

**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, 2009 AND 2008  
(RESTATED)**

## **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, 2009 and 2008, and the related statements of revenues and expenses, 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.

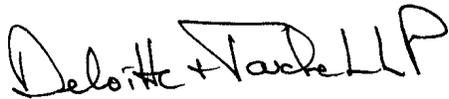
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Memorial Hospital Authority as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the financial statements, GMHA restated its 2008 financial statements to reflect the effects of the redesignation of the Government of Guam Defined Benefit Pension Plan from a single-employer plan to a cost-sharing multiple-employer plan, in conformity with the accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of GMHA taken as a whole. The accompanying schedules on pages 34 through 36 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 28, 2009, 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 + Touche LLP". The signature is written in a cursive, stylized font.

December 28, 2009

(except for Notes 12 and 20, as to which the date is February 22, 2010)

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Management Discussion and Analysis  
September 30, 2009 and 2008

## 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 ending September 30, 2009 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 Hospital provides acute, outpatient, long term, and emergency care services to every person requiring medical attention notwithstanding financial capacity. Patients can be treated when the need arises as the Hospital is open twenty-four hours, three hundred and sixty five days a year, and through any adversity imposed upon the island. Quality care in a safe environment is the foundation upon which the Board of Trustees expects the employees to lead. The Hospital is a full servicing facility - one hundred and fifty nine inpatient beds, eight patient wards, four surgery rooms, orthopedic, laboratory, radiological, respiratory, hemo-dialysis services represent a few of the available medical expertise. The additional forty long-term care beds are available at the Skilled Nursing Facility in Barrigada.

Guam Code Annotated 10, Chapter 80, Division 4 prescribes the guiding principles the founding Board of Trustees expects the Hospital's management team to uphold and execute. These principles were formalized in a Strategic Plan adopted this year.<sup>1</sup> Attaining and maintaining Joint Commission accreditation, fiscal responsibility, developing a facilities master plan, and establishing greater self reliance are the performance priorities identified that will enable the Hospital to maintain quality care in a safe environment becoming your only choice to receive such care.

Preliminary accreditation from the Joint Commission was attained in September 2009. Self assessment tracers were carried out from every aspect of clinical practices/processes. The cleanliness of the facility, the safety of our patients, visitors, employees, the structural integrity of the building, current staff competencies, emergency preparedness practices were also examined and reinforced. Focus, unconditional energies, and commitment was felt from bottom to top ensuing in the desire of the organization to endeavor towards accreditation status - status that has been elusive for over twenty years.<sup>2</sup> Advancement towards full accreditation status *will* materialize early next year.

Fiscal responsibility is an all encompassing priority that is multifaceted. Measuring the success of the Hospital on this priority is complex. The Hospital cares for all types of patients with the public's misconstrued perception that reimbursement to the Hospital is *discretionary*. This is evidentiary in the mounting Accounts Receivable. The uninsured self-pay patients correspond to approximately 20% of patient mix, are often termed, the 'no-pay' or 'slow-pay' customers. Government sponsored insured customers equate to 60% of our patients.<sup>3</sup> Reimbursement from this group is not as lucrative as one would think. Although the Hospital bills on a fee-for-service basis, compensation is at a composite rate of 36% of the total bill. The remaining patient mix consists of insured patients with whom again, reimbursement is not dollar to dollar. This is the candid reimbursement relationship of our Hospital. One should also understand that the collection process is flawed from the onset. A patient (insured or

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<sup>1</sup> GMHA Strategic Plan can be viewed at: [www.gmha.org](http://www.gmha.org)

<sup>2</sup> GMHA Joint Commission Accreditation was lost in 1983.

<sup>3</sup> Medically Indigent Program – locally appropriated and funded. Medicaid Program – 50% locally appropriated and 50% federally funded. Medicare – 100% federally funded.

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uninsured) can walk out of the Hospital with a substantial bill and if the patient is unable to render a payment, there is nothing that any staff can do. Without any binding authority, patients have also been known to provide incomplete and/or erroneous demographics.

With the revenue cycle extending to and from every system within the Hospital, it has been found that processes/work practices and even the information system itself, may not be functioning as designed. Was the patient properly registered, can the patient charges recover at least cost, did the bill/charges reflect the care that was provided, was the patient encounter fully accounted for in their medical records, was the bill appropriately coded, was the bill processed within the billing window, are just a few of the junctures of the revenue cycle that must be applied to each and every patient bill. At this time, much of the processes require manual involvement. Transitioning to a paperless environment has been cited as an objective by the Board of Trustees. It is understood that the Hospital must streamline the manual work processes in order to maximize the anticipated benefits of a paperless environment.

The other side of the Hospital's finances involves the cost of providing quality care, mutual to all health care systems worldwide. From the point of entry, throughout the administration of care, to the interdisciplinary discharge meetings being fiscally mindful does not always translate. ***Without question, patient care is our priority***, but it does come at a price. Our geographical location weighs on our ability to economically procure medical supplies/equipment, pharmaceuticals, and even medical personnel. Transportation to our island can be costly. Our beautiful beaches and tropical lifestyle is not always as alluring enough to attract much needed medical professionals.

The third priority of a master plan seeks to establish the feasibility of the building structure and to make recommendations as to the repositioning of the Hospital. This is a long range priority that will take a period of time to fulfill for two reasons: the amount of funding involved, and the impact on patient care. Any major renovation or relocation will parallel significant investments, time and monies. Congruently, the Board is attentive to the fact that changes to structure or movement of the structure must be minimized to sustain our patient's accessibility to medical care. To begin the remediation process of addressing existing building deficiencies, management has compiled a statement of condition. Fortunately, funding for these projects has been identified through Government of Guam General Obligation Bonds. Completion of all projects is expected to be before the end of fiscal year 2011.

As experienced last fiscal year and reported by the local print media, the Hospital continues to struggle with availing our patients of inpatient beds. Rest assured, our patients received the required level of medical care while waiting for a bed to become available. In order to avail a bed for the next patient, interdisciplinary efforts from physicians, nurses, social workers, and other medical disciplines holding timely discharge planning sessions, laboratory generating the required test and culture results, turnaround time to clean the room for the next patient, registration properly discharging patients, along with the patient having transportation arrangements all must be orchestrated.

The final priority calls for greater self reliance. ***Continuity, Continuity, Continuity*** has been the underlying 'promising' principle for this administration. Preceding compositions of upper management and the Board has varied historically from year to year and/or from political administration to the next political administration. Clear results of this negative trend have been a splintered *vision* for the Hospital and the lack of validation of the quality of care provided by the staff. With the current administration (both Hospital management and the Board of Trustees) positioned for over five years, netting of preliminary accreditation from Joint Commission transpired. Moving forward, the sustainability of all the other priorities is decidedly contingent upon whether or not this particular priority is realized. Maintaining JC accreditation, financial responsibility, and actualization of a master plan are priorities that take *time to properly plan, execute, and realize*.

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**FINANCIAL STATEMENT ANALYSIS**

Guam Memorial Hospital Authority Statements of Net Assets			
<u>Assets</u>	<u>FY 2009</u>	<u>FY 2008 (As Restated)</u>	<u>FY 2007 (As Restated)</u>
Current and other Assets	\$ 47,604,208	\$ 41,931,001	\$ 33,512,604
Capital Assets, Net	<u>39,214,276</u>	<u>41,003,267</u>	<u>41,824,643</u>
Total Assets	<u>\$ 86,818,484</u>	<u>\$ 82,934,268</u>	<u>\$ 75,337,247</u>
 <u>Liabilities and Net Assets</u>			
Liabilities:			
Current Liabilities	\$ 22,598,999	\$ 30,446,412	\$ 30,351,295
Long-Term Liabilities	<u>4,476,413</u>	<u>3,603,395</u>	<u>2,831,058</u>
Total Liabilities	27,075,412	34,049,807	33,182,253
Net Assets:			
Invested in Capital Assets	39,214,276	41,003,267	41,824,643
Unrestricted	<u>20,528,796</u>	<u>7,881,194</u>	<u>330,251</u>
Total Net Assets	<u>59,743,072</u>	<u>48,884,461</u>	<u>42,154,894</u>
Total Liabilities and Net Assets	<u>\$ 86,818,484</u>	<u>\$ 82,934,268</u>	<u>\$ 75,337,247</u>

Over 90% of current assets consist of the Hospital rendering uncollateralized medical services to patients for medical services/supplies or Accounts Receivable. The Hospital derives over 90% of its cash based on collection from these outstanding uncollateralized medical services. Internally, it is difficult to correlate the number of admission to the increase or decrease in Accounts Receivable. From fiscal year 2007 to fiscal year 2008, the total number of admission increased by .53% but from fiscal year 2008 to fiscal year 2009, admission decreased by 1.04%.<sup>4</sup> Nonetheless, the amount of Accounts Receivable recognized for the three years grew, 22% increase from fiscal year 2007 to 2008 and 18% increase from fiscal year 2008 to 2009.<sup>5</sup>

With the growth in Accounts Receivable came the opportunity for the Hospital to collect. Cash collected from patients from fiscal year 2007 to 2008 remained relatively flat decreasing slightly by .36%, but improved from fiscal year 2008 to 2009 increasing by 6.5%. The push within the Fiscal Division led the increase in collection in fiscal year 2009. Aggressive, consistent, and open communication with patients during the registration process and during the discharge process was enforced. Collection staff communicated with patients during their stay at the Hospital of their financial obligations with the goal to engage either full payment or a payment plan prior their discharge. Follow up phone calls are conducted to close open gaps in existing payment plans. Patients who are pre-registered are informed at that time of their pending obligation and asked to pay in full or place a deposit on the services to be rendered. Uninsured self pay patients are assisted in the process to obtain either MIP or MAP. Insurance companies are provided monthly detailed statements for the purposes of reconciling balances, ensuring the timely processing of payment to the Hospital, and working with revenue generating departments on errors found on the bills to rectify them and prevent future reoccurrence. The Board also provided an avenue for remediation of issues in the revenue cycle that require further analysis through the Board of Trustees' Quality and Safety committee.

<sup>4</sup> Total Admissions - FY 2007 = 47,849; FY 2008 = 48,103; FY 2009 = 47,602. Source Hospital Information System, Patient Information module.

<sup>5</sup> Net AR - FY 2007 = \$28,305,251; FY 2008 = \$34,496,279; FY 2009 = \$40,699,887

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All of these actions have enabled the Hospital to generate just enough cash to meet immediate operation and patient needs. Utilization of cash was directed towards satisfying all of payroll needs for the year, satisfying utilities expenditures, and the *immediate* patient vendor requirements were satisfied. This is manifested in the growth in vendor payables by 25% and the negative cash flow from operations of \$1.7M. All of these instances tie into the increase in patient revenue and accounts receivable. Operationally, the Hospital is growing. The Hospital may be treating fewer patients, but their medical conditions are requiring longer stays and acute medical care. Negative cash flows of \$0.5M were also generated from capital and related financing activities in fiscal year 2009, which were primarily the result of the acquisition of capital assets, all of which were primarily funded by U.S. federal grants. Major capital asset activity for 2009 involved improvements to the Hospital's main lobby and roof. Please refer to note 7 of the accompanying financial statements for additional details concerning activities relating to the Hospital's capital assets. On the flip side, the Hospital generated positive cash flows from noncapital financing activities in fiscal year 2009 of \$1.1M, resulting in an overall net decrease in cash of \$1.1M.

The increase in Accounts Receivable can also be attributed to the accounting standards requirement of reserving for uncollectible claims. Such reserve is derived from historical compilation of billing, collection, and write-offs. Historically, collection on patient accounts has been sluggish. The set up of reserve had been tested for both fiscal year 2008 and 2009 as the Hospital collected over \$9M in tax garnishment (payment for self pay) in 2008 and the overall improvement of collections by 6.5% in 2009. With the improvement in collection, the Hospital made corresponding changes in its reserve and thus the Accounts Receivable for financial statement purposes are presented net of the reserve.

Current liabilities had decreased by 26% between fiscal year 2008 and fiscal year 2009 due to P.L. 30-7. The Government of Guam successfully sold over \$202M Limited Obligation (Section 30) bonds, Series 2009A. A portion of the bonds were legislatively appropriated to pay the Hospital's outstanding retirement liability. Over \$10.5M of the Hospital's \$17M liability was retired in July 2009. The Retirement Fund, without consulting the Hospital, applied over 90% of the bond monies towards interest and penalties, with only \$360K of the bond monies going towards the principal. As the reader, it can easily be surmised that the Hospital *did not* derive any direct benefit from the receipt of bond monies. The principal remained intact which, in the future, will continue to allow the Retirement Fund to assess interest and penalties. The partial satisfaction of the Retirement Fund liability did not improve cash flow but did allow for the slight balance sheet solvency. Please refer to notes 8 and 10 of the accompanying financial statements for additional details concerning activities relating to the Hospital's long-term liabilities.

Interestingly, note 9 to the financial statements explains that P.L. 28-38, as amended by P.L. 29-19, recognizes the General Fund as remitting 'interest-only' payments to the Retirement Fund on behalf of the Hospital totaling over \$2M in fiscal year 2009. Recognition of P.L. 28-38 was in fiscal year 2005. Conservatively extrapolating the amount of payments made by the General Fund to the Retirement Fund since 2005, approximately \$11M should have been credited towards the Hospital's retirement liability. The Retirement Fund has not treated the payments from the General Fund as interest payments but as *recovery or opportunity cost*. Hospital management is concerned as to the manner in which the interest-only payments are being applied by the Retirement Fund. Despite this inconsistency, in the mean time, Hospital employees are able to retire when so desired.

Short-term accounts payable have grown each fiscal year due in part to the growth of the operational needs of the Hospital which translate to an increase in vendor payables. The Guam Legislature, realizing the need to fund the medical needs of the Hospital, started the Pharmaceutical Fund in fiscal year 2006.<sup>6</sup> The Hospital receives 6.19% of the total Gross Receipt Tax collected by the Government of Guam and is

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<sup>6</sup> FY 2006, P.L. 28-68; FY 2007, P.L.28-150; FY 2008,29-19; FY 2009, P.L.29-113; FY 2010, P.L. 29-150

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capped annually by the Government of Guam budget appropriation law. The funds are collected by the Department of Revenue and Taxation and disbursed to the Hospital by the Treasurer of Guam. The Hospital receives funds on a one month time lag, i.e. the Hospital would receive in October the September's Gross Receipt Tax collection. Beginning late fiscal year 2008 and into the entire fiscal year of 2009, the Hospital began to note a longer lag time in the receipt of Pharmaceutical Fund monies. This had a direct negative impact on the Hospital's ability to remit timely vendor payments. The Hospital had to utilize its collection to remain financially afloat.

Working capital is the ability of an organization to pay its short-term obligations with its most liquid assets. Just looking from that point of view, the working capital of the Hospital has improved from 2007 to 2009. This is due to increases in Accounts Receivable and P.L. 30-7. Moving forward, the Hospital must work on reducing its aged Accounts Receivable in order to relieve the financial strain and reduce late payments to vendors. To understand the difficulty in accomplishing this, one must bear in mind the makeup of the Hospital's Accounts Receivable. Over 60% of the total gross Accounts Receivable (prior to the application of reserve, as discussed above) is outstanding Self-Pay patient accounts, of which 80% are classified as long-term Accounts Receivable referred for tax garnishment or for collection by outside collection agencies. The return for these long-term accounts is approximately less than 10%. Of the remaining 20% or current Self-Pay Accounts Receivable, without any true means to 'compel' patients to reimburse the Hospital unlike other Government of Guam agencies (such as the Guam Power Authority or Guam Waterworks Authority), patient accounts can linger past acceptable collection periods. One must always keep these facts in mind when questioning why the Hospital is unable to be financially stable. Nevertheless, the Hospital continues to reinforce collection efforts.

Guam Memorial Hospital Authority Statements of Revenue, Expenses, and Changes in Net Assets			
	<u>FY 2009</u>	<u>FY 2008 (As Restated)</u>	<u>FY 2007 (As Restated)</u>
Operating Revenues	\$ 93,539,681	\$ 89,178,514	\$ 74,751,358
Operating Expenses	<u>99,355,376</u>	<u>92,423,621</u>	<u>87,425,620</u>
Operating Loss	<b>(5,815,695)</b>	<b>(3,245,107)</b>	<b>(12,674,262)</b>
Non-Operating Revenues (Expenses), Net	<u>14,543,999</u>	<u>8,054,367</u>	<u>5,669,345</u>
Excess (deficiency) of Revenues Over (Under) Expenses	8,728,304	4,809,260	<b>(7,004,917)</b>
Capital Grants from Gov Guam General Fund Federal Award Capital Grants and Contributions	22,862 <u>2,107,445</u>	- <u>1,920,307</u>	- <u>1,002,135</u>
Change in Net Assets	10,858,611	6,729,567	<b>(6,002,782)</b>
Net Assets at the Beginning of the Year	<u>48,884,461</u>	<u>42,154,894</u>	<u>48,157,676</u>
Net Assets at the End of the Year	<u>\$ 59,743,072</u>	<u>\$ 48,884,461</u>	<u>\$ 42,154,894</u>

The restatement pertains to the redesignation of the DB Plan by GovGuam's Department of Administration from a single-employer plan to a cost-sharing multiple-employer plan. Please refer to note 20 of the accompanying financial statements for additional details concerning information on this restatement.

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Revenues have steadily increased from fiscal year 2007 to 2009. This is, in part, due to the increase in efforts by revenue generating departments to formally recognize new patient charges (medical supply, a service provided to the patient as a result of new medical equipment or procedure, a physician's fee, or a pharmaceutical). The Hospital has stabilized the recognition of new charges to hold quarterly public hearings. Internal efforts are also being made to generate a clean bill – patient charges reflect the totality of services and supplies provided to the patient during their encounter at the Hospital.

Operationally, although the Hospital had increased revenues, they did not keep pace with expenses. A large portion of the expenses for each division is payroll related.<sup>7</sup> Each year, payroll costs naturally increase due to completion of annual employee performance evaluations and changes to the Government of Guam retirement contribution rate. The Hospital employs about 1,000 employees, whose combined efforts contribute towards the total delivery of direct patient care. One can easily assume the physician, nurses and ancillary staff are direct patient care providers. The reality is that it takes the Security Guards to keep our patient, visitors, and staff safe, the Registration personnel to register and discharge the patient, the Housekeeping Staff to keep the Hospital clean and free from infection, the Business office staff to generate the bill and collect on them, the Facilities staff to keep the infrastructure of the building safe and sound, and others that are not mentioned to complete the patient's encounter at the Hospital.

Noticeably, the amount of federal grants decreased from fiscal year 2008 to 2009. This \$4.4M decrease is due to the decrease in Compact Impact funds awarded to the Hospital. Annually, Compact Impact funds are allotted to various Government agencies based upon the discretion of the Governor. The funds are for reimbursement of services provided to the citizens of the Freely Associated States who are allowed to travel to and from their island to the United States and its territories. When and if awarded Compact Impact funds, the Hospital can use the monies for either reimbursement of associated medical expenses or the purchase of medical supplies or equipment. The loss of Compact Impact monies in fiscal year 2009 had a direct impact on the ability of the Hospital to render timely payments to its vendors.

As to the immediate liquidity of the Hospital (the ability to generate cash in a certain period to meet the expenses associated with that period), one can look at the total inflow and outflow of cash. The Hospital remained flat for fiscal years 2007 and 2008 expending cash more than what was taken in for both years. It was in fiscal year 2009 that the reader can see that the Hospital collected more cash. Historically, it can be seen that 70% of the cash generated is allocated towards payments to employees with the remainder dedicated towards vendors. The Hospital has to work towards increasing payments towards vendors to decrease Accounts Payable. The increase in Accounts Payable has an impact on the ability of the Hospital to economically procure items. With untimely payments to vendors, the Hospital is forced to seek other vendors who can provide the same supply or service but at a higher cost. It does so willingly to ensure that the delivery of patient care continues.

## **ECONOMIC OUTLOOK**

### **Internally**

Looking forward, what is in store for the Hospital? Quality care *will always* be the priority as sanctioned by the Hospital's efforts to attain the gold seal from the Joint Commission (representing full accreditation), and maintain certification from the Center of Medicare and Medicaid Services (for acute and long term care), and certification from the College of Pathology. Recruitment for medical personnel will continue to plague the Hospital, noting the existence of a world-wide shortage that is not unique to Guam. Despite this fact, the Hospital will continue recruitment efforts to meet patient demands and to eventually increase the nurse to patient ratio. The lift in the cap of allowed immigration by the Federal

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<sup>7</sup> Nursing, Professional Support (Ancillary), Administrative Support, Administration, and Fiscal Services make up the five divisions of the Hospital.

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Government in late 2009 will strengthen the Hospital's pursuit of recruiting licensed nursing personnel. The Philippines has been an excellent source of licensed nurses due to the close proximity to Guam and many of them have already passed the U.S. national board standards for Nursing.

In early December 2009, the Hospital engaged the services of Eide Bailey, a firm specializing in performing Operational Assessment of hospitals.<sup>8</sup> The firm did a top to bottom review of the revenue cycle of the Hospital, looking for deficiencies, gaps, and broken processes. They talked to department heads gaining their insight into existing processes. A slew of historical data of Hospital efficiencies, productivities, and outputs were provided. Expected deliverables from the firm was the provision of training for key personnel involved in the cycle and an extensive report that would be delivered no later than the end of January 2010. Employees, including physicians, were forthright in their individual sessions with Eide Bailey and thus are anxious to obtain the results of the assessment. Upon receipt of the report, it is expected that the Board will direct management to implement the recommendations immediately to strengthen the bill and collection efforts.

Individual Board committees, Quality and Safety, IT, CIP, and Facilities, Finance and Audit, Personnel, Strategic Planning, and the JPAC will continue to provide guidance to management in areas of intended direction, such as the continued realization of the priorities directed in the strategic plan and prolongation of clean audit status. Hospital upper management has begun the process of scrutinizing the operational costs of the organization. Although the Hospital's annual financial plan was approved at a level of \$99M for fiscal year 2010, upper management also deems the payment of outstanding accounts payable as being a priority. The only way to accomplish this is to cut costs, increase revenues, and the utilization of cash for payment of current operational needs and prior obligations. The reliance on federal grants will also increase in 2010, including the application of America Recovery and Reinvestment Act federal grants to fund the purchase of much needed medical equipment.

### **Externally**

The economic outlook of the Hospital will highly depend upon the availability of cash on island and direct investment into the island. The impact of the military buildup is yet to materialize and be felt within the island. The Hospital has had numerous Federal government officials visit the Hospital. They have all taken tours and asked questions about the capacity of the Hospital and financial status. Nothing has transpired from such visits, to-date. Understandably, the military is making plans to build/expand the existing Naval Hospital in Hagatña Heights to meet the health needs due to the impending increase of military personnel and dependents.

Along the same lines, the Hospital is proceeding with execution of a Master Plan. The Master Plan consists of two parts, the Operational Assessment and a Feasibility Study. The Operational Assessment will address the need for dedicated revenue. The Feasibility Study will determine whether to build upon the existing Hospital structure or build a new Hospital. The dedicated revenue is intended to fund either the improvement or construction of a new Hospital. Note that whether the military buildup occurs or not, the number of available beds, both acute and long-term must increase as evident by the number of available beds at the Hospital is posted daily in the local print media. The lack of patient beds has led to long waits in the Emergency Room until the availability of a bed. Assuredly, despite the wait, all patients receive the required level of care dictated by their medical condition during their wait for a bed.

The impact of the existence of a privately held Hospital on the island of Guam has yet to be defined. It has been stated that all the customers possessing insurance will seek the medical services of the new Hospital leaving the slow or no pay customers to seek medical services at GMHA. This would certainly exacerbate the financial situation of GMHA as the cost structure would remain static but the inflow of

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<sup>8</sup> Request for Proposal 002-2009 in February 2009. Term of engagement, December 9, 2009 through December 15, 2009.

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cash would be reduced. How will the two Hospitals compete for the same pool of medical personnel on island? Can the island's population handle two Hospitals? Only time will tell.

One thing is for sure, the overall health condition of the island needs to be addressed. Increase treatment of diabetes and cardiovascular conditions, increase in the number of uninsured, shortage of medical personnel, and the population living longer has and will impact the Hospital's ability to provide service. Preventative education to improve the quality of life and lessen or remove any visits to the Hospital needs to be built up and must begin. One can start to realize the positive impact of taking the stairs or walking to reduce side effects of diabetes and cardiovascular diseases. Increased unemployment, coupled with the increased cost of doing business (thus lessening the availability of health insurance) has lessened the number of people affording health insurance. Even those employed with the Government of Guam have seen health insurance costs and deductibles increase. This equates to and will mean an increase in the number of uninsured self-pay patients at the Hospital. The Hospital has also seen a small rise in the number of homeless persons being admitted to the Hospital. Because it is the policy of the Hospital to discharge the patient to either family member, a friend, or to a home, some have become 'almost' permanent guests of the Hospital. They get treated at the Hospital and then are transferred to the Long Term Facility in Barrigada for further convalescence. And finally, as the population grows old and lives longer, the move towards geriatric medicine needs to be bolstered. The island does not have the existing facility to meet the health needs of the growing elderly, like a nursing home. The nursing home provides medical attention that is at a much lower level of care than that provided at an acute Hospital, like GMHA.

Hospital management, with the guidance of the Board of Trustees, is working on addressing these potential events to mitigate the impact. Part of the solution can be addressed internally, while other solutions will require the cooperation and team work of external parties, like the private health community, the Legislature, and other stakeholders. The fact was stated in previous management discussion and analysis reports and is repeated again, *health care is everyone's business*, not just the Hospital because *WE* all need and deserve access to quality health care in a safe environment.

Management's Discussion and Analysis for the years ended September 30, 2008 and 2007 is set forth in the Hospital's report on the audit of financial statements which is dated April 8, 2009. That Discussion and Analysis explains in more detail major factors impacting the 2008 and 2007 financial statements. A copy of that report can be obtained by contacting the Financial Controller or from the Hospital's website at the addresses noted below.

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. If you have any questions about this report or need additional information, please contact the Hospital Administrator's office at 647-2418/2367 or the Chief Financial Officer's office at 647-2934/2190, Monday through Friday, 8 am to 5 pm, closed Saturday, Sunday, and recognized Government of Guam holidays. You may also refer to the Hospital's website at [www.gmha.org](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, 2009 and 2008

<u>ASSETS</u>	<u>2009</u>	<u>2008</u> (As Restated, see Note 20)
Current assets:		
Cash	\$ 784,004	\$ 1,881,442
Patient accounts receivable, net of estimated uncollectibles of \$132,782,745 in 2009 and \$117,637,632 in 2008	40,699,887	34,496,279
Due from the Government of Guam	1,756,644	412,870
Other receivables, net of allowance for doubtful debts of \$1,423,688 in 2009 and \$1,670,901 in 2008	25,236	-
Inventory	3,951,428	4,567,232
Prepaid expenses	112,478	274,294
Total current assets	<u>47,329,677</u>	<u>41,632,117</u>
Note receivable	274,531	298,884
Capital assets, net	<u>39,214,276</u>	<u>41,003,267</u>
Total noncurrent assets	<u>39,488,807</u>	<u>41,302,151</u>
Total assets	<u>\$ 86,818,484</u>	<u>\$ 82,934,268</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 4,135,892
Interest and penalties on notes payable	-	1,921,826
Accounts payable - trade	9,231,440	7,369,572
Accounts payable -Government of Guam Retirement Fund	7,221,981	11,088,961
Accrued payroll and benefits	2,834,569	2,689,693
Current portion of accrued annual leave	1,515,407	1,389,968
Other accrued liabilities	1,795,602	1,850,500
Total current liabilities	<u>22,598,999</u>	<u>30,446,412</u>
Accrued annual leave, net of current portion	2,396,317	1,893,513
Accrued sick leave	2,080,096	1,709,882
Total liabilities	<u>27,075,412</u>	<u>34,049,807</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	39,214,276	41,003,267
Unrestricted	<u>20,528,796</u>	<u>7,881,194</u>
Total net assets	<u>59,743,072</u>	<u>48,884,461</u>
Total liabilities and net assets	<u>\$ 86,818,484</u>	<u>\$ 82,934,268</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, 2009 and 2008

	2009	2008 (As Restated, see Note 20)
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$50,559,776 in 2009 and \$36,029,808 in 2008)	\$ 92,560,551	\$ 88,745,514
Other operating revenues:		
Cafeteria food sales	655,976	581,065
Other revenue	323,154	119,828
Uncollectible amounts	-	(267,893)
Total operating revenues	93,539,681	89,178,514
Operating expenses:		
Nursing	44,987,065	41,855,618
Professional support	24,019,534	22,727,680
Administrative support	12,815,703	11,566,172
Fiscal services	7,603,052	6,492,210
Depreciation	4,426,926	4,177,908
Administration	3,001,911	3,525,516
Retiree healthcare costs	1,584,754	1,458,768
Medical staff	916,431	619,749
Total operating expenses	99,355,376	92,423,621
Operating loss	(5,815,695)	(3,245,107)
Nonoperating revenues (expenses):		
Transfers from GovGuam	12,465,994	2,202,205
Federal grants	3,128,852	7,605,014
Contributions	255,733	61,690
Federal program expenditures	(551,400)	(335,345)
Loss from disposal of fixed assets	-	(9,357)
Interest and penalties	(755,180)	(1,469,840)
Total nonoperating revenues (expenses)	14,543,999	8,054,367
Earnings before capital grants and contributions	8,728,304	4,809,260
Capital grants and contributions:		
Government of Guam	22,862	-
Federal grants	2,107,445	1,920,307
Total capital grants and contributions	2,130,307	1,920,307
Change in net assets	10,858,611	6,729,567
Net assets at the beginning of the year	48,884,461	42,154,894
Net assets at the end of the year	\$ 59,743,072	\$ 48,884,461

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, 2009 and 2008

	2009	2008 (As Restated, see Note 20)
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 87,335,190	\$ 82,004,402
Payments to suppliers and contractors	(27,710,306)	(26,755,445)
Payments to employees	(61,289,019)	(59,532,684)
Net cash used for operating activities	(1,664,135)	(4,283,727)
Cash flows from noncapital financing activities:		
Contributions from the Government of Guam	340,094	743,437
Federal grants received	1,785,078	7,787,959
Payments made under federal programs	(551,400)	(335,345)
Interest paid	(755,180)	(1,260,032)
Contributions	255,733	61,690
Net cash provided by noncapital financing activities	1,074,325	6,997,709
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,637,935)	(3,365,889)
Federal grants received	2,130,307	1,920,307
Net cash used for capital and related financing activities	(507,628)	(1,445,582)
Net change in cash	(1,097,438)	1,268,400
Cash at beginning of year	1,881,442	613,042
Cash at end of year	\$ 784,004	\$ 1,881,442
 Summary of noncash financing activities:		
Payment of notes payable	\$ (1,921,826)	\$ -
Payment of interest and penalties on notes payable	(4,483,428)	-
Payment 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, 2009 and 2008

	2009	2008 (As Restated, see Note 20)
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (5,815,695)	\$ (3,245,107)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	4,426,926	4,177,908
Retiree healthcare costs	1,584,754	1,458,768
(Increase) decrease in assets:		
Patient accounts receivable	(6,203,608)	(6,191,028)
Note receivable	24,353	(298,884)
Other receivables	(25,236)	-
Inventory	615,804	(781,035)
Prepaid expenses	161,816	(61,995)
Increase (decrease) in liabilities:		
Accounts payable - trade	1,861,868	920,335
Accounts payable - retirement fund	616,448	981,440
Accrued payroll and benefits	144,876	620,604
Accrued annual leave and sick leave	998,457	229,062
Estimated third-party payor settlement (Medicare)	-	(684,200)
Other accrued liabilities	(54,898)	(1,239,868)
Long-term debt	-	(169,727)
Net cash used in operating activities	\$ (1,664,135)	\$ (4,283,727)

See accompanying notes to financial statements.

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

Notes to Financial Statements  
September 30, 2009 and 2008

(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, 2009 and 2008

(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, 2009 and 2008, cash is \$784,004 and \$1,881,442, respectively, and the corresponding bank balances are \$984,580 and \$2,637,378, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of \$250,000 and \$100,000, respectively, are FDIC insured. GMHA requires collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are collateralized.

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

Notes to Financial Statements  
September 30, 2009 and 2008

(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 capitalizes 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, 2009 and 2008

(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, 2009 and 2008, GMHA has accrued an estimated liability of \$2,080,096 and \$1,709,882, respectively. However, this amount is an estimate and actual payout may be materially different than estimated.

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.

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.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

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.

Reclassification

Certain matters in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

New Accounting Standards

During fiscal year 2009, GMHA implemented the following pronouncements:

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

In June 2008, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

In December 2008, GASB issued 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. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

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 does not believe that the implementation of this statement will have a material effect on the financial statements of GMHA.

**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2009 and 2008

(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, 2009 and 2008, consist of:

	<u>2009</u>	<u>2008</u>
Account referrals - Department of Revenue and Taxation	\$ 75,671,635	\$ 63,675,865
Medically Indigent Program and Self-pay Patients	35,822,933	39,515,162
Local Third-Party Payor and Other	20,281,055	16,740,859
Medicaid Assistance Program	12,917,704	6,283,864
Medicare	7,705,615	10,802,235
Collection agencies and other	<u>21,083,690</u>	<u>15,115,926</u>
	173,482,632	152,133,911
Less allowance for uncollectible accounts	<u>(132,782,745)</u>	<u>(117,637,632)</u>
	\$ <u>40,699,887</u>	\$ <u>34,496,279</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, 2009 and 2008, the balance of the note was \$274,531 and \$298,884, 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, 2009 and 2008, consist of:

	<u>2009</u>	<u>2008</u>
Government of Guam:		
Department of Mental Health and Substance Abuse	\$ 980,060	\$ 1,080,780
Guam Fire Department	349,423	318,975
Department of Public Health and Social Services	12,306	65,080
Hospital employees	55,861	76,333
Other	<u>51,274</u>	<u>129,733</u>
	1,448,924	1,670,901
Less allowance for uncollectible accounts	<u>(1,423,688)</u>	<u>(1,670,901)</u>
	\$ <u>25,236</u>	\$ <u>-</u>



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
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Notes to Financial Statements  
September 30, 2009 and 2008

(8) Long-term Debt

At September 30, 2009 and 2008, long-term debt consists of the following:

	<u>2009</u>	<u>2008</u>
Promissory note payable due to the GovGuam Retirement Fund (GGRF), payable in equal quarterly installments of \$366,064 beginning March 1998, later revised to \$401,330 beginning March 2002, including interest at the Bank of Hawaii's prime rate plus 1% (8% interest at September 30, 2008). The note was due in March 2003 and is uncollateralized.	-	\$ 4,095,892
Promissory note payable due to the Medical Defenders, LLC (MD) for legal services, payable in monthly installments of \$5,000, due April 2009, uncollateralized and bears no interest.	-	<u>40,000</u>
	<u>\$ -</u>	<u>\$ 4,135,892</u>

During the year ended September 30, 2009, GMHA repaid in full promissory notes payable to the GovGuam Retirement Fund and to the Medical Defenders, LLC.

A summary of changes in long-term debt for the years ended September 30, 2009 and 2008 is as follows:

	<u>Balance</u> <u>October 1,</u> <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September</u> <u>30, 2009</u>	<u>Due Within</u> <u>One Year</u>
GGRF	\$ 4,095,892	\$ -	\$ (4,095,892)	\$ -	\$ -
MD	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,135,892</u>	<u>\$ -</u>	<u>\$ (4,135,892)</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>Balance</u> <u>October 1,</u> <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September</u> <u>30, 2008</u>	<u>Due Within</u> <u>One Year</u>
GGRF	\$ 4,205,619	\$ -	\$ (110,000)	\$ 4,095,892	\$ 4,095,892
MD	<u>100,000</u>	<u>-</u>	<u>(60,000)</u>	<u>40,000</u>	<u>40,000</u>
	<u>\$ 4,305,619</u>	<u>\$ -</u>	<u>\$ (170,000)</u>	<u>\$ 4,135,892</u>	<u>\$ 4,135,892</u>

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(9) Due to GovGuam Retirement Fund

In March 1998, the GovGuam Retirement Fund (GGRF) accepted a promissory note for \$9,835,720 from GMHA, which represented delinquent employer and member contributions owed to GGRF as of February 28, 1998 together with related penalties and interest. The note bears interest at the bank's prime rate plus 1%. As of September 30, 2009 and 2008, the balance owed by GMHA on this note was \$0 and \$4,095,892, respectively, with related interest and penalties of \$0 and \$1,921,826, respectively.

As of September 30, 2009 and 2008, GMHA owed GGRF employer and member contributions under the Defined Benefits 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, 2009 and 2008, GovGuam's general fund paid interest totaling \$2,286,014 for GMHA.

At September 30, 2009 and 2008, the accounts payable due to GGRF reported as current liabilities consist of the following:

	<u>2009</u>	<u>2008</u>
Unpaid employer and member contributions of prior years (DB Plan)	\$ 5,388,968	\$ 6,098,805
Government unfunded liability	217,895	186,674
Employer and member contributions of current fiscal year (DCRS Plan)	108,114	96,244
Supplemental annuities/COLA benefits for retirees	1,507,004	1,507,004
Interest and penalties	<u>-</u>	<u>3,200,234</u>
	<u>\$ 7,221,981</u>	<u>\$ 11,088,961</u>

At September 30, 2009 and 2008, 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.

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(9) Due to GovGuam Retirement Fund, continued

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.

(10) Other Long-Term Liabilities

At September 30, 2009 and 2008, the changes in other long-term liabilities are as follows:

	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>-</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>
	Balance October 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2008	Due Within <u>One Year</u>
Annual leave	\$ 3,182,650	\$ 564,513	\$ (463,682)	\$ 3,283,481	\$ 1,389,968
Sick leave	<u>1,581,651</u>	<u>128,231</u>	<u>-</u>	<u>1,709,882</u>	<u>-</u>
	<u>\$ 4,764,301</u>	<u>\$ 692,744</u>	<u>\$ (463,682)</u>	<u>\$ 4,993,363</u>	<u>\$ 1,389,968</u>

(11) 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.

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(12) 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.

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).

As more fully discussed in Note 20, the redesignation from a single-employer plan to a cost-sharing multiple-employer plan resulted in a restatement relating to the accrued unfunded liability.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2007, 2006, and 2005, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2009, 2008 and 2007, respectively, have been determined by the Guam Legislature as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Normal costs (% of DB Plan payroll)	17.36%	17.94%	18.21%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>7.86%</u>	<u>8.44%</u>	<u>8.71%</u>

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(12) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Funding Policy, Continued:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Employer portion of normal costs (% of total payroll)	3.70%	3.99%	4.26%
Unfunded liability cost (% of total payroll)	<u>19.68%</u>	<u>20.75%</u>	<u>20.66%</u>
Government contribution as a % of total payroll	<u>23.38%</u>	<u>24.74%</u>	<u>24.92%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>25.20%</u>	<u>24.07%</u>	<u>22.94%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

GMHA's contributions to the DB Plan for the years ending September 30, 2009, 2008 and 2007 were \$8,805,567, \$7,631,981 and \$6,590,154, respectively, equal to the required contributions for each year.

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

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

GMHA's contributions to the DCRS plan for the years ended September 30, 2009, 2008 and 2007 were \$5,394,797, \$5,521,959 and \$4,469,523, respectively, equal to the required contributions for each year.

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(12) Employee Retirement Plans, Continued

Other Post Employment Benefits

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

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

(13) 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, 2009, cost reports through September 30, 2008, 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.

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(13) Net Patient Service Revenue, Continued

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, 2009, and 27 percent, 17 percent and 11 percent, respectively, of the Hospital's net patient revenue for the year ended September 30, 2008. 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 2008 net patient service revenue increased approximately \$1,664,680 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

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.

Net patient service revenues for the years ended September 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Patient service revenues at established charge rates:		
Services provided to Medicaid patients	\$ 18,534,818	\$ 9,950,354
Medicaid payments through GMHA Pharmaceuticals Fund	-	4,992,629
Services provided to Medicare patients	31,400,687	27,751,119
Services provided to MIP patients	3,169,675	3,672,457
MIP payments through GMHA Pharmaceuticals Fund	11,395,670	6,079,764
Services provided to Self-pay patients	31,012,090	28,328,042
Services provided to Other patients	<u>47,107,443</u>	<u>44,000,957</u>
	142,620,383	124,775,322
Less contractual adjustments and provisions for uncollectible accounts	<u>(50,059,832)</u>	<u>(36,029,808)</u>
Net patient service revenue	<u>\$ 92,560,551</u>	<u>\$ 88,745,514</u>

(14) 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.

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Notes to Financial Statements  
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(14) Guam Memorial Hospital Authority Pharmaceuticals Fund

The financial statements as of September 30, 2009 and September 30, 2008 are presented to conform to the requirements of this public law.

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.

In accordance with Public Law No. 29-19, GovGuam appropriated \$11,072,393 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, 2008.

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

During the years ended September 30, 2009 and 2008, GovGuam passed supplemental appropriations in public laws from the General Fund and various special revenue funds for certain specific programs and financial assistance, which are summarized as follows:

	<u>2009</u>	<u>2008</u>
Guam Memorial Hospital Authority Pharmaceuticals Fund	\$ 11,395,670	\$ 11,072,393
Health Security Trust Fund	340,094	743,437
General Fund	10,541,146	-
General Fund – on-behalf payments	<u>1,584,754</u>	<u>1,458,768</u>
	<u>\$ 23,861,664</u>	<u>\$ 13,274,598</u>

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.

In accordance with Public Law No. 29-19, GovGuam appropriated \$11,072,393 from the Guam Memorial Hospital Authority Pharmaceuticals Fund and \$743,437 from the Health Security Trust Fund to fund the operations of the Hospital for the year ended September 30, 2008.

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

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(16) 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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medically Indigent Program and Self-pay patients	64%	68%
Local Third-Party Payor and Other	24%	21%
Medicaid Assistance Program	7%	4%
Medicare	<u>5%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

(17) 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>	
2010	\$ 126,361
2011	126,361
2012	<u>24,713</u>
	\$ <u>277,435</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.

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(17) 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 \$1,297,590. 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.

(18) Typhoon and Earthquake Damages and Related Insurance Claims

The main facility of the Hospital was severely damaged by a super typhoon that struck the island of Guam on December 8, 2002. The actual incurred damage from the super typhoon was \$2.8 million. Of the \$2.8 million typhoon damages, approximately \$1 million was recovered from FEMA in public assistance and hazard mitigation programs from 2003 through 2007 and approximately \$1.7 million was received from the Hospital's insurance carrier. At September 30, 2009 and 2008, expenditures of approximately \$-0- and \$161,464, respectively, were incurred for on-going FEMA hazard mitigation programs related to the above typhoon damages.

(19) Dependency on the Government of Guam

The Hospital has incurred losses from operations of \$6,426,404 and \$5,726,867 and negative cash flows from operations of \$1,664,135 and \$4,283,727 for the years ended September 30, 2009 and 2008, respectively. At September 30, 2009 and 2008, the Hospital's deficiencies on delinquent and unpaid retirement contributions, including interest and penalties, with the GovGuam Retirement Fund were \$7,221,981 and \$17,106,679, 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.

(20) Restatement

Subsequent to the issuance of GMHA's 2008 financial statements, GovGuam's Department of Administration issued a determination concerning the redesignation of the DB Plan as a cost-sharing multiple-employer plan. Prior to this determination, the DB Plan was designated as a single-employer plan, requiring GMHA to measure and disclose an amount for annual pension cost. Annual pension cost amounted to GMHA's annual required contributions (ARC) to the plan with the difference between the ARC and actual required contributions recognized as a net pension obligation.

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(20) Restatement, Continued

The redesignation of the DB Plan as a cost-sharing multiple-employer plan resulted in the reversal of the previously reported unfunded pension liability, totaling \$19,088,198, and related pension costs of \$2,481,760 as well as related disclosure. The effect on the 2008 financial statements as a result of this restatement is as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
At September 30, 2008:		
Unfunded pension liability	\$ <u>19,088,198</u>	\$ <u>          -</u>
Net assets:		
Unrestricted	\$ <u>(11,207,004)</u>	\$ <u>  7,881,194</u>
For the year ended September 30, 2008:		
Operating expenses:		
Nursing	\$ <u>43,287,310</u>	\$ <u>41,855,618</u>
Professional support	\$ <u>23,217,442</u>	\$ <u>22,727,680</u>
Administrative support	\$ <u>11,812,954</u>	\$ <u>11,566,172</u>
Fiscal services	\$ <u>  6,715,014</u>	\$ <u>  6,492,210</u>
Administration	\$ <u>  3,587,582</u>	\$ <u>  3,525,516</u>
Medical staff	\$ <u>    648,403</u>	\$ <u>    619,749</u>
Operating loss	\$ <u>(5,726,867)</u>	\$ <u>(3,245,107)</u>
Net assets:		
Beginning of the year	\$ <u>25,548,456</u>	\$ <u>42,154,894</u>
End of the year	\$ <u>29,796,263</u>	\$ <u>48,884,461</u>

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Schedule of Expenses and Full-Time Employees Count  
Years Ended September 30, 2009 and 2008

	2009	2008
<b>NURSING:</b>		
Salaries	\$ 24,613,943	\$ 23,059,216
Overtime	1,658,168	1,845,054
Other pay	4,868,291	4,646,310
Fringe benefits	7,072,891	6,533,743
Total personnel costs	38,213,293	36,084,323
Supplies and materials	3,971,382	3,435,632
Utilities	-	3,559
Contractual services	2,627,992	2,273,530
Miscellaneous	174,398	58,574
	\$ 44,987,065	\$ 41,855,618
Total employees at end of year	512	460

	2009	2008
<b>PROFESSIONAL SUPPORT:</b>		
Salaries and leave pay	\$ 7,899,444	\$ 7,520,478
Overtime	820,569	619,910
Other pay	1,480,055	1,592,888
Fringe benefits	2,584,675	2,235,104
Total personnel costs	12,784,743	11,968,380
Supplies and materials	10,397,615	10,014,156
Utilities	27,737	26,586
Contractual services	725,443	578,561
Miscellaneous	83,996	139,997
	\$ 24,019,534	\$ 22,727,680
Total employees at end of year	233	228

See accompanying independent auditors' report.

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Schedule of Expenses and Full-Time Employees Count, Continued  
Years Ended September 30, 2009 and 2008

	2009	2008
<b>ADMINISTRATIVE SUPPORT:</b>		
Salaries	\$ 3,688,463	\$ 3,619,265
Overtime	418,390	418,999
Other pay	603,062	566,458
Fringe benefits	1,302,710	1,126,228
Total personnel costs	6,012,625	5,730,950
Supplies and materials	2,152,784	2,181,846
Utilities	3,286,232	2,584,755
Contractual services	1,054,466	772,474
Miscellaneous	309,596	296,147
	\$ 12,815,703	\$ 11,566,172
Total employees at end of year	183	145

	2009	2008
<b>FISCAL SERVICES:</b>		
Salaries	\$ 3,076,487	\$ 3,004,997
Overtime	87,115	193,562
Other pay	224,966	217,770
Fringe benefits	1,037,347	1,016,799
Annual leave lump sum pay	755,469	262,561
Sick leave (DC plan)	370,369	128,231
Total personnel costs	5,551,753	4,823,920
Supplies and materials	273,764	278,213
Contractual services	1,646,678	1,294,861
Miscellaneous	130,857	95,216
	\$ 7,603,052	\$ 6,492,210
Total employees at end of year	105	107

See accompanying independent auditors' report.

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Schedule of Expenses and Full-Time Employees Count, Continued  
Years Ended September 30, 2009 and 2008

	2009	2008
<b>ADMINISTRATION:</b>		
Salaries	\$ 864,993	\$ 834,475
Overtime	170	1,117
Other pay	41,905	37,544
Fringe benefits	330,548	283,251
Total personnel costs	1,237,616	1,156,387
Supplies and materials	56,558	120,398
Contractual services	503,175	496,996
Insurance (Property)	636,073	636,073
Miscellaneous	568,489	1,115,662
	\$ 3,001,911	\$ 3,525,516
Total employees at end of year	23	23
	2009	2008
<b>MEDICAL STAFF:</b>		
Salaries	\$ 550,527	\$ 442,973
Overtime	419	302
Other pay	66,453	22,198
Fringe benefits	183,917	130,765
Total personnel costs	801,316	596,238
Supplies and materials	115,115	23,511
	\$ 916,431	\$ 619,749
Total employees at end of year	56	49
Total expenses, without depreciation and retiree healthcare costs	\$ 93,343,696	\$ 86,786,945
Total FTE count	1,112	1,012

See accompanying independent auditors' report.