009 – P.L. 29-113, and FY2010 – P.L. 30-55

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	<b>FY 2008 COLLECTIONS</b>	<b>FY 2008 BILLINGS</b>	<b>COLLECTION OVER BILLINGS</b>
<b>PAYOR CLASS:</b>			
MIP, GRT AND MEDICAID			
MIP	\$ 8,301,861.00	\$ 15,311,360.71	
MIP/GRT	11,166,478.75	-	
Medicaid	<u>11,883,055.00</u>	<u>20,103,895.93</u>	
Total	\$ <u>31,351,394.75</u>	\$ <u>35,415,256.64</u>	89%

Note: FY 2008 GRT collection was based on pure GRT.

Figure 8

Figure 9 and Figure 10 illustrate the level of funding received from the Government of Guam subsequent to P.L. 29-132.

	<b>FY 2009 COLLECTIONS</b>	<b>FY 2009 BILLINGS</b>	<b>COLLECTION OVER BILLINGS</b>
<b>PAYOR CLASS:</b>			
MIP, GRT AND MEDICAID			
MIP	\$ 6,632,403.87	\$ 20,678,652.49	
MIP/GRT	6,414,679.56	-	
Medicaid	<u>14,991,805.41</u>	<u>26,339,447.66</u>	
Total	\$ <u>28,038,888.84</u>	\$ <u>47,018,100.15</u>	60%

Figure 9

	<b>FY 2010 COLLECTIONS</b>	<b>FY 2010 BILLINGS</b>	<b>COLLECTION OVER BILLINGS</b>
<b>PAYOR CLASS:</b>			
MIP, GRT AND MEDICAID			
MIP	\$ 12,542,554.19	\$ 23,078,531.16	
MIP/GRT	2,460,235.00	-	
Medicaid	<u>13,595,866.37</u>	<u>28,347,466.32</u>	
Total	\$ <u>28,598,655.56</u>	\$ <u>51,425,997.48</u>	56%

Figure 10

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Figure 11 illustrates what the Hospital would have received if P.L. 29-132 was not enacted. Based on conservative estimations, the Hospital did not receive a little over \$17 million dollars over a two year period.

	Actual Collections – P.L. 29-132	Projected Collections	Lost Funding due to P.L. 29-132
FY2009	\$ 28,038,888	\$ 35,129,943	\$ 7,091,055
FY2010	<u>28,598,655</u>	<u>38,552,908</u>	<u>9,954,253</u>
<b>Total</b>	<u>\$ 53,637,543</u>	<u>\$ 73,682,851</u>	<u>\$ 17,045,308</u>

Figure 11

In addition to the reduction in funding from the Government of Guam, reimbursement/collection from patients who are without any means of medical health insurance continues to be sluggish.<sup>5</sup> One factor in this worsening trend may be data uncovered through analysis of the makeup of our Self Pay patients from the point of when the patient is admitted. The Hospital has trained the Admission personnel to collect payment from patients at the point of admissions for both inpatient and outpatient services based on an estimation. Collection in the Emergency Room is handled after medical treatment has been rendered and the patient has been stabilized as required by the Emergency Medical Treatment and Active Labor Act (EMTALA). Securing information about medical health insurance is a part of the collection process. Those without medical health insurance are classified as Uninsured Self Pay. Trained as our staff may be, the following figures illustrate their challenges.

The Hospital saw an increase of 27% in Uninsured Self Pay patients between FY2009 and FY2010. We also noted that there was an increase in the number of Uninsured Self Pay patients who were self-declared to be unemployed at 76% between FY2009 and FY2010. The gross amount of patient charges captures for the Uninsured Self Pay was over \$7M for FY2009 and over \$10M for FY2010. This is quite significant finding. The Hospital, as part of extending its efforts to collect on all outstanding accounts, has made it a standard operating procedure to refer unpaid accounts to external contracted collection agencies. The Hospital has found that over 60% of referred unpaid Self Pay accounts had declared themselves to be unemployed.<sup>6</sup> It should be noted that the access to health insurance is also a national trend that resulted in the passage of the Affordable Care Act (ACA) in March 23, 2010 by the United States Government. This would allow by 2014, the 32 million uninsured Americans access to health insurance. It is important to note that Guam and the other insular areas were excluded from participation in the ACA, although the ACA did not allow for an increase in the federal cap for the Medicaid Program. A positive outcome of ACA was an increase in the Medicaid Program allowing for additional participants in the program.

<sup>5</sup> This fact was also stated in the Hospital's FY2006 and FY2007 Management Discussion and Analysis of the audited financial statements.

<sup>6</sup> As of September 30, 2010, 55,067 patient accounts were referred to an external contracted collection agency with an aggregate unpaid amount of over \$99M. Life of these accounts stem back at least five fiscal years.

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DESCRIPTION	FY2008			FY2009			FY2010		
	Patient Count		\$ Value	Patient Count		\$ Value	Patient Count		\$ Value
SELF PAY	<b>4,764</b>	<b>9%</b>	<b>7,281,896</b>	<b>4,292</b>	<b>8%</b>	<b>7,735,301</b>	<b>5,478</b>	<b>11%</b>	<b>10,890,788</b>
MAP	13,475	26%	23,425,311	15,539	30%	31,103,210	14,052	29%	32,418,757
MED	1,394	3%	3,944,746	1,287	2%	4,955,210	1,709	4%	7,373,592
MIP	3,631	7%	12,613,944	5,977	11%	23,312,738	5,808	12%	21,838,742
ALL OTHER	28,213	55%	73,784,305	25,168	48%	74,190,245	21,706	45%	71,374,785
<b>TOTAL</b>	<b>51,477</b>	<b>100%</b>	<b>121,050,203</b>	<b>52,263</b>	<b>100%</b>	<b>141,296,703</b>	<b>48,753</b>	<b>100%</b>	<b>143,896,664</b>
EMPLOYED	2,492	52%	3,383,061	2,039	48%	3,023,946	2,284	42%	3,801,101
UNEMPLOYED	<b>1,588</b>	<b>33%</b>	<b>2,213,369</b>	<b>1,643</b>	<b>38%</b>	<b>2,796,727</b>	<b>2,896</b>	<b>53%</b>	<b>6,265,347</b>
MEDICAL DISABILITY	28	1%	46,390	49	1%	200,117	7	0%	3,055
RETIRED	599	13%	1,512,045	468	11%	1,629,019	163	3%	645,454
STUDENT	57	1%	127,032	93	2%	85,491	128	2%	175,832
	<b>4,764</b>	<b>100%</b>	<b>7,281,896</b>	<b>4,292</b>	<b>100%</b>	<b>7,735,301</b>	<b>5,478</b>	<b>100%</b>	<b>10,890,788</b>
EMERGENCY	2,921	61%	1,703,924	2,697	63%	2,108,143	3,493	64%	3,204,546
INPATIENT	859	18%	5,019,930	895	21%	5,124,945	1,391	25%	7,243,875
OUTPATIENT	984	21%	558,042	700	16%	502,213	594	11%	442,366
	<b>4,764</b>	<b>100%</b>	<b>7,281,896</b>	<b>4,292</b>	<b>100%</b>	<b>7,735,301</b>	<b>5,478</b>	<b>100%</b>	<b>10,890,788</b>

Figure 12

The cumulative effect of all these factors as discussed has been strong impediments in the Hospital's journey toward financial stability. Unfortunately, the lack of timely collections has resulted in the Hospital recording an increase in unpaid accounts payable, both trade and payroll, of 73% at the end of FY2010. The Hospital worked diligently to make sure its employees were paid every two weeks and make just enough of a payment to the vendors to maintain critical patient services (such as liquid oxygen, blood, salt to purify water for Hemodialysis patients), make delivery of pharmaceuticals (such as FDA controlled pain killers, cancer treatment drugs), or to maintain medical equipment (such as defibrillators, CT Scan and heart monitor machines). The Hospital was prevented from dealing with vendors who provide federal pricing of medical supplies and pharmaceuticals due to untimely payments. Working with the next vendor whose pricing may not be as competitive but is willing to do business with the Hospital was often the only choice the Hospital had to continue the supply of medical supplies and pharmaceuticals.

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Accounts payable-trade	\$ 7,369,572	\$ 9,231,440	\$ 16,522,969
Accrued taxes and related liabilities	-	-	3,107,767
Accounts payable – Government of Guam Retirement Fund	<u>11,088,961</u>	<u>7,221,981</u>	<u>8,915,769</u>
<b>Total</b>	<b>\$ <u>18,458,533</u></b>	<b>\$ <u>16,453,421</u></b>	<b>\$ <u>28,546,505</u></b>

Figure 13

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

Management Discussion and Analysis  
Year Ended September 30, 2010

**CAPITAL ASSET AND LONG-TERM DEBT**

**Capital Assets**

At September 30, 2010, 2009 and 2008, the Hospital had \$38,236,491, \$39,214,276 and \$41,003,267, respectively, invested in capital assets, net of accumulated depreciation, where applicable. See note 7 to the financial statements for more information on the Hospital's capital assets.

**Long-term Debt**

At September 30, 2010, 2009 and 2008, the Hospital had \$4,631,431, \$4,476,413 and \$3,603,395, respectively in long-term liabilities but has not actually engaged in debt financing. See note 9 to the financial statements for more information on the Hospital's long-term liabilities and changes therein.

**ECONOMIC OUTLOOK**

What will fiscal year 2011 be like for the Hospital? One thing will be prominent in the minds of all Hospital employees – the commitment to ensure our patients receive quality medical care in a safe environment. Despite the financial challenges in FY2010, our employees continue to come into work every day because of our patients. Our employees are dedicated to ensuring patient care will never be compromised. The Hospital has worked too hard and long to re-attain accreditation from the Joint Commission, but moving forward our challenges will continue to mostly exist in FY2011 thus make our journey interesting.

Through the forethought and planning between the Hospital's Board of Trustees, the Senators of the 30<sup>th</sup> Guam Legislature, and the Administration, the negative impact of P.L. 29-132 may be lessened in the next fiscal year. P.L. 30-196 partially repealed P.L. 29-132. Although the monthly amount to be distributed to the Hospital from the Pharmaceutical Fund was reduced from 6.19% to 4%, the Hospital is legislatively mandated to receive payment for services rendered to qualifying MIP participants from the MIP appropriated funds and payment for outstanding MAP accounts from the Pharmaceutical Fund. The cap was reduced from \$12M to \$8M annually for the use of payment of claims to the Hospital from the Pharmaceutical Fund. To supplement the reduction, the Hospital was appropriated over \$2M for Charity Care and over \$2.4M from the tax collected from cigarettes sales. Much like fiscal year 2010, overall Government of Guam collections will likely be sluggish and this will likely be reflected in delayed collection/reimbursement to the Hospital for adjudicated MIP and MAP accounts and/or other appropriated funding sources.

In addition to legislative changes to P.L. 29-132, P.L. 30-200 was enacted in early December 2010 which authorizes the Hospital to source the financial market for a line of credit, revolving loan, or a direct loan. The intent was to allow for an immediate infusion of cash into the Hospital to satisfy long standing vendor debt. With the projected sluggish reimbursement to the Hospital from the Government of Guam and other external factors that have had a negative impact on the Hospital's financial situation, proceeding with the financing option weighs heavy on the minds of both the Board of Trustees and management. If successful in attaining financing, its repayment would be identified as debt service. P.L. 30-166 only identified a specific amount as the repayment source for the financed option. Any amount due above the specific amount would have to be sourced from the Hospital's already existing limited revenue. The question then arises as to the ability of the Hospital to repay a loan if they are in a financial crunch now? Sluggish collection from the Government of Guam, increases in unemployed/uninsured Self Pay patients, and increases in patient/operational needs should be warning indications to our community, elected Legislators and elected officials, GMHA needs to be provided additional funds in order to meet its organic mandate of provided care to all who present themselves regardless of their ability to pay.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Management Discussion and Analysis  
Year Ended September 30, 2010

The economic boom of the projected military buildup on Guam may not be fully felt possibly until 2014. Until then, the Hospital is beginning talks with organizations on the impact of the influx of H-2 workers. Currently sponsoring companies do not have to retain medical health insurance for their H-2 workers. With the Hospital's mandate to accept all patients who present themselves with a medical condition at the Hospital, the expected fourteen thousand H-2 workers over the next couple of years will most certainly result in the increase of uncompensated care to the Hospital. We have seen such patients treated in the Emergency Room for serious health conditions. The patients are eventually admitted as an inpatient. After fully recuperating, they are discharged with little to no payment. Collection efforts often yield that the individual had returned to their place of origin due, most likely due to the action of the sponsoring company.

In line with the military buildup and the expected increase in the civilian population, the Hospital is working on determining the feasibility of retro-fitting its existing structure or building an entirely new Hospital. Completion of the feasibility study is one of the steps necessary to allow access by the Hospital to federal funding from the United States Department of Agriculture. The Hospital currently has available 158 acute beds. For the population size of Guam, we are planning to add one hundred (100) additional adult acute beds bring the total to two hundred and fifty (250) private acute beds. With the desired nurse to patient ratios varying per patient ward, the Hospital is projected to increase the recruitment of clinical staff beyond that of the nine hundred and twelve (912) authorized FTE in FY2010. The on-going worldwide shortage of qualified clinical personnel (such as registered specialty nurses for Intensive Care and the Emergency Room, OBGYN physicians, and Cardiologist) will pose a greater challenge as the geographical location and prevailing compensation level may alter one's decision to move to Guam.

Until the island's economy improves and residents are able to financially access medical health insurance, our island's only local Hospital will struggle financially. We all have heard real life stories from our patients who purposely wait until the next month to fill their prescription due to lack of funds, patients who have deferred visits to their primary health provider because they do not possess health insurance and would be required to pay for the clinic visits, and patients who have ended up in the emergency room because they deferred a visit to their primary physician. The Hospital noted that this was a trend in FY2008 resulting in the capturing reasons as to visits to the Emergency Room. Data for FY2009 and FY2010 shows that on average, over 15% of the medical conditions treated in the Emergency Room were classified as non-urgent. Such medical care would have been better suited to be provided by the patient's primary physician or a medical clinic. For whatever reason, the Hospital had to expend resources and manpower towards providing primary care level of medical conditions. This translates into reduced resources and manpower that would be dedicated to true emergency room conditions due to the patients resorting to our emergency room as their source for primary care.

Nationally, according to United States Bureau of Labor Statistics report dated December 22, 2010, it is anticipated that the age group of 55 and older will encompass a larger portion of the population between the years 2008 and 2018, in other words, the baby boomers are living longer. If they are living longer, we will have to contend with the health needs of these aging baby boomers. Coupled with the projected nursing shortage in the United States and the health conditions associated with an aging population one can easily perceive how it will impact Guam – increase challenges in recruiting and maintaining qualified licensed/registered clinical staff – from nurses, physicians, pharmacists, respiratory technicians, physician assistants, phlebotomists, and on and on. The federal government predicts that, by 2020, retirements will contribute to a shortage of approximately 24,000 doctors and nearly one million nurses – a serious clinical personnel deficit that will have a direct impact on Guam's ability to recruitment efforts.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Management Discussion and Analysis  
Year Ended September 30, 2010

Finally, the Guam Memorial Hospital Authority would like to take this opportunity to thank all of its hardworking employees. They are truly the heroes of the island's health care system. Despite our financial challenges in FY2010, all members of our staff continue to maintain our mission of providing quality patient care in a safe environment. The consistency of the members of the Board of Trustees, stability of Hospital management, and the structured framework laid out in the FY2009 Hospital Strategic Plan are all elements that allowed the Hospital to achieve its goal of TJC accreditation. As one reads the audited financial statements for FY2010, we ask that you look beyond the numbers and realize the impact the external forces have had on the Hospital. We at the Hospital will continue our efforts to be fiscally responsible all the while providing quality care.

**CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This report is designed to provide our citizens, taxpayers, patients, and stakeholders a general overview of the Hospital's finances and demonstrate its stewardship and accountability with public monies that it collects and its proper usage. The Management's Discussion and Analysis for the year ended September 30, 2009 is set forth in the report on the audit of the Hospital's financial statements which is dated December 29, 2009. The Discussion and Analysis explains the major factors impacting the 2009 financial statements. If you have any questions about this report or the 2009 or 2008 reports or need additional information, please contact the Hospital Administrator's office at 647-2418/2367 or the 2009 or 2008 reports or the Chief Financial Officer's office at 647-2934/2190, Monday through Friday, 8 am to 5 pm, closed Saturday, Sunday, and recognized Government of Guam holidays. You may also refer to the Hospital's website at [www.gmha.org](http://www.gmha.org) if you wish to contact any one of the Hospital's Board of Trustees or find out the great things that are happening at your Hospital.

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

Statements of Net Assets  
September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash	\$ 425,948	\$ 784,004
Patient accounts receivable, net of estimated uncollectibles of \$139,145,804 in 2010 and \$126,611,480 in 2009	43,386,437	40,699,887
Due from the Government of Guam	3,294,669	1,756,644
Other receivables, net of allowance for doubtful debts of \$1,322,994 in 2010 and \$1,423,688 in 2009	37,506	25,236
Inventory	3,513,849	3,951,428
Prepaid expenses	263,208	112,478
Total current assets	<u>50,921,617</u>	<u>47,329,677</u>
Note receivable	248,676	274,531
Capital assets, net	38,236,491	39,214,276
Total noncurrent assets	<u>38,485,167</u>	<u>39,488,807</u>
Total assets	<u>\$ 89,406,784</u>	<u>\$ 86,818,484</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable - trade	\$ 16,522,969	\$ 9,231,440
Accounts payable - Government of Guam Retirement Fund	8,915,769	7,221,981
Accrued taxes and related liabilities	3,107,767	-
Accrued payroll and benefits	2,852,587	2,834,569
Deferred revenues	2,651,429	-
Current portion of accrued annual leave	1,523,346	1,515,407
Other accrued liabilities	1,899,845	1,795,602
Total current liabilities	<u>37,473,712</u>	<u>22,598,999</u>
Accrued annual leave, net of current portion	2,173,876	2,396,317
Accrued sick leave	2,457,555	2,080,096
Total liabilities	<u>42,105,143</u>	<u>27,075,412</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	38,236,491	39,214,276
Unrestricted	9,065,150	20,528,796
Total net assets	<u>47,301,641</u>	<u>59,743,072</u>
Total liabilities and net assets	<u>\$ 89,406,784</u>	<u>\$ 86,818,484</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, 2010 and 2009

	2010	2009
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$63,210,067 in 2010 and \$50,059,832 in 2009)	\$ 83,481,135	\$ 92,560,551
Other operating revenues:		
Cafeteria food sales	642,581	655,976
Other revenue	502,652	323,154
Total operating revenues	84,626,368	93,539,681
Operating expenses:		
Nursing	50,644,738	44,987,065
Professional support	24,612,076	24,019,534
Administrative support	13,276,551	12,815,703
Fiscal services	6,935,431	7,603,052
Depreciation	4,581,714	4,426,926
Administration	3,277,114	3,001,911
Retiree healthcare costs	1,383,548	1,584,754
Medical staff	1,051,028	916,431
Total operating expenses	105,762,200	99,355,376
Operating loss	(21,135,832)	(5,815,695)
Nonoperating revenues (expenses):		
Transfers from GovGuam	2,598,651	12,465,994
Federal grants	4,218,016	3,128,852
Contributions	418,365	255,733
Federal program expenditures	(411,358)	(551,400)
Interest and penalties	(960,083)	(755,180)
Others	(114,037)	-
Total nonoperating revenues (expenses)	5,749,554	14,543,999
(Loss) earnings before capital grants and contributions	(15,386,278)	8,728,304
Capital grants and contributions:		
Government of Guam	1,006,397	22,862
Federal grants	1,938,450	2,107,445
Total capital grants and contributions	2,944,847	2,130,307
Change in net assets	(12,441,431)	10,858,611
Net assets at the beginning of the year	59,743,072	48,884,461
Net assets at the end of the year	\$ 47,301,641	\$ 59,743,072

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, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 83,471,869	\$ 86,381,296
Receipts from sales and other services	1,132,963	953,894
Payments to suppliers and contractors	(21,138,138)	(27,710,306)
Payments to employees	(65,993,649)	(61,289,019)
Net cash used for operating activities	(2,526,955)	(1,664,135)
Cash flows from noncapital financing activities:		
Contributions from the Government of Guam	683,475	340,094
Federal grants received	4,218,016	1,785,078
Payments made under federal programs	(411,358)	(551,400)
Interest paid	(960,083)	(755,180)
Contributions	418,365	255,733
Other payments	(114,037)	-
Net cash provided by noncapital financing activities	3,834,378	1,074,325
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(3,603,929)	(2,637,935)
Federal grants received	1,938,450	2,130,307
Net cash used for capital and related financing activities	(1,665,479)	(507,628)
Net change in cash	(358,056)	(1,097,438)
Cash at beginning of year	784,004	1,881,442
Cash at end of year	\$ 425,948	\$ 784,004
Summary of noncash financing activities:		
Reduction of notes payable	\$ -	\$ (1,921,826)
Reduction of interest and penalties on notes payable	-	(4,483,428)
Reduction of GovGuam Retirement Fund liability	-	(4,135,892)
Transfers from the Government of Guam	-	10,541,146
	\$ -	\$ -

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, 2010 and 2009

	2010	2009
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (21,135,832)	\$ (5,815,695)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Contractual adjustments and provisions for uncollectible accounts	60,882,536	50,059,832
Depreciation	4,581,714	4,426,926
Retiree healthcare costs	1,383,548	1,584,754
(Increase) decrease in assets:		
Patient accounts receivable	(63,569,086)	(56,263,440)
Note receivable	25,855	24,353
Other receivables	(12,270)	(25,236)
Inventory	437,579	615,804
Prepaid expenses	(150,730)	161,816
Increase (decrease) in liabilities:		
Accounts payable - trade	7,291,529	1,861,868
Accounts payable - retirement fund	1,693,788	616,448
Accrued taxes and related liabilities	3,107,767	-
Accrued payroll and benefits	18,018	144,876
Accrued annual leave and sick leave	162,957	998,457
Deferred revenues	2,651,429	-
Other accrued liabilities	104,243	(54,898)
Net cash used in operating activities	\$ (2,526,955)	\$ (1,664,135)

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2010 and 2009

(1) Reporting Entity

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

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

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

(2) Summary of Significant Accounting Policies

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

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

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

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

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

Notes to Financial Statements  
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

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

Estimates

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

Basis of Accounting

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

Cash

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

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand, cash held in demand accounts, and time certificates of deposit maturing within ninety days. As of September 30, 2010 and 2009, cash is \$425,948 and \$784,004, respectively, and the corresponding bank balances are \$620,171 and \$984,580, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of \$250,000 are FDIC insured. GMHA requires collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are collateralized.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

Patient Accounts Receivable

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

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

Due from GovGuam

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

Inventory

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

Capital Assets

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

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

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

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

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

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

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

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

Public Law No. 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. At September 30, 2010 and 2009, GMHA has accrued an estimated liability of \$2,457,555 and \$2,080,096, respectively. However, this amount is an estimate and actual payout may be materially different than estimated.

Deferred Revenues

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

Net Patient Service Revenues

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

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

GovGuam Contributions

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

Federal Grant Award Revenues and Contributions

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

Estimated Malpractice Costs

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

Income Taxes

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

Risk Management

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

Reclassifications

Certain items in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2010, the GMHA implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the GMHA.

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

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the GMHA.

(3) Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are Guam residents and are insured under third-party payor agreements. Patient accounts receivable at September 30, 2010 and 2009, consist of:

	<u>2010</u>	<u>2009</u>
Account referrals - Department of Revenue and Taxation	\$ 75,807,809	\$ 75,667,650
Medically Indigent Program and Self-pay Patients	27,710,862	31,212,808
Local Third-Party Payor and Other	27,444,663	19,831,537
Medicaid Assistance Program	10,893,553	11,883,172
Medicare	9,870,119	7,638,662
Collection agencies and other	<u>30,805,235</u>	<u>21,077,538</u>
	182,532,241	167,311,367
Less allowance for uncollectible accounts	<u>(139,145,804)</u>	<u>(126,611,480)</u>
	<u>\$ 43,386,437</u>	<u>\$ 40,699,887</u>

(4) Note Receivable

In February 2008, GMHA accepted a promissory note from a collection agency in the amount of \$312,431 for outstanding collections of delinquent patient accounts. The note bears a fixed interest of 6% and matures on February 1, 2018. At September 30, 2010 and 2009, the balance of the note was \$248,676 and \$274,531, respectively.

(5) Other Receivables

The Hospital grants credit without collateral to customers primarily located on Guam for catering services and supplies issuances. Other receivables at September 30, 2010 and 2009, consist of:

	<u>2010</u>	<u>2009</u>
Government of Guam:		
Department of Mental Health and Substance Abuse	\$ 955,804	\$ 980,060
Guam Fire Department	366,124	349,423
Department of Public Health and Social Services	-	12,306
Hospital employees	33,975	55,861
Other	<u>4,597</u>	<u>51,274</u>
	1,360,500	1,448,924
Less allowance for uncollectible accounts	<u>(1,322,994)</u>	<u>(1,423,688)</u>
	<u>\$ 37,506</u>	<u>\$ 25,236</u>



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**(8) Due to GovGuam Retirement Fund**

As of September 30, 2010 and 2009, GMHA owed GGRF employer and member contributions under the Defined Benefit Plan (DB) for payroll periods from fiscal years ended September, 1998 through September, 2004. GMHA is assessed interest and penalties on these unpaid contributions in accordance with 4 Guam Code Annotated § 8137, *Retirement of Public Employees*, which states that GGRF will impose interest at a rate equivalent to the average rate of return on its investments from the previous fiscal year and a 1% penalty for delinquent payments.

Public Law No. 28-38, passed in June 2005, as amended by Public Law No. 29-19, requires that GovGuam's general fund remit "interest-only" payments monthly to GGRF for the aforementioned liabilities. The law indicates that monthly payments, totaling \$190,501, will continue until the outstanding balance is fully paid. However, if the obligations are not paid within ten years following the enactment of Public Law No. 28-38, payments by GMHA will resume per 4 Guam Code Annotated § 8137. During the fiscal years ended September 30, 2010 and 2009, GovGuam's general fund paid interest totaling \$2,286,014 for GMHA.

At September 30, 2010 and 2009, the accounts payable due to GGRF reported as current liabilities consist of the following:

	<u>2010</u>	<u>2009</u>
Employer and member contributions of:		
Prior fiscal years (DB Plan)	\$ 5,251,839	\$ 5,251,594
Current fiscal year (DB) Plan	497,756	137,374
Unfunded liability	1,009,346	217,895
Employer and member contributions of current fiscal year (DCRS Plan)	243,897	108,114
Supplemental annuities/COLA benefits for retirees	1,507,004	1,507,004
Interest and penalties	<u>405,927</u>	<u>-</u>
	<u>\$ 8,915,769</u>	<u>\$ 7,221,981</u>

At September 30, 2010 and 2009, amounts due to GGRF included an outstanding obligation of \$1,507,004 for supplemental benefits for the Hospital's retirees who retired prior to October 1, 1995 and Cost of Living Allowance (COLA) benefits for those employees who retired prior to October 1, 2001. In accordance with Public Law No. 26-35, as amended by Public Law No. 26-49, GMHA was among various autonomous agencies required to reimburse GGRF for certain supplemental benefits paid to its retirees by GGRF.

Statutory employer contributions for DCRS plan members for the years ended September 30, 2010 and 2009 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the DB plan. At September 30, 2010 and 2009, GMHA's unpaid contributions toward the unfunded liability of the DB Plan amounted to \$1,009,346 and 217,895, respectively.

During the year ended September 30, 2009 and in accordance with Public Law No. 30-7, GMHA received bond proceeds from the Government of Guam in the amount of \$10,541,146 which was paid to the GovGuam Retirement Fund for past due liabilities. GMHA has in the accompanying financial statements accepted the application of the bond proceeds. However, GMHA is requesting an accounting of these payments. Due to the uncertainty surrounding the ultimate outcome of this matter, any adjustments that may result from this matter will be made prospectively.

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(9) Other Long-Term Liabilities

At September 30, 2010 and 2009, the changes in other long-term liabilities are as follows:

	Balance October 1, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2010	Due Within <u>One Year</u>
Annual leave	\$ 3,911,724	\$ 2,790,868	\$ (3,005,370)	\$ 3,697,222	\$ 1,523,346
Sick leave	<u>2,080,096</u>	<u>1,163,186</u>	<u>(785,727)</u>	<u>2,457,555</u>	-
	<u>\$ 5,991,820</u>	<u>\$ 3,954,054</u>	<u>\$ (3,791,097)</u>	<u>\$ 6,154,777</u>	<u>\$ 1,523,346</u>
	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2009	Due Within <u>One Year</u>
Annual leave	\$ 3,283,481	\$ 1,383,712	\$ (755,469)	\$ 3,911,724	\$ 1,515,407
Sick leave	<u>1,709,882</u>	<u>740,583</u>	<u>(370,369)</u>	<u>2,080,096</u>	-
	<u>\$ 4,993,363</u>	<u>\$ 2,124,295</u>	<u>\$ (1,125,838)</u>	<u>\$ 5,991,820</u>	<u>\$ 1,515,407</u>

(10) Medical Malpractice/Employment and Personnel Claims

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

(11) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

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

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(11) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

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

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2008, 2007, and 2006, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2010, 2009 and 2008, respectively, have been determined by the Guam Legislature as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Normal costs (% of DB Plan payroll)	18.34%	17.36%	17.94%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.84%</u>	<u>7.86%</u>	<u>8.44%</u>
Employer portion of normal costs (% of total payroll)	3.73%	3.70%	3.99%
Unfunded liability cost (% of total payroll)	<u>22.69%</u>	<u>19.68%</u>	<u>20.75%</u>
Government contribution as a % of total payroll	<u>26.42%</u>	<u>23.38%</u>	<u>24.74%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>26.04%</u>	<u>25.20%</u>	<u>24.07%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GMHA's required and actual contributions to the DB Plan for the years ended September 30, 2010, 2009 and 2008 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Required contributions	\$ <u>3,223,103</u>	\$ <u>3,129,594</u>	\$ <u>3,026,344</u>
Actual contributions	\$ <u>2,862,255</u>	\$ <u>3,007,363</u>	\$ <u>2,775,821</u>

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(11) Employee Retirement Plans, Continued

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions for DCRS plan members for the years ended September 30, 2010 and 2009, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan. GMHA's required and actual contributions toward the unfunded liability of the DB Plan for the years ended September 30, 2010, 2009 and 2008 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Required contributions	\$ <u>6,310,538</u>	\$ <u>5,394,244</u>	\$ <u>4,484,677</u>
Actual contributions	\$ <u>5,301,192</u>	\$ <u>5,176,348</u>	\$ <u>4,298,003</u>

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

GMHA's required and actual contributions to the DC Plan for the years ended September 30, 2010, 2009 and 2008 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Required contributions	\$ <u>1,514,745</u>	\$ <u>1,335,310</u>	\$ <u>1,177,074</u>
Actual contributions	\$ <u>1,392,797</u>	\$ <u>1,281,375</u>	\$ <u>1,128,782</u>

Other Post Employment Benefits

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

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(11) Employee Retirement Plans, Continued

Other Post Employment Benefits, Continued

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

During the years ended September 30, 2010, 2009 and 2008, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,383,548, \$1,584,754, and \$1,458,768, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GMHA retirees.

(12) Net Patient Service Revenue

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

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

Revenue from the Medicare, Medicaid and MIP programs accounted for approximately 22 percent, 13 percent and 10 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2010, and 22 percent, 13 percent and 10 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

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(12) Net Patient Service Revenue, Continued

Net patient service revenues for the years ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Patient service revenues at established charge rates:		
Services provided to Medicaid patients	\$ 19,468,105	\$ 18,534,818
Services provided to Medicare patients	31,501,571	31,400,687
Services provided to MIP patients	2,708,256	3,169,675
MIP payments through GMHA Pharmaceuticals Fund	11,526,655	11,395,670
Services provided to Self-pay patients	32,364,975	31,012,090
Services provided to Other patients	<u>49,121,640</u>	<u>47,107,443</u>
	146,691,202	142,620,383
Less contractual adjustments and provisions for uncollectible accounts	<u>(63,210,067)</u>	<u>(50,059,832)</u>
Net patient service revenue	<u>\$ 83,481,135</u>	<u>\$ 92,560,551</u>

(13) Guam Memorial Hospital Authority Pharmaceuticals Fund

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

The financial statements as of September 30, 2010 and September 30, 2009 are presented to conform to the requirements of this public law.

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

In accordance with Public Law No. 29-113, GovGuam appropriated \$11,395,670 from the Guam Memorial Hospital Authority Pharmaceuticals Fund for payment of bills and services incurred by qualified MIP recipients for the year ended September 30, 2009.

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

During the years ended September 30, 2010 and 2009, GovGuam passed supplemental appropriations in public laws from the General Fund and various special revenue funds for certain specific programs and financial assistance, which are summarized as follows:

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

	<u>2010</u>	<u>2009</u>
Guam Memorial Hospital Authority		
Pharmaceuticals Fund	\$ 11,526,655	\$ 11,395,670
Healthy Future Fund	1,215,103	-
Health Security Trust Fund	-	340,094
General Fund	-	10,541,146
General Fund – on-behalf payments	<u>1,383,548</u>	<u>1,584,754</u>
	<u>\$ 14,125,306</u>	<u>\$ 23,861,664</u>

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

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

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

In accordance with Public Law No. 29-113, GovGuam appropriated \$11,395,670 from the Guam Memorial Hospital Authority Pharmaceuticals Fund and \$340,094 from the Health Security Trust Fund to fund the operations of the Hospital for the year ended September 30, 2009.

In accordance with Public Law No. 30-7, GovGuam appropriated \$10,541,146 from bond proceeds to pay past due GovGuam Retirement Fund liabilities, which were paid directly to the GovGuam Retirement Fund.

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

(15) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are residents of Guam and are either insured under third-party payor agreements or uninsured. The mix of receivables from patients and third-party payors at September 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medically Indigent Program and Self-pay patients	57%	64%
Local Third-Party Payor and Other	32%	24%
Medicaid Assistance Program	6%	7%
Medicare	<u>5%</u>	<u>5%</u>
	<u>100%</u>	<u>100%</u>

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(16) Commitments and Contingencies

Operating Leases

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

<u>Year ending</u> <u>September 30,</u>	
2011	\$ 126,361
2012	<u>24,713</u>
	\$ <u>151,074</u>

Medicare

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

Litigation

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

The Hospital is a respondent to a lawsuit filed by the Government of Guam Retirement Fund (the Fund) for nonpayment of retirement contributions under the Defined Benefit and Defined Contribution Plans for a total amount of \$2,656,321, plus interest penalties and reimbursement of legal expenses incurred by the Fund. As of September 30, 2010, GMHA has recorded a payable to the Fund of \$8,915,769 representing unpaid contributions and related interest and penalties as of September 30, 2010. Any additional liability relating to this matter cannot presently be determined and, accordingly, no provision for additional liability or potential loss that may result from this matter has been recorded by GMHA.

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(16) Commitments and Contingencies, Continued

Federal Award Programs

The Hospital has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2009 and prior year audits amounted to \$2,026,603. If the questioned costs were ultimately disallowed, the Hospital would be liable for the return of such funds. However, no liability, which may arise from the ultimate outcome of this matter, has been provided for in the accompanying financial statements. Audits of federal program funds are also performed by various federal agencies. If the audits result in cost disallowances, the Hospital may be liable. However, management does not believe that resolution of this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

(17) Dependency on the Government of Guam

The Hospital has incurred losses from operations of \$21,135,832 and \$5,815,695 and negative cash flows from operations of \$2,526,955 and \$1,664,135 for the years ended September 30, 2010 and 2009, respectively. At September 30, 2010 and 2009, the Hospital's deficiencies on delinquent and unpaid retirement contributions, including interest and penalties, with the GovGuam Retirement Fund were \$8,915,769 and \$7,221,981, respectively. The Hospital recorded contractual adjustments and provisions for uncollectible accounts of \$63,210,067 and \$50,059,832 for the fiscal years ended September 30, 2010 and 2009, respectively. Management believes that the continuation of the Hospital's operations is dependent upon the future payment of medical services underwritten by the Government of Guam, continued compensation by the Government of Guam for the cost of services provided under the Medically Indigent Program, the collection of long outstanding patient receivables, and/or continued improvements in operations.

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

Schedule of Expenses and Full-Time Employees Count  
Years Ended September 30, 2010 and 2009

	2010	2009
<b>NURSING:</b>		
Salaries	\$ 26,922,631	\$ 24,613,943
Overtime	1,594,379	1,658,168
Other pay	4,497,334	4,868,291
Fringe benefits	8,134,846	7,072,891
Total personnel costs	41,149,190	38,213,293
Contractual services:		
Registry nurses	4,584,085	1,170,687
Others	1,034,417	1,457,305
Supplies and materials	3,818,817	3,971,382
Miscellaneous	58,229	174,398
	\$ 50,644,738	\$ 44,987,065
 Total employees at end of year	 496	 449

	2010	2009
<b>PROFESSIONAL SUPPORT:</b>		
Salaries and leave pay	\$ 8,054,435	\$ 7,899,444
Overtime	951,720	820,569
Other pay	1,239,242	1,480,055
Fringe benefits	2,703,495	2,584,675
Total personnel costs	12,948,892	12,784,743
Supplies and materials	10,838,519	10,397,615
Utilities	18,534	27,737
Contractual services	721,640	725,443
Miscellaneous	84,491	83,996
	\$ 24,612,076	\$ 24,019,534
 Total employees at end of year	 210	 188

See accompanying independent auditors' report.

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

Schedule of Expenses and Full-Time Employees Count, Continued  
Years Ended September 30, 2010 and 2009

	2010	2009
<b>ADMINISTRATIVE SUPPORT:</b>		
Salaries	\$ 3,964,182	\$ 3,688,463
Overtime	365,802	418,390
Other pay	584,407	603,062
Fringe benefits	1,433,888	1,302,710
Total personnel costs	6,348,279	6,012,625
Supplies and materials	2,402,108	2,152,784
Utilities	3,527,773	3,286,232
Contractual services	726,918	1,054,466
Miscellaneous	271,473	309,596
	\$ 13,276,551	\$ 12,815,703
Total employees at end of year	171	138

	2010	2009
<b>FISCAL SERVICES:</b>		
Salaries	\$ 3,140,869	\$ 3,076,487
Overtime	159,531	87,115
Other pay	187,905	224,966
Fringe benefits	1,084,789	1,037,347
Annual leave lump sum pay	82,363	755,469
Sick leave (DC plan)	401,167	370,369
Total personnel costs	5,056,624	5,551,753
Supplies and materials	280,928	273,764
Contractual services	1,478,046	1,646,678
Miscellaneous	119,833	130,857
	\$ 6,935,431	\$ 7,603,052
Total employees at end of year	89	98

See accompanying independent auditors' report.

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

Schedule of Expenses and Full-Time Employees Count, Continued  
Years Ended September 30, 2010 and 2009

	2010	2009
<b>ADMINISTRATION:</b>		
Salaries	\$ 942,841	\$ 864,993
Overtime	2,831	170
Other pay	53,557	41,905
Fringe benefits	329,859	330,548
Total personnel costs	1,329,088	1,237,616
Supplies and materials	56,670	56,558
Contractual services	477,475	503,175
Insurance (Property)	639,272	636,073
Miscellaneous	774,609	568,489
	\$ 3,277,114	\$ 3,001,911
Total employees at end of year	11	22
	2010	2009
<b>MEDICAL STAFF:</b>		
Salaries	\$ 692,872	\$ 550,527
Overtime	543	419
Other pay	78,383	66,453
Fringe benefits	264,541	281,030
Total personnel costs	1,036,339	898,429
Supplies and materials	8,120	11,672
Miscellaneous	6,569	6,330
	\$ 1,051,028	\$ 916,431
Total employees at end of year	86	53
Total actual expenses, without depreciation and retiree healthcare costs, GAAP basis	\$ 99,796,938	\$ 93,343,696
Total actual expenses, without depreciation and retiree healthcare costs, budgetary basis	\$ 99,859,804	\$ 89,262,107
Total budgeted expenses, without depreciation and retiree healthcare costs	\$ 99,991,850	\$ 89,924,743
Total actual FTE count	1,063	948
Total budgeted FTE count	1,253	1,112

See accompanying independent auditors' report.

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

Notes to Schedule of Expenses and Full-Time Employees Count  
Years Ended September 30, 2010 and 2009

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

GMHA recognizes annual leave lump sum pay and certain sick leave expenses as benefits accrue to employees. GMHA budget does not reflect such expenses on the modified accrual basis. For the year ended September 30, 2010 and 2009, the total of annual leave sum pay and sick leave expenses amounted to \$483,530 and \$1,125,838, respectively.

The following reconciles expenses between GAAP and budgetary bases:

	<u>FY 2010</u>	<u>FY 2009</u>
Expenses, without depreciation and retiree healthcare costs, GAAP basis	\$ 99,796,938	\$ 93,343,696
Annual leave lump sum pay	(82,363)	(755,469)
Sick leave (DC Plan)	(401,167)	(370,369)
Change in encumbrances	<u>546,396</u>	<u>(2,955,751)</u>
Expenses, without depreciation and retiree healthcare costs, budgetary basis	\$ <u>99,859,804</u>	\$ <u>89,262,107</u>
Budgeted expenses	\$ <u>99,991,850</u>	\$ <u>89,924,743</u>

See Accompanying Independent Auditors' Report.

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

Schedule of Patient Service Revenues by Patient Classification  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>GROSS PATIENT SERVICE REVENUE:</b>		
Medicaid patients	\$ 19,468,105	\$ 18,534,818
Medicare patients	31,501,571	31,400,687
MIP patients	14,234,911	14,565,345
Self-pay patients	32,364,975	31,012,090
Other patients	<u>49,121,640</u>	<u>47,107,443</u>
	<u>\$ 146,691,202</u>	<u>\$ 142,620,383</u>
 <b>CONTRACTUAL ADJUSTMENTS AND  PROVISIONS FOR UNCOLLECTIBLE ACCOUNTS:</b>		
Medicaid patients	\$ 13,379,745	\$ 9,987,253
Medicare patients	15,874,931	13,821,138
MIP patients	7,324,722	6,285,928
Self-pay patients	12,492,111	7,773,883
Other patients	<u>14,138,558</u>	<u>12,191,630</u>
	<u>\$ 63,210,067</u>	<u>\$ 50,059,832</u>
 <b>NET PATIENT SERVICE REVENUE:</b>		
Medicaid patients	\$ 6,088,360	\$ 8,547,565
Medicare patients	15,626,640	17,579,549
MIP patients	6,910,189	8,279,417
Self-pay patients	19,872,864	23,238,207
Other patients	<u>34,983,082</u>	<u>34,915,813</u>
	<u>\$ 83,481,135</u>	<u>\$ 92,560,551</u>

See accompanying independent auditors' report.

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

Schedule of Self Pay Admissions by Employment Status  
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Employed	\$ 4,084,357	\$ 3,034,689
Retired	630,915	1,815,201
Unemployed	6,511,947	2,845,291
Others	<u>195,766</u>	<u>115,539</u>
	<u>\$ 11,422,985</u>	<u>\$ 7,810,720</u>

See accompanying independent auditors' report.