



OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

June 6, 2013

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina'Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

32-13-470
Office of the Speaker
Judith T. Won Pat, Ed.D.
Date: 6/7/13
Time: 8:22 AM
Received by: [Signature]

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Guam Memorial Hospital Authority's (GMHA) Fiscal Year 2012 audited Financial Statements, Report on Compliance and Internal Controls, Management Letter, and Letter to Those Charged with Governance. Attached are our highlights of the audit report.

For your convenience, you may also view and download the report in its entirety at www.guamopa.org.

Senseramente,

Rmagnardo
for Doris Flores Brooks, CPA, CGFM
Public Auditor

2013 JUN -7 AM 9:11 [Signature]

RECEIPT ACKNOWLEDGED:

GUAM LEGISLATURE
CENTRAL FILES

By: Joe SA.
Date: 6-6-13

ACKNOWLEDGEMENT RECEIPT

Received by: _____
Time: _____
Date: _____

470



**Guam Memorial Hospital Authority
FY 2012 Financial Highlights**

May 23, 2013

After the largest loss in over a decade in FY 2011, the Guam Memorial Hospital Authority (GMHA) ended fiscal year (FY) 2012 with an increase in net assets of \$8.3 million (M) compared to a negative \$28.7M. This was mainly attributed to the \$12.3M General Obligation Bonds. Although operating revenues increased by \$15.8M to \$85.6M, GMHA had an operating loss of \$17.9M as expenses amounted to \$103.5M, a slight decline from \$105.8M in FY 2011. GMHA’s viability is dependent upon continued subsidies from GovGuam as the hospital’s services cannot be withheld based on the financial ability of the customer.

Deloitte & Touche, LLP rendered an unqualified or “clean” opinion on the financial statements. GMHA, however, received a qualified opinion on the independent auditors’ reports on internal control and on compliance due to continued material weaknesses and significant deficiencies. Of the four material weaknesses and one significant deficiency, three were repeat findings pertaining to collection of patient receivables, unbilled patient receivables, and the lack of a perpetual inventory in pharmacy. The other two findings involved noncompliance with federal equipment and real property requirements and insufficient procurement documentation, which resulted in questioned costs of \$154 thousand (K). As of September 30, 2012, cumulative unresolved questioned costs amounted to \$2.2M.

Operating Revenues and Collections Increase

The increase in operating revenues was mainly attributed to improved collections, which increased net patient revenues by \$14.9M to \$84.1M. Forty-eight percent of patient revenues came from the “3Ms”: Medicare (22%), Medicaid (16%) and Medically Indigent Program (MIP) at 10%; however, the reimbursement structure under these programs has resulted in contractual adjustments of \$42.1M, or 60%. As a result, 3Ms’ revenues amounted to \$28.3M compared to \$29.6M in FY 2011. Despite this decline, net service revenues from other patients accounted for 50% of net revenues and increased by \$9.9M or 32% from \$31.8M to \$41.8M. Additionally, net service revenues from self-pay patients significantly increased by 82% or \$6.3M from \$7.7M to \$14M as GMHA received \$6M in the 4th quarter of 2011 from garnished tax refunds.

In FY 2012, GMHA collected 61 cents on the dollar for its billings of \$146.7M. This is an improvement from the previous year where 50 cents on the dollar was collected. Based on GMHA’s schedule of billings and collections, the largest class of patient billings was for the 3Ms, which represent 58% or \$85.6M of total billings of \$146.7M. Contrary to popular opinion, health insurance providers made up 26% or \$38.4M of GMHA’s billings. This is followed by self-pay patients (15%) and GovGuam (1%). Refer to Chart 1.

Chart 1: GMHA Billings

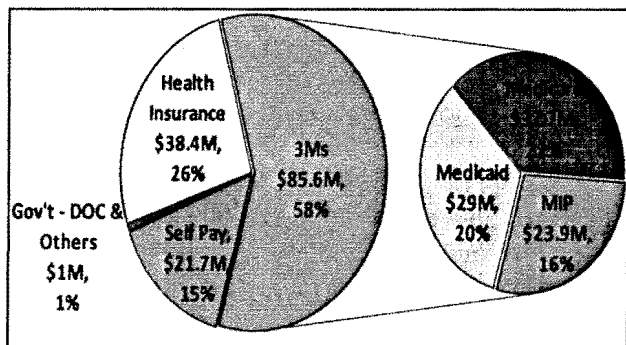
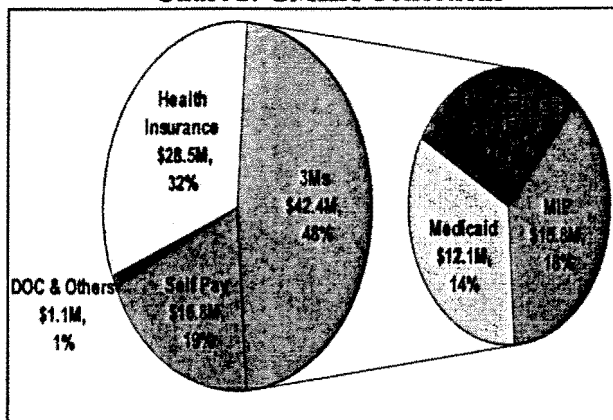


Chart 2: GMHA Collections



GMHA collected a total of \$88.8M of the \$146.7M billed. Of the total collections, 48% or \$42.4M was received from the 3Ms. Although, health insurance providers represented 26% of billings, 32% of the collections, or \$28.5M, came from these payors. Reimbursement from the 3Ms is less than the actual cost of providing services. Collections from insurers provide reimbursements near GMHA's costs. Collections from self-pay patients represented 19% and collections from GovGuam made up 1% as illustrated in Chart 2.

Operating Expenses Outpace Operating Revenues

In FY 2012, GMHA incurred an operating loss of \$17.9M which was significantly lower than the prior year's loss of \$35.9M, the largest operating loss incurred by GMHA in over a decade. While total operating revenues significantly increased to \$85.6M from \$69.9M, it was not enough to off-set the operating expenses of \$103.5M. GMHA's operating expenses slightly declined by 2.2% from \$105.8M in FY 2011. Over 58% of the expenses, or \$49.4M was attributed to Nursing, of which nearly 90% or \$43.9M was for personnel costs. Overall, GMHA's personnel count dropped from 999 in FY 2011 to 967, but personnel costs dropped nominally from \$71.6M to \$71.1M. This can be attributed to GMHA's increased contribution to GovGuam retirement costs from 25.95% in FY 2011 to 28% in FY 2012.

Dependency on the Government of Guam

In addition to losses from operations, GMHA had \$4.3M in negative cash flows from operations, and recorded \$47.2M in contractual allowances and \$17M for a provision for uncollectible accounts. Additionally, delinquent and unpaid retirement contributions, including interest and penalties were \$2.6M as of September 30, 2012. As noted in the audit report, management believes that the hospital's continued operation is dependent on payments by GovGuam for services provided under Medicaid and MIP, the collection of long outstanding patient receivables, and improvements in operations. GovGuam made various payments totaling \$28M during FY 2012 as follows:

- \$12.3M from bond proceeds to pay past due GovGuam Retirement Fund liabilities;
- \$4M from the General Fund, of which \$1.9M was paid on behalf of hospital retirees;
- \$8.6M from the Pharmaceuticals Fund for Medicaid and Charity Care patients;
- \$2.7M from the Healthy Futures Fund; and
- \$320K from the 2007 Tobacco Bond proceeds.

The Hospital also received \$7.2M in Federal Grants. Of this amount, \$6.2M was from Compact Impact funding, which was at the discretion of the Governor, and \$270K was related to the American Recovery and Reinvestment Act.

Income Tax Withholding Not Remitted Timely

In addition to past due retirement contributions, GMHA did not make required payments of withholding taxes for certain quarters of tax years 2010 and 2011. As of September 30, 2012, unpaid income tax withholdings amounted to \$6.4M. GMHA did not record accrued interest or penalties as Management believed that these penalties can be administratively reduced.

Report on Compliance and Management Letter

Five findings were identified in the Reports on Compliance and Internal Control, of which four were considered material weaknesses and one was a significant deficiency. These findings involved the following, of which the first three listed below were repeat findings from FY2011:

- **Patient Receivables:** Measures and actions should be undertaken to collect and address long outstanding and increasing receivables.
- **Pharmaceutical Department Inventory:** GMHA does not have a perpetual pharmaceutical inventory. Only a year-end count is performed and detailed reconciliations and investigations of differences are not performed.
- **Unbilled Patient Receivables:** Patient receivables were not billed on a timely basis. Unbilled receivables are at \$6M – a reduction from \$6.9M at FY2011, but high compared to FY 2010 levels.
- **Procurement and Suspension and Debarment:** In 2 of 52 expenditures tested, there was insufficient documentation to detail the history of the procurement or the rationale for vendor selection. This resulted in questioned costs of \$154K, which increased cumulative unresolved questioned costs to \$2.2M.
- **Equipment and Real Property Management:** Of the 75 federal asset samples tested, one asset was not maintained in accordance with applicable federal equipment and real property guidelines.

A separate letter was issued to management citing 16 control deficiencies compared to 10 in the previous year. These included issues pertaining to untimely collections being applied to patient accounts; damaged inventory not being included in the year-end count, fixed asset disposals not being reviewed for validity; unrecorded interest charges by vendors; overpayment to on-call physicians due to input errors, and incorrect classification of expenses. In addition, six IT related control deficiencies were identified.

For a more detailed commentary on GMHA's operations, refer to the Management Discussion and Analysis in the audit report. For more details, view the reports in their entirety at www.guamopa.org or at www.gmha.org.



Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

May 21, 2013

The Board of Trustees
Guam Memorial Hospital Authority

Dear Members of the Board of Trustees:

In planning and performing our audit of the financial statements of the Guam Memorial Hospital Authority (the Authority) as of and for the year ended September 30, 2012 (on which we have issued our report dated May 21, 2013), 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, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Authority's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Trustees, also dated May 21, 2013, on our consideration of the Authority'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 definition of a deficiency is also set forth in Section III of the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Trustees, management, the Office of Public Accountability of Guam and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

SECTION I – DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2012:

(1) Receivable Collections

Four of twenty-one collections tested (ref. patient #s 10630288, 10767051, 10779646 and 10827702) were applied to the patient's account between 20 to 73 days after the collection date.

We recommend that collections be timely applied to patient's accounts.

(2) Unbilled Receivables with Exceptions

Unbilled receivables with exceptions as of September 30, 2012 and 2011 are as follows:

| <u>Exceptions Category</u> | <u>2012</u> | <u>2011</u> |
|----------------------------|---------------------|---------------------|
| Not coded | \$ 4,869,035 | \$ 3,771,801 |
| Patient still in hospital | 1,493,138 | 1,849,497 |
| Missing documents | 232,052 | 60,179 |
| With QM | 155,345 | 52,446 |
| Others | <u>98,443</u> | <u>26,663</u> |
| | \$ <u>6,848,013</u> | \$ <u>5,760,586</u> |

Of the unbilled receivables with exceptions, patient charges of \$86,739 (or 1%) and \$473,300 (or 8%) as of September 30, 2012 and 2011, respectively, are over 60 days from patients' discharge dates.

We recommend that GMHA continue to investigate and address long outstanding unbilled receivables with exceptions.

(3) Inventories

Damaged inventory items for disposal were not included in the year-end count. However, no reports were prepared to account for these items.

We recommend GMHA account for damaged inventories, and disposals, if any, be approved.

(4) Inventories

For three (items #s 4448, 330476 and 130006 with total costs of \$36,702) of eight inventory (aggregating \$122,629) price tests, a reconciliation was not provided for variances in unit costs between final inventory listings and audit expectations. The total variance in unit cost was \$3,213. The extrapolated misstatement is not material to the financial statements.

We recommend that unit cost variances be reconciled.

(5) Inventories

Two (item #13005 and 111205 with total costs of \$2,308) of three items test counted aggregating \$2,399 at the Central Supply room did not agree to the final inventory listing, and a reconciliation of the variances was not provided. The total variance was \$335. The extrapolated misstatement is not material to the financial statements.

We recommend that count records be reconciled with final inventory listings.

(6) Inventories

The allowance for inventory obsolescence (\$500,000 as of September 30, 2012) is only evaluated and adjusted at year-end.

We recommend GMHA perform timely (i.e. quarterly) evaluation of inventory reserves.

(7) Fixed Assets

Of sixty-two items tested for fixed asset existence, the following were noted:

- a. GMHA purchased a new asset (tag# 6923) to replace a fully depreciated asset (tag# 1085 with original cost of \$118,264) but did not remove the replaced asset from the fixed asset register. This matter was subsequently corrected by GMHA through a proposed adjustment.
- b. One fully depreciated asset (ref. tag #3262) with an original cost of \$17,100 has not been used for several years. GMHA did not complete a disposal form ("report of survey") to remove the asset.

We recommend that GMHA ensure that replaced assets are identified and removed from the fixed asset register. Further, we recommend GMHA examine fixed assets listing for assets that should be submitted for survey.

(8) Fixed Assets

Of twenty four fixed asset disposals tested aggregating \$5,493,132, the following were noted:

- a. Eighteen items totaling \$4,091,161 were fully depreciated but are still in use and in good working condition. Therefore, these were not valid disposals.
- b. Four items totaling \$1,352,147 are fully depreciated, are not in use but can be repaired or are under repair, and do not represent valid disposals.
- c. Two items totaling \$49,824 were fully depreciated and were written off as the assets could not be located.

For fiscal year 2012, GMHA recorded \$10,542,881 in fixed asset disposals. GMHA subsequently corrected this amount to exclude \$9,269,440 relating to existing assets still in use. The remaining \$1,273,441 represented either assets that were recommended for disposal or that were not located during GMHA's biennial count. These assets were fully depreciated as of September 30, 2012.

We recommend that disposals be reviewed for validity. Further, we recommend GMHA revisit its policies and procedures over fixed asset disposals. For assets identified for disposal, we recommend GMHA accounting coordinate with appropriate departments to verify that assets are surveyed prior to being written-off.

(9) Construction in Progress

Of five CIP projects tested aggregating \$4,159,051, one \$737,526 project (ref. 20111591 Wall Hardening) was completed as of September 30, 2012 but was not reclassified to a fixed asset account. This was subsequently corrected by GMHA through a proposed adjustment.

We recommend that GMHA periodically (usually quarterly) monitor the status of CIP projects for completion and in service dates.

(10) Accounts Payable

During tests of payable reconciling items, we noted the following:

- a. Interest assessed by a vendor and unrecorded by GMHA was \$855,607.
- b. \$629,333 (\$210,610 in CIP, \$93,027 in inventory and \$325,696 in operating expenses) in reconciling items related to invoices not recorded and/or not timely recorded by GMHA. This was corrected by GMHA through an adjustment.

We recommend GMHA review the process of entering invoices in the system. The date the item was received or the service was provided should be the date used to record the liability and expense/inventory, so as to obtain appropriate cut-off. We also recommend that the process for identifying accrued liabilities be reviewed. Further, we recommend GMHA develop action plans to address interest on unpaid liabilities.

(11) Accrued Taxes

GMHA did not make required payments of withholding taxes for certain quarters of tax years 2010 and 2011. While GMHA accrued estimated penalties and interest on unpaid withholding taxes as of September 30, 2012, GMHA may be liable for additional penalties and interest.

We recommend GMHA continue to evaluate the legal implications of nonpayment and develop action plans as deemed necessary.

(12) Patient Revenues

Of 75 patient revenue items tested, we noted the following:

- a. Charges for one patient (ref. patient #10822903) were entered fifteen days after service date due to delay in submission of relevant documents.
- b. One patient (# 10862384) was discharged in August 2012 and was billed in November 2012. Patient was originally a self-pay and subsequently registered with Medicaid.

We recommend that patient management review processes to ensure charges be timely entered and billed.

(13) Patient Revenues

We noted total late patient charges of \$ 1,047,552 with service dates on or prior to September 30, 2012 which were not accrued at year-end. This was subsequently corrected through an adjustment. Three (ref. patient #s 10864208, 10867457 and 10853719) of four items tested were due to input errors not timely corrected and one item (ref. patient #10854962) was due to a delay in submission of relevant documents.

We recommend that a process for identifying patient revenue accruals at year-end be established.

(14) Payroll Expenses

Of 75 items tested, we noted three on-call physicians (ref. employee #s 266959 for PPE 01/28/12, 949824 for PPE 12/03/11, 947983 for PPE 12/31/11) were overpaid due to input errors.

We recommend GMHA strengthen payroll review procedures.

(15) Expense Classification

Of twenty-four non-payroll expenses aggregating \$4,520,272 tested, three items totaling \$110,828 related to medical supplies (account #7500-4100) posted to contracted services (7500-2600). GMHA further analyzed the contracted services account and identified \$1,432,122 in total charges that should have been posted to medical supplies. This was corrected by GMHA through an adjustment.

We recommend that expenses be posted to appropriate general ledger accounts.

SECTION II — OTHER MATTER

We also identified, and have included below, another matter involving the Authority's internal control over financial reporting as of September 30, 2012, that we wish to bring to your attention:

Payables

The unpaid invoices schedule contained several offsetting payments or invoice cancellations which do not represent unpaid invoices.

We recommend the GMHA review the unpaid invoices schedule and identify and exclude paid and/or cancelled invoices.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Authority's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

May 21, 2013

The Board of Trustees
Guam Memorial Hospital Authority

Dear Members of the Board of Trustees:

We have performed an audit of the financial statements of the Guam Memorial Hospital Authority (the Authority) as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated May 21, 2013.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Authority is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated September 8, 2012. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Authority's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2012 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2012 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the Authority's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* ("OMB Circular A-133").

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of management and the Board of Trustees are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Trustees of their responsibilities.

We considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2012 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based on management's evaluation of the collectability of current accounts and historical trends, management's estimate of the provision for inventory obsolescence, which is determined based on known or estimated exposures, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2012, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The Authority's significant accounting policies are set forth in Note 2 to the Authority's 2012 financial statements. During the year ended September 30, 2012, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority:

During fiscal year 2012, GMHA implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which improves financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

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

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

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

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

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

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GMHA.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GMHA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GMHA.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE AUTHORITY

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the Authority issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the Authority's 2012 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Trustees.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2012 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2012.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Authority's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix II, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Authority's management and staff and had unrestricted access to the Authority's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated May 21, 2013, on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. Within that report, we noted certain matters that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants. We have also issued a separate report to you, also dated May 21, 2013, on the Authority's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Within that report instances of noncompliance with requirements applicable to major federal award programs were disclosed and matters that were considered significant deficiencies and material weaknesses in internal control over compliance with requirements applicable to major federal award programs were identified.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE AUTHORITY

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the Authority issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the Authority's 2012 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Trustees.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Authority's 2012 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2012.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Authority's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix II, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Authority's management and staff and had unrestricted access to the Authority's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated May 5, 2013, on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. Within that report, we noted certain matters that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants. We have also issued a separate report to you, also dated May 5, 2013, on the Authority's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133. Within that report instances of noncompliance with requirements applicable to major federal award programs were disclosed and matters that were considered significant deficiencies and material weaknesses in internal control over compliance with requirements applicable to major federal award programs were identified.

This report is intended solely for the information and use of the Board of Trustees, management, the Office of the Public Accountability of Guam and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff and management of the Authority for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP


Guam Memorial Hospital Authority
 Summary of Uncorrected Misstatements - Current Year
 September 30, 2012

| Known and Likely Misstatements | STATEMENT OF CONDITION | | | |
|--|------------------------|-------------|--|-------------------------|
| | Assets | Liabilities | Fund Balance Net Assets Beg of Year | Change in Net Assets |
| | Dr (Cr) | Dr (Cr) | Dr (Cr) | Dr (Cr) |
| 1. To reclassify related party payables (DOA) | | | | |
| Dr. Accounts payable | | 60,839 | | |
| Cr. Due to GovGuam | | (60,839) | | |
| 2. To adjust likely misstatement in CIP. | | | | |
| Dr. Fixed assets | 95,660 | | | |
| Cr. Construction in progress | (95,660) | | | |
| 3. To record FY 2012 appropriations from GovGuam not taken up. | | | | |
| Dr. Due from GovGuam | 93,433 | | | |
| Cr. GovGuam Subsidy | | | | (93,433) |
| 4. To take up extrapolated misstatement due to differences in unit costs per books and per audit expectations. | | | | |
| Dr. Materials and supplies | | | | 122,759 |
| Cr. Inventory | (122,759) | | | |
| 5. To take up additional bad debts on HMOs/Third party payors. | | | | |
| Dr. Bad debts expense | | | | 186,346 |
| Cr. Allowance for bad debts | (186,346) | | | |
| 6. To accrue additional interest and penalties on unpaid taxes based on DRT confirmation. | | | | |
| Dr. Interest and penalties expense | | | | 503,372 |
| Cr. Accrued expenses | | (503,372) | | |
| 7. To adjust payable to vendors to agree to reconciled balance per confirmation analysis | | | | |
| Dr. Expenses | | | | 626,035 |
| Cr. Accrued expenses | | (626,035) | | |
| 8. To adjust unbilled PO receipts payable | | | | |
| Dr. Payables | | 671,422 | | |
| Cr. Expenses | | | | (671,422) |

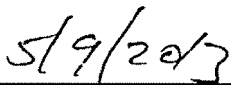
Guam Memorial Hospital Authority
 Summary of Uncorrected Misstatements - Current Year
 September 30, 2012

| Known and Likely Misstatements | STATEMENT OF CONDITION | | | |
|--|------------------------|-----------------------|-------------|----------------|
| | | | Fund | |
| | Assets | Liabilities | Balance Net | Change in |
| Dr (Cr) | Dr (Cr) | Assets Beg of Year | Net Assets | |
| | | Dr (Cr) | Dr (Cr) | Dr (Cr) |
| 9. To adjust inventory reserve to agree to GMHA's detailed reserve analysis. Dr. Allowance for inventory obsolescence. 65,235 Cr. Provision for inventory reserve (65,235) | | | | |
| 10. To adjust reserve for litigation based on updated response from legal counsel. Dr. Provision for litigation 90,000 Cr. Reserve for litigation (90,000) | | | | |
| Total Known and Likely Misstatements | (150,436) | (547,985) | - | 698,421 |


We have reviewed the uncorrected misstatements above as of September 30, 2012. The uncorrected misstatements are not material to the current fiscal year financial statements. Further, the above are not the results of fraud or illegal acts.




 Alan C. Ulrich
 Chief Financial Officer



 Date



 Jun Infante
 General Accounting Supervisor

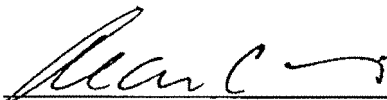


 Date

Guam Memorial Hospital Authority
 Summary of Uncorrected Misstatements Relating to Prior Year
 September 30, 2012

| Known and Likely Misstatements | STATEMENT OF CONDITION | | | |
|--|------------------------|-------------|--------------|---------------|
| | | | Fund Balance | |
| | Assets | Liabilities | Net Assets | Change in Net |
| | Dr (Cr) | Dr (Cr) | Beg of Year | Assets |
| | | Dr (Cr) | Dr (Cr) | |
| 1. To take up estimated allowance on 2011 patient charges of \$791,054 not accrued @ 9/30/2011. Related patient revenues taken up in 2012. | | | 475,120 | (475,120) |
| Total Known and Likely Misstatements | - | - | 475,120 | (475,120) |

We have reviewed the uncorrected misstatements above as of September 30, 2012. The uncorrected misstatements are not material to the current fiscal year financial statements. Further, the above are not the results of fraud or illegal acts.



Alan C. Ulrich
 Chief Financial Officer

5/9/2013
 Date



Jun Infante
 General Accounting Supervisor

5/9/2013
 Date



Guam Memorial Hospital Authority Aturidåt Espetåt Mimuriåt Guåhan



850 GOV. CARLOS CAMACHO ROAD
OKA, TAMUNING, GUAM 96913
TEL: (671) 647-2444 or 647-2330
FAX: (671) 649-0145

May 21, 2013

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, Guam 96913

Gentlemen:

We are providing this letter in connection with your audits of the statements of net assets of the Guam Memorial Hospital Authority (the Authority), a component unit of the Government of Guam (GovGuam), as of September 30, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended, which collectively comprise the Authority's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position, results of operations and changes in net assets, and cash flows, in conformity with GAAP.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, and supplemental schedules accompanying the basic financial statements.
- c. The fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- d. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- e. Establishing and maintaining effective internal control over financial reporting.
- f. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by

Deloitte & Touche LLP
May 21, 2013
Page 2

the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. Net asset components (invested in capital assets, and unrestricted) are properly classified and, if applicable, approved.
 - b. Expenses have been appropriately classified in or allocated to functions in the statements of revenues, expenses and changes in net assets, and allocations have been made on a reasonable basis.
 - c. Revenues are appropriately classified in the statements of revenues, expenses and changes in net assets within operating revenues, or capital contributions.
 - d. Deposits are properly classified in the category of custodial credit risk.
 - e. Capital assets are properly capitalized, reported, and, if applicable, depreciated.
 - f. Required supplementary information is measured and presented within prescribed guidelines.
 - g. Costs to federal awards have been charged in accordance with applicable cost principles.
 - h. Applicable laws and regulations are followed in adopting, approving and amending budgets.
2. The Authority has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Authority has made available to you all:
 - a. Summaries of actions of the Board of Trustees of the Authority or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - b. The following details the summary of minutes.
 - October 27, 2011
 - January 19, 2012
 - March 1, 2012
 - March 6, 2012
 - March 15, 2012
 - April 18, 2012
 - April 25, 2012
 - May 17, 2012
 - June 21, 2012
 - September 21, 2012
 - October 18, 2012
 - January 24, 2013
 - February 28, 2013

• April 4, 2013

- c. Financial records and related data for all financial transactions of the Authority and for all funds administered by the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Authority and provide the audit trail to be used in a review of accountability. Information presented in financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
 - d. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
 - e. Third-party payor reports and information.
4. There has been no:
- a. Action taken by Authority management that contravenes the provisions of federal laws and Guam laws and regulations or of contracts and grants applicable to the Authority.
 - b. Communication from other regulatory agencies concerning noncompliance with laws and regulations (including those related to the Medicare and Medicaid antifraud and abuse statutes) or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
7. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the Authority involving:
- a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, regulators, or others.

Deloitte & Touche LLP
May 21, 2013
Page 4

10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*). Management is of the opinion, based on discussions with applicable legal counsel, that adequate provision has been made in the financial statements for unasserted claims or assessments and we do not believe that resolution of these matters will have a material impact on the financial statements.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance or direct appropriations.
13. We are responsible for the compliance with Guam and federal laws, rules and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Authority's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
14. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions for contracts or grant agreements that could have a material effect on its federal programs.
15. We have:
 - a. Complied, in all material respects, with the requirements identified above in connection with federal awards, except as disclosed in the Schedule of Findings and Questioned Costs.
 - b. Made available all information related to the federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - c. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.
 - d. Taken appropriate correction action on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements.
 - e. Considered the results of the subrecipient's audits and made any necessary

Deloitte & Touche LLP
May 21, 2013
Page 5

adjustments to the auditee's own books and records.

16. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
17. We believe that internal control over the receipt and recording of contributions is adequate.
18. We have included in the financial statements all assets and liabilities under the Authority's control

Except where otherwise stated below, matters less than \$238,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

19. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
20. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
21. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Guarantees, whether written or oral, under which the Authority is contingently liable.
 - b. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
22. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
23. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

Deloitte & Touche LLP
May 21, 2013
Page 6

24. There are no:
 - a. Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Anti-Kickback Act, Limitations on Certain Physician Referrals (commonly referred to as the "Stark law"), and the False Claims Act, in any jurisdiction, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*), except as disclosed in note 16 to the financial statements.
25. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
26. The Authority has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance, except for instances of noncompliance included in the Schedule of Findings and Questioned Costs.
27. Receivables recorded in the financial statements represent valid claims against debtors for services provided, sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their net realizable value.
28. The Authority is responsible for determining and maintaining the adequacy of the allowance for accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
29. The recorded valuation allowances for accounts receivable and settlements with third parties are necessary, appropriate, and properly supported. Provision has been made for estimated retroactive adjustments by third-party payors under reimbursement agreements.
30. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Authority and do not include any items consigned to it, or any items for which the liability has not been recorded.
31. We represent to you that, subsequent to September 30, 2012, there were no changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses).
32. We have no intention of terminating our pension plans or taking any other action that could result in an effective termination or reportable event for either of the plans. We are not aware of any occurrences that could result in the termination of our pension plans to which we contribute. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
33. Accruals for losses from malpractice, workers compensation, and other types of self-insured risk, including accruals for claims incurred but not reported have been properly recorded and disclosed in the financial statements.

Deloitte & Touche LLP
May 21, 2013
Page 7

34. No department or agency of the Authority has reported a material instance of noncompliance to us, except for instances of noncompliance included in the Schedule of Findings and Questioned Costs.
35. No events have occurred after September 30, 2012 but before the date through which subsequent events were evaluated and the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
36. Management is aware of its requirement to disclose whether, subsequent to September 30, 2012, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred. However, we represent to you that no such disclosure has been made as no such change in internal control or such other factors have occurred.
37. During fiscal year 2012, the Authority implemented the following pronouncements:
 - GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.

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

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

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

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

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

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

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GMHA.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GMHA.

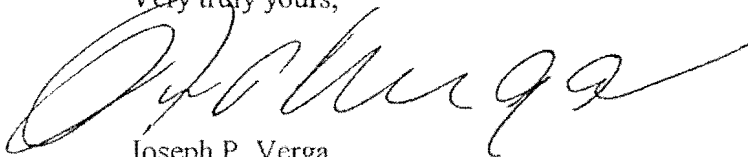
In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GMHA.

38. We believe that the continuation of the Authority'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.
39. The Authority has obligated, expended, received, and used public funds of the Government of Guam and the U.S. Federal Government in accordance with the purposes for which such funds have been appropriated or otherwise authorized by Guam or federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by Guam or federal law, except for matters disclosed in the Schedule of Findings and Questioned Costs.

Deloitte & Touche LLP
May 21, 2013
Page 9

40. Money or similar assets handled by the Authority on behalf of the Government of Guam of the U.S. Federal Government have been properly and legally administered, and the accounting and record keeping related thereto is proper, accurate, and in accordance with law.
41. The Authority has identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2012.
42. The Authority has identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
43. The Authority has identified and disclosed interpretations of any compliance requirements that have varying interpretations.
44. The Authority certifies that it has not used federal funds for lobbying for specific federal awards and that it has disclosed, or will disclose, any expenditures of nonfederal funds made for lobbying purposes.
45. The Authority has identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards including the results of other audits or program reviews.
46. The Authority is responsible for complying, and has complied, with OMB Circular A-133, except as disclosed in the Schedule of Findings and Questioned Costs.
47. The Authority is responsible for and has accurately prepared the Summary Schedule of Prior Audit findings. The schedule contains all findings required to be included by OMB Circular A-133.
48. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by the Authority has been discovered.

Very truly yours,



Joseph P. Verga
Chief Executive Officer



Alan C Ulrich
Chief Financial Officer

GUAM MEMORIAL HOSPITAL AUTHORITY

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

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

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of GMHA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

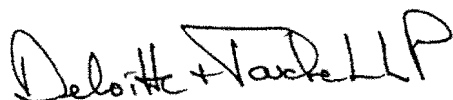
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Memorial Hospital Authority as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenses and patient service revenues on pages 34 through 39 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenses and patient service revenue are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements. The schedule of full time employee count on page 40 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

May 21, 2013

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

Management Discussion and Analysis
Years Ended September 30, 2012 and 2011

INTRODUCTION

Guam Memorial Hospital Authority (“GMHA”), a component unit of the Government of Guam, provides acute, outpatient, long term and emergency care services to everyone requiring medical services.

The following Management Discussion & Analysis (MD&A) of GMHA’s activities and financial performance will serve as an introduction and overview of the audited financial statements of the Hospital for the fiscal years ended September 30, 2011 and September 30, 2012. The information contained in the MD&A has been prepared by management and should be considered with the financial statements and the notes which follow this section.

OVERVIEW OF THE FINANCIAL RESULTS WITH A FINANCIAL ANALYSIS

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

Summarized Statements of Net Assets

| <u>Assets</u> | <u>FY 2012</u> | <u>FY 2011</u> | <u>FY 2010</u> |
|-----------------------------------|----------------------|----------------------|----------------------|
| Current and other assets | \$ 39,508,502 | \$ 47,323,955 | \$ 51,170,293 |
| Capital assets, net | <u>37,198,296</u> | <u>36,577,600</u> | <u>38,236,491</u> |
| Total assets | \$ <u>76,706,798</u> | \$ <u>83,901,555</u> | \$ <u>89,406,784</u> |
| <u>Liabilities and Net Assets</u> | | | |
| Liabilities: | | | |
| Current liabilities | \$ 33,939,349 | \$ 48,894,791 | \$ 37,473,712 |
| Long-term liabilities | <u>15,892,168</u> | <u>16,393,814</u> | <u>4,631,431</u> |
| Total liabilities | <u>49,831,517</u> | <u>65,288,605</u> | <u>42,105,143</u> |
| Net Assets: | | | |
| Invested in capital assets | 37,198,296 | 36,577,600 | 38,236,491 |
| Unrestricted | <u>(10,323,015)</u> | <u>(17,964,650)</u> | <u>9,065,150</u> |
| Total net assets | <u>26,875,281</u> | <u>18,612,950</u> | <u>47,301,641</u> |
| Total liabilities and net assets | \$ <u>76,706,798</u> | \$ <u>83,901,555</u> | \$ <u>89,406,784</u> |

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

Management Discussion and Analysis
Years Ended September 30, 2012 and 2011

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

| | <u>FY 2012</u> | <u>FY 2011</u> | <u>FY 2010</u> |
|--|----------------------|----------------------|----------------------|
| Operating revenues | \$ 85,620,011 | \$ 69,850,260 | \$ 84,626,368 |
| Operating expenses | <u>103,498,644</u> | <u>105,785,724</u> | <u>105,762,200</u> |
| Operating loss | (17,878,633) | (35,935,464) | (21,135,832) |
| Non-operating revenues (expenses), net | <u>22,221,069</u> | <u>4,856,280</u> | <u>5,749,554</u> |
| Excess (deficiency) of revenues over (under) expenses | 4,342,436 | (31,079,184) | (15,386,278) |
| Capital grants and contributions from GovGuam | 1,270,592 | 1,407,210 | 1,006,397 |
| Federal award capital grants and contributions | <u>2,649,303</u> | <u>983,283</u> | <u>1,938,450</u> |
| Change in net assets | 8,262,331 | (28,688,691) | (12,441,431) |
| Net assets at the beginning of the year | <u>18,612,950</u> | <u>47,301,641</u> | <u>59,743,072</u> |
| Net assets at the end of the year | \$ <u>26,875,281</u> | \$ <u>18,612,950</u> | \$ <u>47,301,641</u> |

In fiscal year 2012, GMHA's net assets increased \$8,262,000 compared to a loss of \$28,689,000 in fiscal year 2011. GMHA realized a \$12,927,000 increase in Transfers from the Government of Guam ("GovGuam") with \$12.3 million received from bond proceeds to pay GMHA's past due GovGuam Retirement Fund liabilities. Transfers from GovGuam during fiscal year 2012 are as follows:

| | |
|---|----------------------|
| Bond Proceeds | \$ 12,300,000 |
| Healthy Future Fund | 2,706,000 |
| General Fund | 4,000,000 |
| Other Fund | <u>320,000</u> |
| Total non-operating revenues from GovGuam | \$ <u>19,326,000</u> |

GMHA's operating loss reduced \$18,057,000 from Fiscal 2011 to Fiscal 2012 due to a \$13.4 million reduction in GMHA's contractual adjustments and provision for bad debts.

In the following section of the report, we discuss GMHA's revenues and use of services.

GMHA saw a 1% increase in charges in fiscal year 2012. Net patient service revenues increased 21.6%. GMHA had corrected its reserves in Fiscal year 2011 – impacting its reported net patient service revenue.

| | <u>Fiscal 2012</u> | <u>Fiscal 2011</u> |
|---|--------------------|--------------------|
| Gross charges | \$ 148,302,148 | \$ 146,791,179 |
| Net patient service revenue | \$ 84,078,000 | \$ 69,139,000 |
| Net patient service revenue as % of gross charges | 56.7% | 47.1% |

A \$4.4 million reduction of out-patient charges was partially off-set by a \$2.2 million increase in in-patient charges from fiscal year 2011 to fiscal year 2012.

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

Management Discussion and Analysis
Years Ended September 30, 2012 and 2011

The following chart shows the distribution of in-patient, out-patient and skilled nursing unit (“SNU”) charges for fiscal years 2012 and 2011 by the five major insurer groups:

Gross Charge Information (in \$ Millions)

| <u>Description</u> | <u>Total</u> | <u>Medicare</u> | <u>Medicaid</u> | <u>MIP</u> | <u>Insurer</u> | <u>Self-Pay</u> |
|--------------------|--------------|-----------------|-----------------|------------|----------------|-----------------|
| In-Patient | | | | | | |
| F’2012 | \$103.1 | \$27.7 | \$15.6 | \$10.8 | \$27.0 | \$22.0 |
| F’2011 | \$100.9 | \$26.7 | \$11.6 | \$11.9 | \$28.3 | \$22.4 |
| Out-Patient | | | | | | |
| F’2012 | \$ 35.2 | \$ 4.7 | \$ 8.0 | \$ 3.6 | \$10.1 | \$ 8.8 |
| F’2011 | \$ 39.6 | \$ 6.3 | \$ 7.3 | \$ 4.7 | \$11.3 | \$10.0 |
| SNU | | | | | | |
| F’2012 | \$ 6.2 | \$ 2.6 | \$ 0.8 | \$ 0.9 | \$ 1.2 | \$ 0.7 |
| F’2011 | \$ 6.9 | \$ 2.2 | \$ 0.9 | \$ 1.7 | \$ 1.0 | \$ 1.1 |

Comparative Patient Days for In-Patient and Skilled Nursing Unit

| <u>Description</u> | <u>Total</u> | <u>Medicare</u> | <u>Medicaid</u> | <u>MIP</u> | <u>Insurer</u> | <u>Self-Pay</u> |
|--------------------|--------------|-----------------|-----------------|------------|----------------|-----------------|
| Acute I/P | | | | | | |
| F’2012 | 48,500 | 12,500 | 7,700 | 4,500 | 13,200 | 10,600 |
| F’2011 | 48,400 | 11,800 | 6,600 | 5,800 | 13,600 | 10,600 |
| SNU | | | | | | |
| F’2012 | 10,400 | 4,000 | 1,400 | 2,000 | 2,000 | 1,000 |
| F’2011 | 10,300 | 2,900 | 1,300 | 2,700 | 1,600 | 1,800 |

In fiscal year 2012, GMHA realized a case-mix change to more intensive patients – leading to higher charges. GMHA experienced increases in telemetry, medical-surgery and intensive care patient days while less-intensive nursery and pediatrics patient days fell in fiscal year 2012.

The closure of out-patient hemo-dialysis department reduced out-patient revenues by \$4.4 million. GMHA also saw a \$1.3 million reduction of diagnostic studies from fiscal year 2011 to fiscal year 2012.

Payer Mix and Reimbursement

The shift in patient days to Medicare and Medicaid patients does not significantly affect GMHA’s reimbursement. In fact, it has a negative short-term working capital impact as Medicare’s, Medicaid’s, MIP’s reimbursement does not change due to TEFRA limitations on per diem reimbursement. After completing the annual cost report, it is possible that GMHA’s reimbursement per discharge would be improved based on costs per discharge.

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

Management Discussion and Analysis
Years Ended September 30, 2012 and 2011

Medicare reimburses a fixed amount per discharge (\$7,040.80 in fiscal year 2012) with reimbursement un-affected by the patient's actual length of stay. The Hospital's reimbursement from Medicare, Medicaid and insurers does not cover GMHA's costs as shown in the following table:

In fiscal year 2012, GMHA's actual cost per day and discharge was:

| | Fully-Allocated Costs for Medicare per CMS Cost | Unit of Measure | Patient Days | Average Cost | Medicaid and MIP |
|--|--|-----------------------------------|-----------------|-----------------|---------------------|
| In-patient | \$17,649,654 | Medicare Patient Day | 11,694 | \$ 1,509.29 | \$1,509.29 |
| In-patient | \$17,649,654 | Medicare Discharges | 1,661 | \$10,625.92 | N/A |
| | | Medicaid Reimbursement per Day | | | \$1,000.00 |
| In-patient TEFRA base reimbursement | \$11,694,769 | Medicare Discharge | 1,661 | \$7,040.80 | N/A |
| TEFRA base reimbursement less than cost | (\$5,954,885) | Medicare Discharge | 1,661 | \$3,585.12 | N/A |
| TEFRA base % of cost | 66.3% | | | | 66.2% |
| TEFRA pass- through costs | \$935,540 | Medicare Discharge | 1,661 | \$563.24 | N/A |
| TEFRA "relief" reimbursement | \$1,169,477 | Medicare Discharge | 1,661 | \$704.08 | N/A |
| Net under- reimbursement before deductible & co-pay | (\$3,849,868) | Medicare Discharge | 1,661 | (\$2,317.80) | N/A |
| Net under- reimbursement % before deductible & co-pay | 21.8% | | | | 33.8% |

In addition, GMHA incurs a significant loss providing physician (Part B) services where reimbursement does not cover costs.

Medicare Reimbursement

In previous audit reports, GMHA leaders discussed GMHA's Medicare reimbursement as dictated by TEFRA regulations. When, in 1982, Congress passed the Tax Equity and Fiscal Responsibility Act (TEFRA), hospitals in U.S. territories including Guam were reimbursed based on the cost of treating Medicare patients as determined by the Medicare Cost Report.

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

Management Discussion and Analysis
Years Ended September 30, 2012 and 2011

The reimbursement defined an aggregate limit per discharge that was set based on the facility' 1982 cost of care. After "re-basing" its reimbursement in 1999, GMHA has received TEFRA reimbursements based on the 1992-1994 fiscal year costs.

The table above shows that Medicare reimburses at 66.3% of costs. After adding the pass-through of capital and other costs, Medicare reimbursement is 71.6% of costs.

Since 2006, GMHA leadership have been in communication with Centers for Medicare and Medicaid ("CMS"), the governor (of Guam) office and with legislative leaders to amend GMHA's reimbursement to allow reimbursement of the hospital's costs. To date, CMS has not been receptive to GMHA's request for a different reimbursement model.

Medicaid and MIP Reimbursement

The table above shows that Medicaid and MIP reimburse GMHA using a per diem rate. There are several important exceptions between Medicaid's and MIP's reimbursement as compared to Medicare's:

- Medicaid and MIP reimburse GMHA at a per diem rate while Medicare reimburses using a per discharge rate
- Medicaid and MIP do not retroactively adjust the completed fiscal year in-patient reimbursement following completion of the cost report. In the table above, Medicare's total reimbursement was:

| | <u>Total</u> | <u>Per Day</u> |
|--|---------------|----------------|
| Total Medicare Reimbursement | \$ 13,799,786 | \$1,180 |
| Medicaid and MIP Reimbursement (7,700 and 4,500 patient days @ \$1,000) | \$ 12,200,000 | \$1,000 |
| Under-reimbursement for Fiscal Year 2012 | \$ 1,599,786 | |

In addition, Medicaid and MIP do not adjust the reimbursement for Fiscal 2013 – the year in progress – until it receives CMS' letter detailing the new per diem. Through February 2013, GMHA realized 7,062 patient days. At \$180.07 per day, GMHA will lose an additional \$1,272,000 because Medicaid and MIP are not retro-active.

Medicaid's and MIP's Reimbursement for Out-patient Services

According to the Medicaid reimbursement program and under CMS guidelines, when Medicaid does not reimburse GMHA its fully allocated cost of caring for Medicaid/MIP Patients– and this is valid for GMHA – CMS will pay 50% of the shortfall. Medicaid (GovGuam) should pay the remaining 50% of the unreimbursed expense.

GMHA has not pursued this additional reimbursement from CMS or GovGuam/Medicaid for Fiscal 2011 but will work with GovGuam to process the necessary paperwork for fiscal year 2012. The following table shows the additional funds that GMHA could receive for fiscal year 2012:

| <u>Description</u> | <u>CMS</u> | <u>GovGuam (Medicaid, MIP)</u> | <u>Total</u> |
|--|--------------|------------------------------------|--------------|
| Under-reimbursed expenses from Fiscal 2012 | \$ 2,186,434 | \$ 2,186,434 | \$ 4,372,868 |

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

Management Discussion and Analysis
Years Ended September 30, 2012 and 2011

| | | | |
|--|---|---|--------------|
| Additional monthly stipend/settlement due | \$ 2,186,434/12 =\$182,200 per month | \$ 2,186,434/12 =\$182,200 per month | |
| Additional stipend/settlement due from October 2012 through January 2013 | \$ 728,811 (\$182,200 *4) | \$ 728,811 (\$182,200 *4) | \$ 1,457,622 |
| Additional monthly reimbursement | \$ 182,200 | \$ 182,200 | \$ 364,400 |

If GMHA pursued the unreimbursed expenses for fiscal year 2011 and CMS would allow the retro-adjustment for fiscal year 2011, GMHA would receive an additional \$2,335,528.

Fiscal Year 2013 Budget

In February 2013, GMHA's Board of Trustees and leaders learned that:

- The fiscal year 2013 budget was incomplete. In fact, the budget incorrectly budgeted revenues, human resource and benefit expenses and resulting cash flows – resulting with a \$12 million unfunded liability!
- GMHA was losing \$1.5 - \$2.0 million per month.

GMHA's executives are:

1. Aggressively managing revenues, expenses and contracts to determine how the hospital can continue to meet clinical expectations while operating with an operating loss.
2. Working with GovGuam leaders to determine what additional sources of cash/income can be used to off-set the losses.

Accounts Receivable Management

GMHA has \$102,489,000 in "active" accounts receivable from insurance carriers, federal and local government entities and individuals as shown in the following report:

GMHA active accounts receivable as of September 30, 2012 (in \$000's)

| <u>Payor</u> | <u>Total</u> | <u>Current</u> | <u>31-60</u> | <u>61-90</u> | <u>91-120</u> | <u>120+</u> |
|--------------|-------------------|------------------|-----------------|-----------------|-----------------|------------------|
| GovGuam | \$ 5,396 | \$ 37 | \$ 64 | \$ 29 | \$ 44 | \$ 5,222 |
| Insurers | 9,946 | 3,072 | 1,314 | 395 | 278 | 4,887 |
| Medicaid | 19,927 | 2,969 | 2,668 | 2,573 | 2,384 | 9,333 |
| Medicare | 10,766 | 3,211 | 2,095 | 693 | 596 | 4,171 |
| MIP | 12,966 | 1,164 | 1,399 | 1,492 | 1,561 | 7,350 |
| Other | 2,707 | 179 | 130 | 89 | 24 | 2,285 |
| Self | <u>40,781</u> | <u>1,890</u> | <u>1,664</u> | <u>1,659</u> | <u>2,146</u> | <u>33,422</u> |
| Total | \$ <u>102,489</u> | \$ <u>12,522</u> | \$ <u>9,334</u> | \$ <u>6,930</u> | \$ <u>7,033</u> | \$ <u>66,670</u> |

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

Management Discussion and Analysis
Years Ended September 30, 2012 and 2011

In addition, GMHA had \$117,766,000 in accounts receivable that had been fully reserved – not expected to be collected. \$73,500,000 was placed with the Department of Revenue and Taxation. \$43,079,000 represented accounts placed with collection agencies.

GMHA leaders acknowledge that the Hospital's collection procedures must improve. The recruitment of a Chief Executive Officer and Chief Financial Officer in late 2012 was the first step towards improving and tightening financial procedures including:

- Fiscal managers are creating new protocols for registering patients and collecting payments
- Development of an "Invitation for Bid" for collection agencies to appropriately collect payments from patients or the guarantors

Fiscal Management

In January 2013, GMHA's senior executives quantified the significant monthly financial loss from operations. The hospital's Chief Executive Officer, Chief Medical Officer and Chief Financial Officer are working together to implement many clinical and administrative changes.

The Chief Executive Officer presented a new strategic plan "ACES +Q" to the community and hospital staff in March 2013. This strategic plan defines "accountability" and "cost effectiveness" as two of the five cornerstones of the plan.

Leaders are now addressing the many procedural and contractual matters that have plagued the hospital for many years. Examples:

- Fee structure
- Unbilled services
- Utilization review
- Physician/provider contracts
- Governmental (federal and local) reimbursements and subsidies
- Overtime management
- Purchasing protocols with vendor negotiations

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The Hospital began a \$7.4 million capital project (the Project) to renovate its ICU and emergency departments. The Project will be substantially completed in fiscal year 2013.

At September 30, 2012, 2011 and 2010, the Hospital had \$37,198,296, \$36,577,600 and \$38,236,491, respectively, invested in capital assets, net of accumulated depreciation, where applicable. See note 7 to the financial statements for more information on the Hospital's capital assets.

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

Management Discussion and Analysis
Years Ended September 30, 2012 and 2011

Long-Term Debt and Liabilities

At September 30, 2012, 2011 and 2010, the Hospital had \$15,892,168, \$16,393,814 and \$4,631,431, respectively in long-term liabilities. See note 9 to the financial statements for more information on the Hospital's long-term liabilities and changes therein.

ECONOMIC OUTLOOK/OVERVIEW

There are many external factors that influence GMHA's results:

1. Guam remains dependent on the tourist industry and the existing military infra-structure.
2. The Government of Guam has apparently maximized its financial capacity. GMHA cannot count on the Government to "bridge" any working capital short-falls.
3. Guam has anticipated a build-up of military services. It is uncertain when this change will take place or its economic impact.
4. Close to 20% (\$25 million) of GMHA's charges are to un-insured individuals – who are unable or unwilling to secure health insurance. GMHA must create a paradigm shift whereby individuals recognize their financial responsibility for paying hospital claims.
5. A competitor hospital is expected to begin operations in Summer 2014. As GMHA prepares its fiscal year 2014 budget, leaders must anticipate declining admissions from patients who have insurance or the financial means to pay for services there.

CONTACTING HOSPITAL EXECUTIVES

This report is designed to provide our citizens, taxpayers, patients, and stakeholders a general overview of GMHA's finances. It should also demonstrate the hospital's stewardship and accountability of monies that it collects and spends.

The Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in the report on the audit of the Hospital's financial statements which is dated March 23, 2012. The Discussion and Analysis explains the major factors impacting the 2011 financial statements. If you have any questions about this report or the 2011 and 2010 reports and need additional information, please contact the Hospital Chief Executive Officer at 647-2418/2367 or the Chief Financial Officer at 647-2934/2190.

GMHA's Board of Trustees, leaders, managers and staff believe in transparency. Working together, we ensure that GMHA provides the clinical services and has the fiscal resources to meet and exceed patient expectations.

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

Statements of Net Assets
September 30, 2012 and 2011

| <u>ASSETS</u> | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Current assets: | | |
| Cash | \$ 1,642,886 | \$ 84,034 |
| Patient accounts receivable, net of estimated uncollectibles of \$187,797,151 in 2012 and \$178,564,976 in 2011 | 32,741,697 | 40,996,484 |
| Due from the Government of Guam | 1,237,199 | 825,985 |
| Other receivables, net of allowance for doubtful debts of \$376,221 in 2012 and \$1,332,365 in 2011 | 123 | - |
| Inventory | 3,385,389 | 4,790,372 |
| Prepaid expenses | 99,857 | 196,587 |
| Total current assets | <u>39,107,151</u> | <u>46,893,462</u> |
| Note receivable | 192,084 | 221,226 |
| Capital assets: | | |
| Property and equipment, net | 33,026,717 | 34,464,881 |
| Construction in progress | 4,171,579 | 2,112,719 |
| Restricted cash | 209,267 | 209,267 |
| Total noncurrent assets | <u>37,599,647</u> | <u>37,008,093</u> |
| Total assets | <u>\$ 76,706,798</u> | <u>\$ 83,901,555</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Current portion of notes payable | \$ 541,763 | \$ 598,094 |
| Accounts payable - trade | 19,941,276 | 18,369,169 |
| Accounts payable - Government of Guam Retirement Fund | 2,577,793 | 15,052,276 |
| Accrued taxes and related liabilities | 4,998,006 | 6,404,278 |
| Accrued payroll and benefits | 1,620,277 | 1,182,169 |
| Deferred revenues | - | 3,489,526 |
| Current portion of accrued annual leave | 1,616,540 | 1,442,000 |
| Other current liabilities | 2,643,694 | 2,357,279 |
| Total current liabilities | <u>33,939,349</u> | <u>48,894,791</u> |
| Notes payable, net of current portion | 10,751,109 | 11,292,852 |
| Accrued annual leave, net of current portion | 2,076,497 | 2,260,156 |
| Accrued sick leave | 3,064,562 | 2,840,806 |
| Total liabilities | <u>49,831,517</u> | <u>65,288,605</u> |
| Commitments and contingencies | | |
| Net assets: | | |
| Invested in capital assets | 37,198,296 | 36,577,600 |
| Unrestricted | <u>(10,323,015)</u> | <u>(17,964,650)</u> |
| Total net assets | <u>26,875,281</u> | <u>18,612,950</u> |
| Total liabilities and net assets | <u>\$ 76,706,798</u> | <u>\$ 83,901,555</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, 2012 and 2011

| | 2012 | 2011 |
|---|---------------|---------------|
| Operating revenues: | | |
| Net patient service revenue (net of contractual adjustments and provision for bad debts of \$64,223,700 in 2012 and \$77,651,869 in 2011) | \$ 84,078,448 | \$ 69,139,310 |
| Other operating revenues: | | |
| Cafeteria food sales | 486,363 | 553,649 |
| Other revenue (including bad debts recovery of \$957,794 in 2012) | 1,055,200 | 157,301 |
| Total operating revenues | 85,620,011 | 69,850,260 |
| Operating expenses: | | |
| Nursing | 49,379,392 | 48,988,708 |
| Professional support | 24,745,526 | 24,978,061 |
| Administrative support | 13,054,953 | 13,079,501 |
| Fiscal services | 6,959,252 | 7,254,755 |
| Depreciation | 4,399,179 | 4,853,099 |
| Administration | 1,884,056 | 3,329,489 |
| Retiree healthcare costs | 1,938,983 | 2,170,712 |
| Medical staff | 1,137,303 | 1,131,399 |
| Total operating expenses | 103,498,644 | 105,785,724 |
| Operating loss | (17,878,633) | (35,935,464) |
| Nonoperating revenues (expenses): | | |
| Transfers from GovGuam | 19,325,842 | 6,399,186 |
| Federal grants | 4,585,006 | 2,049,041 |
| Contributions | 126,571 | 329,061 |
| Federal program expenditures | (399,036) | (657,545) |
| Interest and penalties | (1,387,080) | (3,105,834) |
| Others | (30,234) | (157,629) |
| Total nonoperating revenues (expenses) | 22,221,069 | 4,856,280 |
| Income (loss) before capital grants and contributions | 4,342,436 | (31,079,184) |
| Capital grants and contributions: | | |
| Government of Guam | 1,270,592 | 1,407,210 |
| Federal grants | 2,649,303 | 983,283 |
| Total capital grants and contributions | 3,919,895 | 2,390,493 |
| Change in net assets | 8,262,331 | (28,688,691) |
| Net assets at the beginning of the year | 18,612,950 | 47,301,641 |
| Net assets at the end of the year | \$ 26,875,281 | \$ 18,612,950 |

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, 2012 and 2011

| | 2012 | 2011 |
|--|-----------------|---------------|
| Cash flows from operating activities: | | |
| Receipts from and on behalf of patients | \$ 90,021,545 | \$ 72,394,810 |
| Receipts from sales and other services | 1,541,440 | 748,456 |
| Payments to suppliers and contractors | (25,210,937) | (22,568,251) |
| Payments to employees | (70,666,381) | (66,758,923) |
| Net cash used for operating activities | (4,314,333) | (16,183,908) |
| Cash flows from noncapital financing activities: | | |
| Contributions from the Government of Guam | 4,837,345 | 6,697,158 |
| Federal grants received | 4,423,673 | 2,049,041 |
| Contributions | 126,571 | 329,061 |
| Proceeds from bank loan | - | 12,000,000 |
| Interest and penalties paid | (1,387,080) | (3,105,834) |
| Payments made under federal programs | (399,036) | (657,545) |
| Principal repayment of bank loan and note payable | (598,074) | (299,276) |
| Other payments | (30,234) | (22,359) |
| Net cash provided by noncapital financing activities | 6,973,165 | 16,990,246 |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (5,019,875) | (3,329,478) |
| Contributions from the Government of Guam | 1,270,592 | 1,407,210 |
| Federal grants received | 2,649,303 | 983,283 |
| Net cash used for capital and related financing activities | (1,099,980) | (938,985) |
| Cash flows from investing activities: | | |
| Transfers to restricted funds | - | (209,267) |
| Net cash used for investing activities | - | (209,267) |
| Net change in cash | 1,558,852 | (341,914) |
| Cash at beginning of year | 84,034 | 425,948 |
| Cash at end of year | \$ 1,642,886 | \$ 84,034 |
| Summary of noncash financing activities: | | |
| Decrease in accounts payable - GovGuam Retirement Fund | \$ (12,299,633) | \$ - |
| Transfers from Government of Guam | 12,299,633 | - |
| Decrease in accounts payable - trade | - | (190,222) |
| Increase in notes payable | - | 190,222 |
| | \$ - | \$ - |

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, 2012 and 2011

| | 2012 | 2011 |
|---|-----------------|-----------------|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (17,878,633) | \$ (35,935,464) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Contractual adjustments and provisions for uncollectible accounts | 64,223,700 | 77,651,869 |
| Depreciation | 4,399,179 | 4,853,099 |
| Retiree healthcare costs | 1,938,983 | 2,170,712 |
| Bad debts recovery | (957,794) | - |
| Recovery of provision for litigation | (617,279) | - |
| (Increase) decrease in assets: | | |
| Patient accounts receivable | (54,820,219) | (75,261,916) |
| Note receivable | 29,142 | 27,450 |
| Other receivables | 957,671 | 37,506 |
| Inventory | 1,404,983 | (1,276,523) |
| Prepaid expenses | 96,730 | 66,621 |
| Increase (decrease) in liabilities: | | |
| Accounts payable - trade | 1,572,107 | 2,036,422 |
| Accounts payable - retirement fund | (174,850) | 6,136,507 |
| Accrued taxes and related liabilities | (1,406,272) | (1,670,418) |
| Accrued payroll and benefits | 438,108 | 388,185 |
| Accrued annual leave and sick leave | 214,637 | 3,296,511 |
| Deferred revenues | (3,489,526) | 838,097 |
| Other current liabilities | (245,000) | 457,434 |
| Net cash used in operating activities | \$ (4,314,333) | \$ (16,183,908) |

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2012 and 2011

(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 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, clinical and ancillary medical 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 insurers.

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, 2012 and 2011

(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 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, 2012 and 2011, cash is \$1,852,153 and \$293,301, respectively, and the corresponding bank balances are \$2,941,021 and \$2,089,035, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of \$2,941,021 and \$2,089,035, respectively, are FDIC insured.

Restricted cash of \$209,267 as of September 30, 2012 and 2011 represents reserve funds pursuant to a loan agreement with a bank.

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Patient Accounts Receivable

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 fees for non-contract payors. A provision for uncollectible accounts is 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. Uncollectible accounts are written-off against the provision for the specific insurance program.

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. The Hospital reports inventory 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 capitalized at the time of acquisition all expenditures of property and equipment that equaled or exceeded \$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
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2012 and 2011

(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 estimated 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 employees who participate in the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. At September 30, 2012 and 2011, GMHA has accrued an estimated liability of \$3,064,562 and \$2,840,806, respectively. However, this amount is an estimate and the actual payout may be materially different than estimated.

Deferred Revenues

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

Net Patient Service Revenues

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established fees. 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 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.

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

GovGuam Contributions

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

Federal Grant Award Revenues and Contributions

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

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 under GovGuam for medical malpractice claims and judgments.

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Pledged Revenues

The Hospital has pledged, in addition to the full faith and credit of the Government of Guam, all future gross revenues to repay a \$12 million bank loan issued in fiscal year 2011. Note proceeds were used to retire current liabilities. The notes are payable from total operating revenues and are payable through 2018. Annual interest and principal related payments are expected to require less than 2% of total operating revenues (based on 2012 data). The total interest and principal remaining on the notes as of September 30, 2012 and 2011 is \$14,714,278 and \$16,090,585, respectively. Principal and interest paid for fiscal years 2012 and 2011 were \$1,255,603 and \$627,801, respectively, and total operating revenues for fiscal years 2012 and 2011 were \$85,620,011 and \$69,850,260, respectively.

New Accounting Standards

During fiscal year 2012, GMHA implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which improves financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

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

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

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

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

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GMHA.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of GMHA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of GMHA.

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

Notes to Financial Statements
September 30, 2012 and 2011

(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, 2012 and 2011, consist of:

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Account referrals - Department of Revenue and Taxation | \$ 78,801,597 | \$ 78,157,487 |
| Self-pay Patients | 24,124,639 | 27,169,666 |
| Medically Indigent Program | 13,881,149 | 12,894,211 |
| Local Third-Party Payor and Other | 24,941,601 | 25,722,035 |
| Medicaid Assistance Program | 19,270,180 | 12,521,112 |
| Medicare | 12,787,414 | 19,498,143 |
| Collection agencies and other | <u>46,732,268</u> | <u>43,598,806</u> |
| | 220,538,848 | 219,561,460 |
| Less allowance for uncollectible accounts | <u>(187,797,151)</u> | <u>(178,564,976)</u> |
| | <u>\$ 32,741,697</u> | <u>\$ 40,996,484</u> |

Patient accounts receivable from "Local Third-Party Payor and Other" includes receivables from GovGuam of \$3,678,896 and \$3,489,526 as of September 30, 2012 and 2011, respectively, for healthcare services.

During fiscal years 2012 and 2011, GMHA collected \$10,378,070 and \$1,731,192, respectively, from accounts referred to the Department of Revenue and Taxation.

(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, 2012 and 2011, the balance of the note was \$192,084 and \$221,226, 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, 2012 and 2011, consist of:

| | <u>2012</u> | <u>2011</u> |
|---|------------------|--------------------|
| Government of Guam: | | |
| Department of Mental Health and Substance Abuse | \$ 75,558 | \$ 948,728 |
| Guam Fire Department | 292,712 | 369,312 |
| Hospital employees | 2,948 | 9,298 |
| Other | <u>5,126</u> | <u>5,027</u> |
| | 376,344 | 1,332,365 |
| Less allowance for uncollectible accounts | <u>(376,221)</u> | <u>(1,332,365)</u> |
| | <u>\$ 123</u> | <u>\$ -</u> |

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

Notes to Financial Statements
September 30, 2012 and 2011

(6) Inventory

Inventory at September 30, 2012 and 2011, consists of the following:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------------|---------------------|---------------------|
| Pharmaceuticals, drugs and medicine | \$ 2,048,989 | \$ 2,876,494 |
| Medical and pharmaceutical supplies | <u>1,836,400</u> | <u>2,307,710</u> |
| | 3,885,389 | 5,184,204 |
| Less: allowance for obsolescence | <u>(500,000)</u> | <u>(393,832)</u> |
| | <u>\$ 3,385,389</u> | <u>\$ 4,790,372</u> |

(7) Capital Assets

Capital asset activity for the years ended September 30, 2012 and 2011 was as follows:

| | 2012 | | | |
|--|-----------------------|-------------------------------|-------------------------------|--------------------------|
| | Balance October 1, | Transfers and Additions | Transfers and Deletions | Balance September 30, |
| Depreciable assets: | | | | |
| Building and land improvements | \$ 63,357,114 | \$ 2,179,834 | \$ (118,264) | \$ 65,418,684 |
| Long-term care facility | 11,021,985 | - | - | 11,021,985 |
| Movable equipment | <u>24,723,463</u> | <u>787,933</u> | <u>(1,401,143)</u> | <u>24,110,253</u> |
| | 99,102,562 | 2,967,767 | (1,519,407) | 100,550,922 |
| Less: accumulated depreciation and amortization | <u>(64,637,681)</u> | <u>(4,399,179)</u> | <u>1,512,655</u> | <u>(67,524,205)</u> |
| | 34,464,881 | (1,431,412) | (6,752) | 33,026,717 |
| Non-depreciable assets: | | | | |
| Construction in progress | <u>2,112,719</u> | <u>4,238,694</u> | <u>(2,179,834)</u> | <u>4,171,579</u> |
| Total capital assets, net | <u>\$ 36,577,600</u> | <u>\$ 2,807,282</u> | <u>\$ (2,186,586)</u> | <u>\$ 37,198,296</u> |
| | | | | |
| | 2011 | | | |
| | Balance October 1, | Transfers and Additions | Transfers and Deletions | Balance September 30, |
| Depreciable assets: | | | | |
| Building and land improvements | \$ 61,575,935 | \$ 1,984,376 | \$ (203,197) | \$ 63,357,114 |
| Long-term care facility | 11,021,985 | - | - | 11,021,985 |
| Movable equipment | <u>24,703,534</u> | <u>515,103</u> | <u>(495,174)</u> | <u>24,723,463</u> |
| | 97,301,454 | 2,499,479 | (698,371) | 99,102,562 |
| Less: accumulated depreciation and amortization | <u>(60,347,683)</u> | <u>(4,853,099)</u> | <u>563,101</u> | <u>(64,637,681)</u> |
| | 36,953,771 | (2,353,620) | (135,270) | 34,464,881 |
| Non-depreciable assets: | | | | |
| Construction in progress | <u>1,282,720</u> | <u>2,814,375</u> | <u>(1,984,376)</u> | <u>2,112,719</u> |
| Total capital assets, net | <u>\$ 38,236,491</u> | <u>\$ 460,755</u> | <u>\$(2,119,646)</u> | <u>\$ 36,577,600</u> |

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

Notes to Financial Statements
September 30, 2012 and 2011

(8) Due to GovGuam Retirement Fund (“GGRF”)

GMHA owed GGRF employer and member contributions under the Defined Benefit Plan (DB) for payroll periods from fiscal years ended September, 1998 through September, 2004. GMHA was assessed interest and penalties on these unpaid contributions in accordance with 4 Guam Code Annotated § 8137, *Retirement of Public Employees*, which stated that GGRF would 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 required that GovGuam’s general fund remit “interest-only” payments monthly to GGRF for the aforementioned liabilities. The law indicated that monthly payments, totaling \$190,501, would continue until the outstanding balance is fully paid. However, if the obligations were not paid within ten years following the enactment of Public Law No. 28-38, payments by GMHA would resume per 4 Guam Code Annotated § 8137.

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

During the fiscal years ended September 30, 2012 and 2011, GovGuam’s general fund paid interest totaling \$573,121 and \$481,725, respectively, for GMHA.

At September 30, 2012 and 2011, accounts payable due to GGRF reported as current liabilities consist of the following:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|----------------------|
| Employer and member contributions of: | | |
| Prior fiscal years (DB Plan) | \$ 22,678 | \$ 4,987,183 |
| Current fiscal year (DB) Plan | 315,280 | 2,165,252 |
| Unfunded liability | 589,198 | 3,904,429 |
| Employer and member contributions of current | | |
| fiscal year (DCRS Plan) | 124,282 | 428,392 |
| Supplemental annuities/COLA benefits for retirees | 1,507,004 | 1,507,004 |
| Interest and penalties | 19,218 | 1,223,031 |
| Public law 31-74 savings and interest | - | 833,316 |
| Others | <u>133</u> | <u>3,669</u> |
| | <u>\$ 2,577,793</u> | <u>\$ 15,052,276</u> |

At September 30, 2012 and 2011, 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.

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

Notes to Financial Statements
September 30, 2012 and 2011

(8) Due to GovGuam Retirement Fund, Continued

Statutory employer contributions for DCRS plan members for the years ended September 30, 2012 and 2011 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the DB plan. At September 30, 2012 and 2011, GMHA's unpaid contributions toward the unfunded liability of the DB Plan amounted to \$589,198 and \$3,904,429, respectively.

Public Law 31-74 passed in June 2011 provided for a reduction in the employer retirement contribution rate from 27.46% to 21.93% for the period between June 2011 and September 2011. Pursuant to the Public Law, GMHA was required to remit the savings from the reduction of the employer contribution for the payment of current year delinquent contributions to the DC Plan. As of September 30, 2012 and 2011, GMHA's liability pursuant to the public law is \$0 and \$833,316, respectively.

During fiscal year 2012, GovGuam issued General Obligation Bonds and used \$12 million from the proceeds to pay GMHA's liability to GGRF as follows:

| | <u>Members Contributions</u> | <u>Employer Contributions</u> | <u>Interest and Penalties</u> | <u>Total</u> |
|-------------------|----------------------------------|-----------------------------------|-----------------------------------|----------------------|
| FY 2010 and prior | \$ 1,509,148 | \$ 3,238,768 | \$ 879,682 | \$ 5,627,598 |
| FY 2011 | 501,649 | 5,112,156 | 224,914 | 5,838,719 |
| PL 31-74 Savings | <u>-</u> | <u>823,455</u> | <u>9,861</u> | <u>833,316</u> |
| | <u>\$ 2,010,797</u> | <u>\$ 9,174,379</u> | <u>\$ 1,114,457</u> | <u>\$ 12,299,633</u> |

(9) Long-Term Debt and Other Liabilities

Long-Term Debt:

As of September 30, 2012, long-term debt consists of:

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Note payable to a bank, in an original amount of \$12 million, variable interest at 1% over bank's reference rate subject to a minimum interest of 6.5% and maximum interest of 9.5%, due in monthly installments of principal and interest of \$104,634 beginning April 2011 through January 2018, all remaining balance due on January 31, 2018. The note is collateralized by the full faith and credit of the Government of Guam and all of the revenues of the Hospital. | \$ 11,292,872 | \$ 11,790,724 |
| Promissory note payable to a vendor, payable in monthly installments of principal and interest of \$20,000 beginning August 2011 due in March 2012, uncollateralized and bears interest of 12% per annum. | <u>-</u> | <u>100,222</u> |
| Total long-term debt | 11,292,872 | 11,890,946 |
| Less: current maturities | <u>541,763</u> | <u>598,094</u> |
| | <u>\$ 10,751,109</u> | <u>\$ 11,292,852</u> |

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

Notes to Financial Statements
September 30, 2012 and 2011

(9) Long-Term Debt and Other Liabilities, Continued

On January 31, 2011, the Hospital entered into a \$12 million bank loan. Proceeds of the loan were to be used when a cash shortage threatened the Authority and would not be used for the hiring of non-healthcare professionals who did not provide direct care or patient care support. The loan was guaranteed by the Government of Guam. Pursuant to the loan agreement, the Hospital pledged all of its revenues.

Management is of the opinion that compliance with applicable loan covenants occurred during the year ended September 30, 2012.

As of September 30, 2012, future maturities of long-term debt are as follows:

| Year ending September 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|----------------------|---------------------|----------------------|
| 2013 | \$ 541,763 | \$ 713,840 | \$ 1,255,603 |
| 2014 | 573,777 | 681,826 | 1,255,603 |
| 2015 | 612,204 | 643,399 | 1,255,603 |
| 2016 | 651,493 | 604,110 | 1,255,603 |
| 2017 | 696,836 | 558,767 | 1,255,603 |
| 2018 | <u>8,216,799</u> | <u>219,464</u> | <u>8,436,263</u> |
| | <u>\$ 11,292,872</u> | <u>\$ 3,421,406</u> | <u>\$ 14,714,278</u> |

At September 30, 2012 and 2011, the changes in long-term liabilities are as follows:

| | Balance October 1, 2011 | <u>Additions</u> | <u>Reductions</u> | Balance September 30, 2012 | Due Within One Year |
|---------------|-------------------------------|----------------------|-----------------------|----------------------------------|------------------------|
| Notes payable | \$ 11,890,946 | \$ - | \$ (598,074) | \$ 11,292,872 | \$ 541,763 |
| Annual leave | 3,702,156 | 2,862,137 | (2,871,256) | 3,693,037 | 1,616,540 |
| Sick leave | <u>2,840,806</u> | <u>1,869,752</u> | <u>(1,645,996)</u> | <u>3,064,562</u> | <u>-</u> |
| | <u>\$ 18,433,908</u> | <u>\$ 4,731,889</u> | <u>\$ (5,115,326)</u> | <u>\$ 18,050,471</u> | <u>\$ 2,158,303</u> |
| | Balance October 1, 2010 | <u>Additions</u> | <u>Reductions</u> | Balance September 30, 2011 | Due Within One Year |
| Notes payable | \$ - | \$ 12,190,222 | \$ (299,276) | \$ 11,890,946 | \$ 598,094 |
| Annual leave | 3,697,222 | 2,366,944 | (2,362,010) | 3,702,156 | 1,442,000 |
| Sick leave | <u>2,457,555</u> | <u>1,183,471</u> | <u>(800,220)</u> | <u>2,840,806</u> | <u>-</u> |
| | <u>\$ 6,154,777</u> | <u>\$ 15,740,637</u> | <u>\$ (3,461,506)</u> | <u>\$ 18,433,908</u> | <u>\$ 2,040,094</u> |

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

Notes to Financial Statements
September 30, 2012 and 2011

(10) Medical Malpractice/Employment and Personnel Claims

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

(11) Employee Retirement Plans

Defined Benefit Plan

Plan Description:

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

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2010, 2009, and 2008, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2012, 2011 and 2010, respectively, have been determined by the Guam Legislature as follows:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|---------------|---------------|---------------|
| Normal costs (% of DB Plan payroll) | 17.07% | 17.00% | 18.34% |
| 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>7.57%</u> | <u>7.50%</u> | <u>8.84%</u> |
| Employer portion of normal costs (% of total payroll) | 3.03% | 3.03% | 3.73% |
| Unfunded liability cost (% of total payroll) | <u>23.75%</u> | <u>21.75%</u> | <u>22.69%</u> |
| Government contribution as a % of total payroll | <u>26.78%</u> | <u>24.78%</u> | <u>26.42%</u> |

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

Notes to Financial Statements
September 30, 2012 and 2011

(11) Employee Retirement Plans, Continued

Funding Policy:, Continued

Statutory contribution rates as a % of DB Plan payroll:

| | | | |
|----------|---------------|---------------|---------------|
| Employer | <u>28.30%</u> | <u>27.46%</u> | <u>26.04%</u> |
| Employee | <u>9.50%</u> | <u>9.50%</u> | <u>9.50%</u> |

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

GMHA's required and actual contributions to the DB Plan for the years ended September 30, 2012, 2011 and 2010 were as follows:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------|---------------------|---------------------|---------------------|
| Required contributions | \$ <u>3,046,820</u> | \$ <u>2,992,302</u> | \$ <u>3,223,103</u> |
| Actual contributions | \$ <u>2,887,144</u> | \$ <u>1,399,019</u> | \$ <u>2,862,255</u> |

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions for DCRS plan payroll for the years ended September 30, 2012 and 2011, are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only the equivalent of 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan. GMHA's required and actual contributions toward the unfunded liability of the DB Plan for the years ended September 30, 2012, 2011 and 2010 were as follows:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------|---------------------|---------------------|---------------------|
| Required contributions | \$ <u>8,139,145</u> | \$ <u>6,817,544</u> | \$ <u>6,310,538</u> |
| Actual contributions | \$ <u>7,521,889</u> | \$ <u>2,913,115</u> | \$ <u>5,301,192</u> |

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

GMHA's required and actual contributions to the DC Plan for the years ended September 30, 2012, 2011 and 2010 were as follows:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------|---------------------|---------------------|---------------------|
| Required contributions | \$ <u>1,665,883</u> | \$ <u>1,640,628</u> | \$ <u>1,514,745</u> |
| Actual contributions | \$ <u>1,603,906</u> | \$ <u>1,426,432</u> | \$ <u>1,392,797</u> |

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

Notes to Financial Statements
September 30, 2012 and 2011

(11) 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.

During the years ended September 30, 2012, 2011 and 2010, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,938,983, \$2,170,712 and \$1,383,548, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of GMHA retirees and were equivalent to the required contribution for those years.

(12) 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. Rates for the long-term care facility 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, 2012, cost reports through September 30, 2011, have been audited or otherwise settled. At September 30, 2012, GMHA recorded a \$1.9 million receivable.
- 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 a per diem rate for in-patient and a percentage changes for out-patient.

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

Notes to Financial Statements
September 30, 2012 and 2011

(12) Patient Service Revenue, Continued

Gross patient revenue from the Medicare, Medicaid and MIP programs accounted for approximately 22 percent, 16 percent and 10 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2012, and 22 percent, 13 percent and 11 percent, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

Net patient service revenues for the years ended September 30, 2012 and 2011 are as follows:

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Patient service revenues at established charge rates: | | |
| Services provided to Medicaid patients | \$ 17,110,357 | \$ 12,935,006 |
| Medicaid payments through GMHA Pharmaceuticals Fund | 6,477,005 | 5,971,012 |
| Services provided to Medicare patients | 32,350,799 | 32,999,609 |
| Services provided to MIP patients | 14,424,804 | 16,584,240 |
| Services provided to Self-pay patients | 28,874,271 | 30,637,248 |
| Self-pay ("charity care") payments through GMHA Pharmaceuticals Fund | 2,159,002 | 1,990,337 |
| Services provided to Other patients | <u>46,905,910</u> | <u>45,673,727</u> |
| | 148,302,148 | 146,791,179 |
| Less contractual adjustments and provisions for uncollectible accounts | <u>(64,223,700)</u> | <u>(77,651,869)</u> |
| Net patient service revenue | <u>\$ 84,078,448</u> | <u>\$ 69,139,310</u> |

(13) Guam Memorial Hospital Authority Pharmaceuticals Fund

In January 2009, the Guam Legislature passed 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.

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

In accordance with Public Law 31-77, GovGuam appropriated \$8,636,007 from the Guam Memorial Hospital Authority Pharmaceuticals Fund for the year ended September 30, 2012. Of this amount, \$6,477,005 or seventy-five percent (75%) is credited toward billings for services provided to Medicaid patients. GMHA applied the remaining \$2,159,002 to billing for services provided to "charity care" patients.

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

Notes to Financial Statements
September 30, 2012 and 2011

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

During the years ended September 30, 2012 and 2011, 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>2012</u> | <u>2011</u> |
|-----------------------------------|----------------------|----------------------|
| General Fund – Bond Proceeds | \$ 12,299,633 | \$ - |
| Guam Memorial Hospital Authority | | |
| Pharmaceuticals Fund | 8,636,007 | 7,961,349 |
| Healthy Futures Fund | 2,706,308 | 4,228,474 |
| Tobacco Bond Proceeds | 320,000 | - |
| General Fund | 2,060,918 | - |
| General Fund – on-behalf payments | <u>1,938,983</u> | <u>2,170,712</u> |
| | <u>\$ 27,961,849</u> | <u>\$ 14,360,535</u> |

In accordance with Public Law 31-196, GovGuam appropriated \$12,299,633 from bond proceeds to pay GMHA's past due GovGuam Retirement Fund liabilities, which were paid directly to the GovGuam Retirement Fund during the year ended September 30, 2012.

In accordance with Public Law 31-77, GovGuam appropriated \$8,936,007 from the Guam Memorial Hospital Authority Pharmaceutical Fund, \$2,706,308 from the Healthy Futures Fund and \$2,060,918 from the General Fund for the year ended September 30, 2012. Further, under Public Law 31-77, GovGuam reprogrammed and appropriated \$320,000 from the 2007 Tobacco Bond Proceeds and funds from the available interest of the Tobacco Asset Backed Bonds 2001 Series B for the year ended September 30, 2012 for GMHA's working capital expenditures.

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

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

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

During the years ended September 30, 2012 and 2011, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling \$1,938,983 and \$2,170,712, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of Hospital retirees.

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

Notes to Financial Statements
September 30, 2012 and 2011

(15) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are residents of Guam and are either insured under third-party payor agreements or uninsured. The mix of receivables from patients and third-party payors at September 30, 2012 and 2011, was as follows:

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------|-------------|-------------|
| Self-Pay Patients | 47% | 48% |
| Local Third-Party Payor and Other | 32% | 32% |
| Medically Indigent Program | 6% | 6% |
| Medicaid Assistance Program | 9% | 6% |
| Medicare | <u>6%</u> | <u>8%</u> |
| | <u>100%</u> | <u>100%</u> |

(16) Commitments and Contingencies

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$8,393,807 at September 30, 2012. During fiscal year 2012, the Hospital began a \$7.4 million capital project to renovate its ICU and Emergency Departments. The project will be substantially completed in fiscal year 2013.

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.

Merit System

In 1991, Public Law 21-59 was enacted to establish a bonus system for employees of GovGuam, autonomous and semi-autonomous agencies, public corporations and other public instrumentalities of GovGuam who earn a superior performances grade. The bonus is calculated at 3.5% of the employee's base salary beginning 1991. GMHA did not calculate or pay any bonuses pursuant to the law from 1991 through 2002. In 2003, GMHA adopted a merit system similar to the GovGuam merit system. As of September 30, 2012, GMHA has not assessed the impact of the requirements of the law for fiscal years 1991 to 2002. Therefore, no liability which may ultimately arise from this matter has been recorded in the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2012 and 2011

(16) Commitments and Contingencies, Continued

Unpaid Taxes

GMHA has not made required payments of withholding taxes for certain quarters of tax year 2010 and 2011. As a result, GMHA may incur penalties and interest. GMHA is of the opinion that it has adequately accrued for the amount of interest and penalties that may ultimately be assessed.

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 2012 and prior year audits amounted to \$2,201,988. If the questioned costs are ultimately disallowed, the Hospital would be liable for the return of such funds. However, no liability, which may arise from the ultimate outcome of this matter, has been provided for in the accompanying financial statements. Audits of federal program funds are also performed by various federal agencies. If the audits result in cost disallowances, the Hospital may be liable. However, management does not believe that resolution of this matter will result in a material liability. Therefore, no liability for any amount, which may ultimately arise from these matters, has been recorded in the accompanying financial statements.

(17) Dependency on the Government of Guam

The Hospital has incurred losses from operations of \$17,878,633 and \$35,935,464 and negative cash flows from operations of \$4,314,333 and \$16,183,908 for the years ended September 30, 2012 and 2011, respectively. At September 30, 2012 and 2011, the Hospital's deficiencies on delinquent and unpaid retirement contributions, including interest and penalties, with the GovGuam Retirement Fund were \$2,577,793 and \$15,052,276, respectively. The Hospital recorded contractual adjustments and provisions for uncollectible accounts of \$64,223,700 and \$77,651,869 for the fiscal years ended September 30, 2012 and 2011, respectively. Management believes that the continuation of the Hospital's operations is dependent upon the future payment of medical services underwritten by the Government of Guam, continued compensation by the Government of Guam for the cost of services provided under the Medically Indigent Program, the collection of long outstanding patient receivables, and/or improvements in operations.

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

Schedule of Expenses
Years Ended September 30, 2012 and 2011

| | 2012 | 2011 |
|------------------------|---------------|---------------|
| NURSING: | | |
| Salaries | \$ 28,585,178 | \$ 28,692,346 |
| Overtime | 1,258,796 | 1,465,041 |
| Other pay | 4,428,086 | 4,329,672 |
| Fringe benefits | 9,647,788 | 8,991,996 |
| Total personnel costs | 43,919,848 | 43,479,055 |
| Contractual services: | | |
| Registry nurses | 46,963 | 951,145 |
| Others | 1,289,052 | 1,131,210 |
| Supplies and materials | 4,103,773 | 3,412,665 |
| Miscellaneous | 19,756 | 14,633 |
| | \$ 49,379,392 | \$ 48,988,708 |

| | 2012 | 2011 |
|------------------------------|---------------|---------------|
| PROFESSIONAL SUPPORT: | | |
| Salaries and leave pay | \$ 8,100,439 | \$ 8,538,993 |
| Overtime | 690,309 | 744,771 |
| Other pay | 1,327,904 | 1,235,287 |
| Fringe benefits | 3,042,404 | 3,017,317 |
| Total personnel costs | 13,161,056 | 13,536,368 |
| Supplies and materials | 10,502,410 | 10,545,910 |
| Utilities | 19,211 | 10,808 |
| Contractual services | 989,784 | 806,442 |
| Miscellaneous | 73,065 | 78,533 |
| | \$ 24,745,526 | \$ 24,978,061 |

See accompanying independent auditors' report.

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

Schedule of Expenses, Continued
Years Ended September 30, 2012 and 2011

| | 2012 | 2011 |
|--------------------------------|---------------|---------------|
| ADMINISTRATIVE SUPPORT: | | |
| Salaries | \$ 4,150,423 | \$ 4,296,051 |
| Overtime | 327,161 | 290,695 |
| Other pay | 269,307 | 401,310 |
| Fringe benefits | 1,698,340 | 1,689,114 |
| Total personnel costs | 6,445,231 | 6,677,170 |
| Supplies and materials | 2,489,806 | 1,997,270 |
| Utilities | 3,273,178 | 3,378,203 |
| Contractual services | 604,085 | 738,832 |
| Miscellaneous | 242,653 | 288,026 |
| | \$ 13,054,953 | \$ 13,079,501 |

| | 2012 | 2011 |
|---------------------------|--------------|--------------|
| FISCAL SERVICES: | | |
| Salaries | \$ 3,002,276 | \$ 3,022,678 |
| Overtime | 98,206 | 60,758 |
| Other pay | 191,333 | 167,228 |
| Fringe benefits | 1,197,960 | 1,147,080 |
| Annual leave lump sum pay | 275,232 | 402,945 |
| Sick leave (DC plan) | 249,391 | 400,737 |
| Total personnel costs | 5,014,398 | 5,201,426 |
| Supplies and materials | 280,807 | 347,570 |
| Contractual services | 1,583,335 | 1,613,075 |
| Miscellaneous | 80,712 | 92,684 |
| | \$ 6,959,252 | \$ 7,254,755 |

See accompanying independent auditors' report.

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

Schedule of Expenses, Continued
Years Ended September 30, 2012 and 2011

| | 2012 | 2011 |
|--|----------------|----------------|
| ADMINISTRATION: | | |
| Salaries | \$ 985,437 | \$ 1,130,174 |
| Overtime | 2,463 | 297 |
| Other pay | 59,436 | 57,838 |
| Fringe benefits | 426,087 | 421,882 |
| Total personnel costs | 1,473,423 | 1,610,191 |
| Supplies and materials | 29,497 | 37,529 |
| Contractual services | 398,891 | 119,725 |
| Insurance (Property) | 521,313 | 638,774 |
| Miscellaneous | (539,068) | 923,270 |
| | \$ 1,884,056 | \$ 3,329,489 |
| | | |
| | 2012 | 2011 |
| MEDICAL STAFF: | | |
| Salaries | \$ 773,397 | \$ 767,806 |
| Overtime | 42 | 331 |
| Other pay | 58,155 | 63,994 |
| Fringe benefits | 298,726 | 276,856 |
| Total personnel costs | 1,130,320 | 1,108,987 |
| Supplies and materials | 5,060 | 14,942 |
| Miscellaneous | 1,923 | 7,470 |
| | \$ 1,137,303 | \$ 1,131,399 |
| Total actual expenses, without depreciation and retiree healthcare costs, GAAP basis | \$ 97,160,482 | \$ 98,761,913 |
| Total actual expenses, without depreciation and retiree healthcare costs, budgetary basis | \$ 96,839,614 | \$ 98,023,172 |
| Total budgeted expenses, without depreciation and retiree healthcare costs | \$ 112,695,965 | \$ 113,240,122 |

See accompanying independent auditors' report.

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

Notes to Schedule of Expenses
Years Ended September 30, 2012 and 2011

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

GMHA recognizes annual leave lump sum pay and certain sick leave expenses as the benefits accrue to the employees. GMHA's budget does not reflect such expenses on the modified accrual basis. For the years ended September 30, 2012 and 2011, the total of annual leave sum pay and sick leave expenses amounted to \$524,623 and \$803,682, respectively.

The following table reconciles expenses between GAAP and budgetary bases:

| | <u>FY 2012</u> | <u>FY 2011</u> |
|---|-----------------------|-----------------------|
| Expenses, without depreciation and retiree healthcare costs, GAAP basis | \$ 97,364,237 | \$ 98,761,913 |
| Annual leave lump sum pay | (275,232) | (402,945) |
| Sick leave (DC Plan) | (249,391) | (400,737) |
| Change in encumbrances | <u>-</u> | <u>64,941</u> |
| Expenses, without depreciation and retiree healthcare costs, budgetary basis | \$ <u>96,839,614</u> | \$ <u>98,023,172</u> |
| Budgeted expenses | \$ <u>112,695,965</u> | \$ <u>113,240,122</u> |

See Accompanying Independent Auditors' Report.

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

Schedule of Patient Service Revenues by Patient Classification
Years Ended September 30, 2012 and 2011

| | 2012 | 2011 |
|---|----------------|----------------|
| Gross Patient Service Revenue: | | |
| Medicaid patients | \$ 23,587,362 | \$ 18,906,018 |
| Medicare patients | 32,350,799 | 32,999,609 |
| MIP patients | 14,424,804 | 16,584,240 |
| Other patients | 46,905,910 | 45,673,727 |
| Self-pay patients | 31,033,273 | 32,627,585 |
| | \$ 148,302,148 | \$ 146,791,179 |
| Contractual Adjustments and Provision for Uncollectible Accounts: | | |
| Contractual adjustments: | | |
| Medicaid patients | \$ 14,627,129 | \$ 11,430,718 |
| Medicare patients | 18,653,983 | 18,943,720 |
| MIP patients | 8,803,621 | 8,529,578 |
| Other patients | 5,154,508 | 13,859,563 |
| Provisions for uncollectible accounts: | | |
| Self-pay patients | 16,984,459 | 24,888,290 |
| | \$ 64,223,700 | \$ 77,651,869 |
| Net Patient Service Revenue: | | |
| Medicaid patients | \$ 8,960,233 | \$ 7,475,300 |
| Medicare patients | 13,696,816 | 14,055,889 |
| MIP patients | 5,621,183 | 8,054,662 |
| Other patients | 41,751,402 | 31,814,164 |
| Self-pay patients | 14,048,814 | 7,739,295 |
| | \$ 84,078,448 | \$ 69,139,310 |

See accompanying independent auditors' report.

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

Schedule of Billings and Collections and Reconciliation of Billings to Gross Patient Revenues
For the Years ended September 30, 2012, 2011 and 2010

| | Medicaid, Medicare and MIP | | | | Self Pay and Government - DOC and Others | | | | Third-Party Payers | | | | | | Grand Total | Timing Differences and Adjustments | Gross Patient Revenues | |
|---|----------------------------|---------------|---------------|---------------|--|-----------------------------|---------------|----------------|--------------------|--------------|---------------|--------------|--------------|---------------|----------------|------------------------------------|------------------------|--|
| | Medicaid | Medicare | MIP | Subtotal | Self Pay | Government - DOC and Others | Subtotal | Subtotal | Payer A | Payer B | Payer C | Payer D | Payer E | Subtotal | | | | |
| 2012 | | | | | | | | | | | | | | | | | | |
| Billings | \$ 29,033,976 | \$ 32,656,387 | \$ 23,921,025 | \$ 85,611,388 | \$ 21,703,311 | \$ 1,015,397 | \$ 22,718,708 | \$ 108,330,096 | \$ 2,149,394 | \$ 8,469,988 | \$ 19,733,802 | \$ 3,509,496 | \$ 4,509,680 | \$ 38,372,360 | \$ 146,702,456 | \$ 1,599,692 | \$ 148,302,148 | |
| Collections | 12,081,238 | 14,323,747 | 15,777,615 | 42,382,620 | 16,756,138 | 1,088,226 | 17,844,364 | 60,226,984 | 1,934,655 | 6,798,356 | 15,047,548 | 2,461,368 | 2,294,382 | 28,538,309 | 88,765,293 | | | |
| Percentage of collections over billings | 42% | 44% | 66% | 50% | 77% | 107% | 79% | 56% | 90% | 80% | 76% | 70% | 51% | 74% | 61% | | | |
| 2011 | | | | | | | | | | | | | | | | | | |
| Billings | \$ 29,277,059 | \$ 29,118,123 | \$ 20,281,319 | \$ 78,676,501 | \$ 24,664,607 | \$ 815,665 | \$ 25,480,272 | \$ 104,156,773 | \$ 3,338,052 | \$ 9,330,528 | \$ 20,229,778 | \$ 3,845,433 | \$ 3,798,912 | \$ 40,542,703 | \$ 144,699,476 | \$ 2,091,703 | \$ 146,791,179 | |
| Collections | 16,982,331 | 10,404,210 | 7,303,460 | 34,690,001 | 8,437,216 | 236,853 | 8,674,069 | 43,364,070 | 3,387,794 | 6,205,515 | 15,049,914 | 2,741,192 | 2,054,332 | 29,438,747 | 72,802,817 | | | |
| Percentage of collections over billings | 58% | 36% | 36% | 44% | 34% | 29% | 34% | 42% | 101% | 67% | 74% | 71% | 54% | 73% | 50% | | | |
| 2010 | | | | | | | | | | | | | | | | | | |
| Billings | 28,347,466 | 30,805,021 | 23,078,531 | 82,231,018 | 24,460,841 | 828,648 | 25,289,489 | 107,520,507 | 4,290,480 | 9,721,928 | 21,204,366 | 4,655,058 | 4,590,879 | 44,462,711 | 151,983,218 | (5,292,016) | 146,691,202 | |
| Collections | 13,595,866 | 13,302,398 | 15,002,789 | 41,901,053 | 10,687,886 | 504,750 | 11,192,636 | 53,093,689 | 3,413,999 | 7,122,314 | 13,080,186 | 3,179,678 | 2,402,413 | 29,198,590 | 82,292,279 | | | |
| Percentage of collections over billings | 48% | 43% | 65% | 51% | 44% | 61% | 44% | 49% | 80% | 73% | 62% | 68% | 52% | 66% | 54% | | | |

see accompanying independent auditors' report

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

Schedule of Full Time Employee (FTE) Count
Years Ended September 30, 2012 and 2011

| <u>Department</u> | <u>2012</u> | <u>2011</u> |
|------------------------|--------------|--------------|
| Actual FTE count: | | |
| Nursing | 462 | 477 |
| Professional Support | 192 | 190 |
| Administrative Support | 163 | 171 |
| Fiscal Services | 81 | 85 |
| Administration | 12 | 9 |
| Medical Staff | <u>57</u> | <u>67</u> |
| | <u>967</u> | <u>999</u> |
| Budgeted FTE count | <u>1,104</u> | <u>1,244</u> |

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY
(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2012



Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Guam Memorial Hospital Authority:

We have audited the financial statements of the Guam Memorial Hospital Authority (the Authority) as of and for the year ended September 30, 2012, and have issued our report thereon dated May 21, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1, 2012-2 and 2012-3 to be material weaknesses.

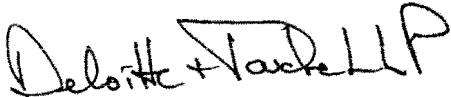
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated May 21, 2013.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Trustees, the Office of Public Accountability of Guam, federal awarding agencies, the cognizant audit and other federal agencies, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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

May 21, 2013



Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Trustees
Guam Memorial Hospital Authority:

Compliance

We have audited the Guam Memorial Hospital Authority's (the Authority) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 8-9). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in items 2012-4 and 2012-5 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding procurement and suspension and debarment and equipment and real property management that are applicable to its Economic, Social and Political Development of the Territories: Compact Impact Grants (CFDA# 15.875). Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the previous paragraph, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiency that we consider to be a significant deficiency.

A *deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-4 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-5 to be a significant deficiency.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses, and accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Guam Memorial Hospital Authority as of and for the year ended September 30, 2012, and have issued our report thereon dated May 21, 2013 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Trustees, the Office of Public Accountability of Guam, federal awarding agencies, the cognizant audit and other federal agencies, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Deloitte + Touche LLP

May 21, 2013

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

| <u>CFDA#</u> | <u>Agency/Program</u> | <u>2012 Federal Expenditures</u> |
|---|--|--|
| <u>U.S. Department of the Interior:</u> | | |
| Passed through the Government of Guam: | | |
| Economic, Social and Political Development of the Territories: | | |
| 15.875 | Compact Impact FY 2007 - Building Improvement Projects | \$ 402,275 |
| 15.875 | Compact Impact FY 2007 - Pharmaceutical Supplies & Equipment | 39,000 |
| 15.875 | Compact Impact FY 2008 - Wall Hardening Project | 189,673 |
| 15.875 | Compact Impact FY 2009 - Fire Rated Doors | 621,073 |
| 15.875 | Compact Impact FY 2009 - OR HVAC Upgrade | 88,383 |
| 15.875 | Compact Impact FY 2009 - GMHA Feasibility Study | 135,108 |
| 15.875 | Compact Impact FY 2011 - Lab Information System | 627,654 |
| 15.875 | Compact Impact FY 2012 - Compact of Free Association | 4,142,026 |
| | Total U.S. Department of the Interior | 6,245,192 |
| <u>U.S. Department of Energy</u> | | |
| Passed through the Government of Guam: | | |
| 81.041 | ARRA State Energy Program | 269,834 |
| | Total U.S. Department of Energy | 269,834 |
| <u>U.S. Department of Health and Human Services:</u> | | |
| National Bioterrorism Hospital Preparedness Program: | | |
| 93.889 | Bioterrorism Hospital Preparedness Grant FY 2010 | 311,817 |
| 93.889 | Bioterrorism Hospital Preparedness Grant FY 2011 | 270,708 |
| | | 582,525 |
| National Bioterrorism Hospital Preparedness Program and Public Health Emergency Preparedness: | | |
| 93.089 | Bioterrorism Hospital Preparedness Grant FY 2012 | 85,376 |
| Emergency System for Advance Registration of Volunteer Health Professionals (ESAR): | | |
| 93.089 | ESAR 2010 | 7,438 |
| | Total U.S. Department of Health and Human Services | 675,339 |
| | Total Federal Program Expenditures | \$ 7,190,365 |
| Reconciliation to the basic financial statements: | | |
| | Pharmaceutical supplies, healthcare services and payables | \$ 4,142,026 |
| | Capitalized as property and equipment additions | 2,649,303 |
| | Federal program expenditures recorded as nonoperating expenses | 399,036 |
| | | \$ 7,190,365 |

See accompanying notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(1) Scope of Audit

The Guam Memorial Hospital Authority (the Authority) is a component unit of the Government of Guam, a governmental entity created on July 26, 1977 under Public Law No. 14-29 as an autonomous agency of the Government of Guam. Only the federal expenditures of the Authority are included within the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the Authority's cognizant agency for the Single Audit.

a. Programs Subject to Single Audit

A Schedule of Expenditures of Federal Awards is presented for each Federal program related to the following agencies:

- U.S. Department of Energy
- U.S. Department of the Interior
- U.S. Department of Health and Human Services

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting, consistent with the manner in which the Authority maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

b. Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

c. Indirect Cost Allocation

The National Bioterrorism Hospital Preparedness Grant allows, upon prior grantor approval, an indirect cost allocation of 10% of certain administrative expenses to be charged against the grant. The Authority did not charge indirect costs against this program during fiscal year 2012.

(3) American Recovery and Reinvestment Act of 2009 (ARRA)

In February 2009, the Federal Government enacted the American Recovery and Reinvestment Act of 2009 (ARRA). As of September 30, 2012, the Authority's expenditures and grant award notification are as follows:

| <u>CFDA Program</u> | <u>Grant Amount</u> | <u>Accumulated Expenditures as of September 30, 2012</u> | <u>Expended in Fiscal Year 2012</u> |
|----------------------------------|---------------------|--|-------------------------------------|
| 81.041 ARRA State Energy Program | \$ <u>650,000</u> | \$ <u>650,000</u> | \$ <u>269,834</u> |

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Part I - Summary of Auditors' Results Section

Financial Statements

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued: | Unqualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 4. | Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | | |
|----|--|-----------|
| | Internal control over major programs: | |
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. | The Authority's major programs were as follows: | |

| <u>Name of Federal Program</u> | <u>CFDA Number</u> |
|--|--------------------|
| Economic, Social and Political Development of the Territories: | |
| Compact Impact Grants | 15.875 |
| National Bioterrorism Hospital Preparedness Program | 93.889 |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$300,000 |
| 11. The Authority qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

Part II – Financial Statement Findings Section

| <u>Finding Number</u> | <u>Findings</u> |
|-----------------------|-------------------------------------|
| 2012-1 | Patient Receivables |
| 2012-2 | Unbilled Patient Receivables |
| 2012-3 | Pharmaceutical Department Inventory |

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Section III – Federal Award Findings & Questioned Costs

| <u>Reference Number</u> | <u>CFDA Number</u> | <u>Findings</u> | <u>Questioned Costs</u> |
|-----------------------------|------------------------|--|-----------------------------|
| 2012-4 | 15.875 | Procurement and Suspension and Debarment | \$ 153,568 |
| 2012-5 | 15.875 | Equipment and Real Property Management | - |

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-1 - Patient Receivables

Criteria: Measures and actions should be undertaken to collect and address long outstanding and increasing receivables.

Condition: During tests of receivables at September 30, 2012, the following were noted:

1. Uncollectible patient receivables of \$4,373,286 and \$6,271,082 from Medicare and self-pay "charity care" patients, respectively, were written-off during fiscal year 2012. Approval of the write-off, according to the Authority's policies, was not provided for examination.
2. Adding back the receivable written-off described above, patient receivables increased by \$11,621,756 (or 4%) from \$219,561,460 at September 30, 2011 to \$231,183,216 at September 30, 2012. Based on the Authority's analysis, estimated uncollectible accounts increased by \$19,876,543 (or 10%) from \$178,564,976 at September 30, 2011 to \$198,441,519 at September 30, 2012. Of the \$19,876,543 increase in uncollectible accounts, \$4,531,026 related to increase in fully reserved balances.
3. As of September 30, 2012, receivables from self-pay patients amounted to \$20.6 million, of which 86% were from individuals without insurance. Further, of the \$20.6 million, approximately 60% was due from individuals who appeared to have limited or who had no capacity to pay based on their stated employment status.

Cause: The cause of the above condition appears to be declining economic conditions.

Effect: The effect of the above condition is the potential for inadequate cash flows to meet current obligations.

Recommendation: We recommend that the Authority continue its effort to follow up on outstanding patient receivables and continually review existing collection measures and strategies to further develop other plans to address increasing patient receivables. Further, we recommend that approval of receivable write-offs be documented.

Prior Year Status: The matter relating to receivables as described above was reported as a finding in the single audit of the Authority for fiscal years 2010 and 2011.

Auditee Response and Corrective Action Plan:

Contact Person: Alan C. Ulrich, Chief Financial Officer

Corrective Action: GMHA leaders are taking steps to address long outstanding and increasing receivables that include:

1. GMHA has introduced new procedures for collecting patient payments on the date of service
2. Monthly meetings with local insurers to resolve outstanding balances
3. Introducing a discount incentive program on April 22, 2013 to encourage payment of outstanding accounts
4. Adding new staff including a contracted manager whose sole functions will be collections

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-1 - Patient Receivables, Continued

Auditee Response and Corrective Action Plan:, Continued

5. Developing an invitation to bid for more active follow-up of uncollectible accounts receivable

We agree that the approval of receivable write-offs should follow documented procedures. GMHA is now adhering to this policy for all write-offs.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-2 – Unbilled Patient Receivables

Criteria: Patient receivables should be timely billed.

Condition: Unbilled receivables for the last three years are as follows:

| <u>September 30</u> | <u>Total</u> |
|---------------------|--------------|
| 2012 | \$ 6,005,578 |
| 2011 | 6,863,068 |
| 2010 | 3,073,506 |

Of the unbilled receivables as of September 30, 2012 and 2011, 91% and 93%, respectively, were from MIP, Medicare and Medicaid patients which were still within the one year filing deadline.

While unbilled receivables decreased by 12% from \$6,863,068 at September 30, 2011 to \$6,005,578 at September 30, 2012, the level of unbilled receivables remains high compared to fiscal year 2010 unbilled receivables.

Cause: The cause of the above condition appears to be a decline in the number of full time billing personnel from 6 in fiscal year 2010 to 4 in fiscal years 2011 and 2012.

Effect: The effect of the above condition is the potential for increased uncollectible receivables.

Recommendation: We recommend the Authority continue to address unbilled receivables.

Prior Year Status: The matter relating to unbilled receivables as described above was reported as a finding in the single audit of the Authority for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Contact Person: Alan C. Ulrich, Chief Financial Officer

Corrective Action: It would be too easy to attribute the delayed billing to fewer staff. GMHA procedural issues and solutions are multi-faceted.

Many insurers – including Medicare, Medicaid and MIP – require documentation of the entire medical record to accompany the claim. This requirement creates a cumbersome time-consuming process involving Medical Records and Business Office staff. At September 30, 2012, GMHA had 652 Medicare claims, 813 Medicaid and 450 MIP claims that had not been submitted.

In October 2012, GMHA allocated new human resources to ensure bills were submitted in a timely manner.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-2 – Unbilled Patient Receivables, Continued

Auditee Response and Corrective Action Plan:, Continued

In March 2013, GMHA initiated discussions to automate the uploading of the claim (in a .pdf format) to the insurers. This process should be completed in Summer 2013. This new process will reduce the “paper chase” and will expedite the delivery of the claim.

GMHA’s Chief Financial Officer is monitoring the unbilled claims. In additions, GMHA will add this issue to its Performance Indicators for the Business Office to ensure timely monitoring of unbilled claims.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-3 Pharmaceutical Department Inventory

Criteria: Perpetual inventory records should reflect inventory quantities on-hand. Furthermore, underlying records should reconcile to the general ledger and differences should be investigated and reconciled in a timely manner.

Condition: The Guam Memorial Hospital Authority does not maintain perpetual inventory records for the pharmacy department. Only a year-end physical count is performed and the general ledger is adjusted to reflect the results of the count. As of September 30, 2012, pharmacy inventory was adjusted by \$116,540 to agree to actual count of \$569,268. Furthermore, detailed reconciliations and investigations of differences are not performed. The Authority addressed certain matters related to these controls by having the pharmacy open and operating on an all day basis. This effectively limits the amount of inventory that had to be transferred out each night to hospital staff. However, basic control issues do not appear effective without some form of perpetual inventory system over material dollar values of inventory.

Cause: The Authority has not been able to implement a perpetual inventory system for the pharmacy.

Effect: Pharmacy inventory balances may potentially be misstated. Furthermore, the potential for misappropriation of assets exists and it appears that such would not be prevented or detected in a timely manner.

Recommendation: The Guam Memorial Hospital Authority management should attempt to maintain perpetual pharmacy inventory records which reflect quantities on-hand. If it is not possible to establish a perpetual system for all of pharmacy, then perpetual inventory controls should be implemented for key drugs and other high dollar value items while the Authority continues to seek a solution for the entire pharmacy inventory.

Prior Year Status: Lack of adequate controls over pharmaceutical department inventory was reported as a finding in the Single Audits of the Authority for fiscal years 2008, 2009, 2010 and 2011.

Auditee Response and Corrective Action Plan:

Contact Person: Alan C. Ulrich, Chief Financial Officer

Corrective Action: GMHA acknowledges that a perpetual inventory system is an optimum solution. The software from GMHA's current vendor, NTT Data, does not have this functionality.

Unfortunately, GMHA will not be able to comply with this recommendation pending the acquisition of the new institutional software system that includes a pharmacy management component.

GMHA will conduct an interim pharmacy physical inventory as of May 31, 2013 with reconciliation to the general ledger.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-04
CFDA Program.: 15.875 Economic, Social, and Political Development of the Territories
Agency: U.S. Department of the Interior
Grant: Compact Impact Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$153,568

Criteria: In accordance with applicable procurement regulations, the grantee shall maintain records that detail the history of the procurement, including the rationale behind the method of procurement chosen, selection of contract type, rationale for contract/bid selection or rejection, and basis for contract price.

Condition: For 2 (or 4% and \$153,560) of 52 expenditures tested totaling \$3,727,662, there was insufficient documentation such as memos and justification letters indicating the history of procurement as well as the rationale of the vendor selection. Details are as follows:

| <u>PO No</u> | <u>PO Date</u> | <u>Description</u> | <u>Amount</u> |
|--------------|----------------|--------------------|-------------------|
| 20104555 | 09/15/10 | Nursing services | \$ 102,701 |
| 20121262 | 01/23/12 | Insurance | <u>50,867</u> |
| | | | \$ <u>153,568</u> |

Cause: Compliance with applicable procurement requirements does not appear to have occurred.

Effect: The Authority appears to be in noncompliance with applicable procurement requirements. Therefore, a total questioned cost of \$153,568 exists.

Recommendation: The Authority should strengthen internal controls to ensure compliance with applicable procurement requirements.

Auditee Response and Corrective Action Plan:

Contact Person: Alan C. Ulrich, Chief Financial Officer

Corrective Action: GMHA believes that its Material Management Department adheres to Government of Guam and Department of the Interior procurement guidelines. GMHA's procurement officer, its Chief Executive Officer, and the Acting Manager of Materials Management recently attended a presentation by the Government of Guam's Attorney General to confirm their understanding of procurement rules and regulations.

With the recruitment of a new Chief Executive Officer and Chief Financial Officer, GMHA reviews and confirms "appropriate" documentation when approving purchase orders and contracts.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-04, Continued
CFDA Program.: 15.875 Economic, Social, and Political Development of the Territories
Agency: U.S. Department of the Interior
Grant: Compact Impact Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$153,568

Auditee Response and Corrective Action Plan:, Continued

For the two purchase order deficiencies mentioned in the compliance letter:

- Purchase Order 20104555 in the amount of \$300,000 was issued in September 2010 to a staffing agency. This was mentioned in prior audits.
- Purchase Order 20121262 was created to extend Purchase Order 20111436, an appropriately documented purchase order.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-05
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Agency: U.S. Department of the Interior
Grant: Compact Impact Grants
Requirement: Equipment and Real Property Management
Questioned Cost: \$0

Criteria: In accordance with applicable federal equipment and real property guidelines, the grantee shall adequately safeguard and maintain equipment and property acquired with federal funds.

Condition: For 1 (or 1%) of 75 federal asset existence samples, the asset was not in use and was in storage. Actions taken by the Authority to maintain the asset were not evident.

| <u>Tag #</u> | <u>Asset Description</u> | <u>Cost</u> | <u>Net Book Value at September 30, 2012</u> |
|--------------|--------------------------|------------------|---|
| 5236 | Mammogram Unit | <u>\$143,730</u> | <u>\$ -</u> |

Cause: There appears to be weak internal controls over compliance with appropriate maintenance of federal fixed assets.

Effect: The Authority appears to be in noncompliance with applicable equipment and real property requirements.

Recommendation: The Authority should strengthen internal controls to ensure compliance with applicable equipment and real property requirements.

Auditee Response and Corrective Action Plan:

Contact Person: Alan C. Ulrich, Chief Financial Officer

Corrective Action: The mammogram unit cited in the audit was fully depreciated. GMHA stopped performing mammographies on December 4, 2004. At that time, GMHA should have disposed of the equipment in accordance with federal guidelines.

The comment might have been relevant in 2006 but, for Fiscal 2012, it is a very old matter. The technology of the equipment has probably been improved multiple times since the cessation of mammography studies.

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

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2012

Questioned Costs:

For the year ended September 30, 2012, the following questioned costs were noted and prior questioned costs resolved:

| | Questioned Costs Set Forth in Prior <u>Audit Report</u> | Questioned Costs Resolved during Fiscal Year <u>2012</u> | <u>Questioned Costs at September 30, 2012</u> |
|-------------------------------------|---|---|---|
| Unresolved Questioned Costs FY 2011 | \$ <u>2,048,420</u> | \$ <u> </u> - | \$ 2,048,420 |
| Questioned Costs for FY 2012 | | | <u>153,568</u> |
| | | | <u>\$ 2,201,988</u> |

Unresolved Prior Year Findings

As of September 30, 2012, the status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011 is as follows:

- Finding No. 2011-1 – Not corrected. See corrective action plan to Finding No. 2012-1.
- Finding No. 2011-2 – Not corrected. See corrective action plan to Finding No. 2012-2.
- Finding No. 2011-3 – Not corrected. See corrective action plan to Finding No. 2012-3.
- Finding No. 2011-4 – Not corrected. See corrective action plan to Finding No. 2012-4.