

**GUAM MEMORIAL HOSPITAL AUTHORITY**

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

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**For The Year Ended September 30, 2002  
(With Comparative Figures for 2001)**

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

**TABLE OF CONTENTS**  
**September 30, 2002**

<u>Item</u>	<u>Page No.</u>
I. BASIC FINANCIAL STATEMENTS	
Independent Auditor's Report on Financial Statements	1
Management Discussion and Analysis	4
Statements of Net Assets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	11
Supplementary Information: Schedule of Expenses	23
II. COMPLIANCE REPORTS	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements	25
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance	27
Schedule of Expenditures of Federal Awards	29
Schedule of Findings and Questioned Costs:	
Summary of Auditor's Results	30
Financial Statement Findings	31
Federal Award Findings and Questioned Costs	32
Summary Schedule of Prior Year Audit Findings	76
III. SUMMARY OF UNRESOLVED QUESTIONED COSTS	82

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Guam Memorial Hospital Authority:

I have audited the accompanying statement of net assets of Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 2002 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the GMHA's management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of GMHA as of September 30, 2001 were audited by other auditors, whose report dated June 17, 2002, expressed an unqualified opinion on those statements.

Except as discussed in the following paragraphs, I conducted my 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 of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

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

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

As discussed in Note 1 to the financial statements, GMHA adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB No. 38, *Certain Financial Statements Notes Disclosures*, as of October 1, 2001. The accompanying 2001 financial statements have been restated to reflect the changes required by GASB No. 34.

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

As discussed in Note 7 to the financial statements, GMHA also adopted Governmental Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*. The 2001 financial statements have been restated to reflect the changes.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information in Schedule I on pages 23 and 24 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 29 is presented for purposes of additional analysis, as required by the U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organization which is not a required part of the basic financial statements. These schedules are the responsibility of the management of Guam Memorial Hospital Authority. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 8, 2004 on my consideration of Guam Memorial Hospital Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with report in considering the results of my audit.

*J. Scott Maglieri & Company*

Hagåtña, Guam  
October 8, 2004



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2002**



Our discussion and analysis of Guam Memorial Hospital's financial statements provides an overview of the hospital's financial activities for the fiscal year ended September 30, 2002. Please read management's discussion and analysis in conjunction with GMHA's financial statements beginning on page 7.

**Basis of Accounting**

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

**Annual Report Presentation**

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

**BASIC FINANCIAL STATEMENTS**

**Independent Auditor's Report**

The Independent Auditor's Report of Financial Statements as presented provides GMHA with a qualified opinion. The qualified opinion was due to material misstatements in accounts receivable and the lack of reconciliations of accounts receivable subsidiary to the accounts receivable control account. GMHA received the qualified opinion due to the lack of compliance with Office of Management and Budget (OMB) Circular A-133 procurement requirements.

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



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2002**



**BASIC FINANCIAL STATEMENTS, Continued**

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

**Statements of Net Assets**

GMHA's Total Net Assets increased by \$22,967,966 due to transfers from the Government of Guam in the amount of \$25,236,268 for the 2002 fiscal year over \$5,651,175 in transfers for the previous fiscal year. These transfers were used to extinguish bank and withholding tax debts and to support operational and capital expenditures.

Current portion of long-term debt and Accounts Payable-Retirement Fund increased in the 2002 fiscal year due to the non-payment of promissory notes to the Government of Guam Retirement Fund. An explanation for the failure to pay the Government of Guam Retirement Fund cannot be ascertained because the decision to not pay the debt was made under a prior administration.

GMHA received a Qualified Audit Opinion due to the irreconcilable difference between the financial statements and the subsidiary ledger of Accounts Receivables accounts. Management expects the rendering of the same opinion for the 2003 fiscal year. The current administration is working diligently to place procedures in place and providing training to current staff member to avoid a Qualified Opinion in the future.

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

Total Operating Revenues and total Operating Expenses decreased in fiscal year 2002 as compared to the previous fiscal year. Net Patient Services Revenues decreased by \$5,055,611 due to adjustments to revenue and contractual adjustments to reconcile patient accounts receivables to the subsidiary ledger. Also included is an adjustment to Bad Debt, which is a component of Total Operating Expenses. This adjustment is referenced above in the discussion of the Statement of Net Assets.

Total Non-Operating Revenues increased due to transfers from the Government of Guam. The discussion for this item is referenced as a component of the change in total net assets in the Statement of Net Assets.



**GUAM MEMORIAL HOSPITAL AUTHORITY**  
**Management's Discussion and Analysis**  
**Year Ended September 30, 2002**



**Statements of Cash Flows**

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

**Forward**

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

**Contacting GMHA's Financial Management**

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



**GUAM MEMORIAL HOSPITAL AUTHORITY**

Statements of Net Assets  
September 30, 2002  
(With Comparative Figures for 2001)

	<u>Assets</u>	
	<u>2002</u>	<u>2001</u> As restated (note 7)
<b>Current assets:</b>		
Cash (notes 1 and 2)	\$ 2,463,903	\$ 4,687,811
Restricted cash (notes 1 and 3)	493,090	252,190
Total cash	2,956,993	4,940,001
Patient accounts receivable, net (notes 1 and 5)	34,302,791	27,172,251
Other receivables	644,029	893,439
Inventories (note 1)	1,506,259	1,638,754
Prepaid expenses	80,139	1,344,510
Total current assets	39,490,211	35,988,955
Capital assets, net (notes 1 and 4)	44,538,793	45,641,165
Total assets	<u>\$ 84,029,004</u>	<u>\$ 81,630,120</u>
<u>Liabilities and Net Assets</u>		
<b>Current liabilities:</b>		
Current portion of long-term debt (note 8)	\$ 7,521,048	\$ 3,855,062
Accounts payable - trade	5,934,241	6,113,379
Accounts payable - Retirement Fund (note 9)	8,954,915	8,796,288
Accrued payroll and benefits	1,061,296	949,786
Current portion of accrued annual leave (note 1)	1,705,782	1,639,553
Other accrued liabilities	2,029,357	717,602
Total current liabilities	27,206,639	22,071,670
Long-term debt (note 8)	1,053,410	26,841,868
Deferred retirement fund contributions (note 7)	2,634,704	2,634,704
Long-term portion of accrued annual leave (note 1)	1,775,406	1,690,999
Total liabilities	32,670,159	53,239,241
<b>Net assets (note 1):</b>		
Invested in capital assets net of related debt	44,488,738	45,476,717
Temporarily restricted for capital expenditures	493,090	2,427,652
Unrestricted	6,377,017	(19,513,490)
Total net assets	51,358,845	28,390,879
Total liabilities and net assets	<u>\$ 84,029,004</u>	<u>\$ 81,630,120</u>
<b>Commitments and contingencies (note 11)</b>		

See accompanying notes to financial statements.

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Statements of Revenues, Expenses and Changes in Net Assets  
Year Ended September 30, 2002  
(With Comparative Figures for 2001)

	<u>2002</u>	<u>2001 As restated (note 7)</u>
Operating revenues:		
Net patient service revenue (note 1)	\$ 67,072,391	\$ 72,128,002
Other operating revenues:		
Food sales, cafeteria	516,890	574,679
Other	<u>665,863</u>	<u>463,826</u>
Total operating revenues	<u>68,255,144</u>	<u>73,166,507</u>
Operating expenses:		
Nursing	28,170,668	29,070,439
Ancillary	15,595,110	16,792,988
Bad debts	3,967,182	8,784,163
General services (note 12)	8,119,846	8,846,172
Administrative support	7,430,021	8,208,500
Depreciation	3,763,125	3,531,704
Medical staff	2,488,651	2,737,567
Administration	<u>2,012,653</u>	<u>2,258,799</u>
Total operating expenses	<u>71,547,256</u>	<u>80,230,332</u>
Operating loss (note 10)	<u>(3,292,112)</u>	<u>(7,063,825)</u>
Non-operating revenues (expenses):		
Capital grants and contributions	81,794	171,445
Transfers from the Government of Guam (note 10)	25,236,268	5,651,175
Federal grant award revenues and contributions (note 1)	-	14,282
Interest and penalties (note 9)	<u>(1,069,486)</u>	<u>(2,505,254)</u>
Total non-operating revenues	<u>24,248,576</u>	<u>3,331,648</u>
Excess of revenues over expenses (expenses over revenues)	20,956,464	(3,732,177)
Net assets released from restrictions - capital improvements and equipments	<u>3,946,064</u>	<u>2,400,763</u>
Increase (decrease) in unrestricted net assets	<u>24,902,528</u>	<u>(1,331,414)</u>
Temporarily restricted net assets (notes 1 and 3):		
Net assets released from restrictions- capital improvements and equipments	(3,946,064)	(2,400,763)
Federal grant award revenues and contributions (note 1)	<u>2,011,502</u>	<u>2,371,780</u>
Decrease in temporarily restricted net assets	<u>(1,934,562)</u>	<u>(28,983)</u>
Increase (decrease) in net assets	22,967,966	(1,360,397)
Net assets beginning of the year	<u>28,390,879</u>	<u>29,751,276</u>
Net assets end of the year	<u>\$ 51,358,845</u>	<u>\$ 28,390,879</u>

See accompanying notes to financial statements.

## GUAM MEMORIAL HOSPITAL AUTHORITY

### Statements of Cash Flows Year Ended September 30, 2002 (With Comparative Figures for 2001)

	<u>2002</u>	<u>2001</u> As restated (note 7)
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 56,224,079	\$ 63,885,815
Payments to suppliers and contractors	(17,183,316)	(16,867,433)
Payments to employees	(43,918,751)	(47,435,133)
Other receipts and payments, net	<u>1,182,753</u>	<u>1,038,505</u>
Net cash provided by (used) in operating activities	<u>(3,695,235)</u>	<u>621,754</u>
Cash flows from non-capital financing activities:		
Transfers from the Government of Guam	25,236,268	5,651,175
Repayment of notes payable, net of proceeds	(22,008,079)	(2,257,149)
Interest paid	(834,113)	(2,382,129)
Contributions	<u>81,794</u>	<u>171,445</u>
Net cash provided by non-capital financing activities	<u>2,475,870</u>	<u>1,183,342</u>
Cash flows from capital and related financing activities:		
Repayment of capital leases	(114,392)	(106,453)
Acquisition and construction of capital assets	(2,660,753)	(3,059,423)
Capital grants and contributions	2,011,502	2,415,045
Proceeds from sale of capital assets	<u>-</u>	<u>35,117</u>
Net cash used in capital and related financing activities	<u>(763,643)</u>	<u>(715,714)</u>
Net increase (decrease) in cash	(1,983,008)	1,089,382
Cash at beginning of year	<u>4,940,001</u>	<u>3,850,619</u>
Cash at end of year	<u>\$ 2,956,993</u>	<u>\$ 4,940,001</u>

See accompanying notes to financial statements.

## GUAM MEMORIAL HOSPITAL AUTHORITY

Statements of Cash Flows, Continued  
Year Ended September 30, 2002  
(With Comparative Figures for 2001)

	2002	2001 As restated (note 7)
Reconciliation of operating loss to net cash provided		
by operating activities:		
Operating loss	\$ (3,292,112)	\$ (7,063,825)
Adjustments to reconcile operating loss to net cash provided		
by operating activities:		
Depreciation	3,763,125	3,531,704
Bad debts	3,967,182	8,784,163
Other revenue (expense)	-	(28,983)
(Increase) decrease in assets:		
Patient accounts receivable	(11,097,721)	(7,876,173)
Other receivables	249,410	(337,033)
Inventories	132,495	(394,449)
Prepaid expenses	1,264,371	(1,297,071)
Increase (decrease) in liabilities:		
Accounts payable	(75,835)	5,321,420
Accrued payroll and employees benefits	111,510	109,836
Accrued annual leave	150,636	310,987
Deferred retirement fund contributions	-	(277,369)
Other accrued liabilities	1,131,704	(161,453)
Net cash provided by (used) in operating activities	\$ (3,695,235)	\$ 621,754

### Non-cash transactions:

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

In December 2001, the Guam Memorial Hospital Authority recorded debt extinguishment of its notes payable with the Bank of Guam of \$20,380,334 by the Guam Economic Development and Commerce Authority's reissuance of government revenue bonds to pay-off GHMA's loan.

In September 2001, GMHA entered into an installment payment agreement with an electric utility, enabling GMHA to pay its \$2,016,892 balance over the next 48 months.

See accompanying notes to financial statements.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

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

### Organization

The Guam Memorial Hospital Authority (GMHA) was created on July 26, 1977, by Public Law 14-29 as an autonomous instrumentality of the Government of Guam. The law provides for control of GMHA to be vested with the Board of Trustees of the Hospital. GMHA is a component unit of the Government of Guam and is included as a discretely presented component unit of the basic financial statements of the Government of Guam.

### Use of Estimates

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

### Enterprise Fund Accounting

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

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

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

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

### Cash

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

### Restricted Funds

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

### Capital Assets

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

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

### Net Assets

Net assets of GMHA are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Temporarily restricted net assets* are those whose use by GMHA has been limited by donors to a specific time period or purpose. At September 30, 2002 and 2001, the temporarily restricted net assets are for use in capital improvements to renovate or expand the hospital and the long-term care facility. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

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

### Federal Grant Award Revenues and Contributions

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

### Net Patient Service Revenue

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

### Patient Accounts Receivable

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

The allowance for uncollectible accounts receivable is determined based on past collection history for different classes of patient receivables. This allowance is based on estimates and, while management believes the amount is adequate, the ultimate uncollectible balance may differ from the amounts provided. The methods for making such estimates and for establishing the resulting allowance are continually reviewed, and any adjustments are reflected in earnings currently.

### Inventories

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

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

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

### Accrued Annual Leave

Employees are credited 104, 160 or 208 hours of vacation leave per fiscal year, subject to their lengths of service. The accumulation of vacation credits is limited to 480 hours (580 hours for registered nurses) at fiscal year end and is convertible to pay upon termination of employment. GMHA recognizes as a liability all vested vacation leave benefits accrued by its employees. Sick leave does not vest and is not accrued. When the employees use vacation leave benefits, the liability account is reduced accordingly. As of September 30, 2002 and 2001, accrued annual leave totaled \$3,481,188 and \$3,330,552, respectively. The aggregate amount of the sick leave liability has not been determined.

### Operating Revenues and Expenses

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

### Risk Management

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

## (2) Cash

Cash insured by the Federal Deposit Insurance Corporation (FDIC) are \$300,000 in each fiscal year 2002 and 2001, with the remaining being uninsured.



## GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

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

At September 30, 2002 and 2001, the restricted cash is for use in capital improvements to renovate or expand the hospital and the long-term care facility.

Temporarily restricted net assets were released from donor restrictions by incurring costs satisfying the restricted purposes. At September 30, 2002 and 2001, purpose restrictions accomplished were for capital expenditures under federal programs.

### (4) Capital Assets

A summary of capital assets, net at September 30, 2002 is as follows:

	<u>Balance</u> <u>09/30/01</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>09/30/02</u>
Building and land improvements	\$ 51,273,858	\$ 11,600	\$ -	\$ 51,285,458
Long-term Care Facility	10,660,987	-	-	10,660,987
Equipment	18,359,287	1,436,842	-	19,796,129
Equipment under capital lease	<u>3,201,832</u>	<u>-</u>	<u>-</u>	<u>3,201,832</u>
	83,495,964	1,448,442	-	84,944,406
Less: Accumulated depreciation and amortization	<u>(38,095,123)</u>	<u>(3,763,125)</u>	<u>-</u>	<u>(41,858,248)</u>
	45,400,841	(2,314,683)	-	43,086,158
Construction in Progress	<u>240,324</u>	<u>1,212,311</u>	<u>-</u>	<u>1,452,635</u>
Capital assets, net	<u>\$ 45,641,165</u>	<u>(\$ 1,102,372)</u>	<u>\$ -</u>	<u>\$ 44,538,793</u>

### (5) Patients Accounts Receivable, Net

As of September 30, 2002 and 2001, patient accounts receivable, net were as follows:

	<u>2002</u>	<u>2001</u>
Total patient accounts receivable	\$107,679,005	\$ 83,673,963
Less allowance for doubtful receivables	<u>( 73,376,214)</u>	<u>( 56,501,712)</u>
Patient accounts receivable, net	<u>\$ 34,302,791</u>	<u>\$ 27,172,251</u>

## GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

### (6) Contracts with Government Agencies

GMHA is reimbursed for the cost of patient services rendered under certain programs administered by government agencies (Medicare and Medicaid). During the year, agencies reimburse GMHA on the basis of interim rates. Final settlements are based on annual cost reports prepared in accordance with agency requirements.

### (7) Employees' Retirement Plan

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

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

As a result of the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30, 2002, a minimum combined employer and employee contribution rate of 41.24% of covered Defined Benefit payroll is required to appropriately fund current retirement costs, to amortize prior service costs and to provide for interest on the unfunded accrued liability. Statutory contribution rates for employer and employee contributions were 19.8016% and 9.5%, respectively, for the year ended September 30, 2002. The effect of GMHA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 31.77% to an effective rate of 28.26% for the year ended September 30, 2002. In recognition of the above, an accrual increase of 8.585% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 28.26% and the employer's statutory rate of 19.675%. The effective employer accrual rate for the year ended September 30, 2001 was 20.05%.

The Defined Benefit Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 6.5% per annum for short service employees and 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 2001 did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GMHA as a separate sponsor, the accrual unfunded liability at September 30, 2002 may be materially different than that recorded in the accompanying financial statements.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

## (7) Employees' Retirement Plan, Continued

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

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

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

Effective September 30, 2001, the Government of Guam, as a whole, adopted the provisions of Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees*. The effect of these provisions caused to restate the accrued pension liabilities as of September 30, 2001 to equal the Net Pension Obligation as determined under GASB 27. The 2001 financial statements were restated as follows:

	<u>As Originally Stated in 2001</u>	<u>As Restated in 2001</u>
Unfunded retirement liability	<u>\$ 15,750,999</u>	<u>\$ 2,634,704</u>
Total net assets at beginning of year	<u>\$ 15,274,584</u>	<u>\$28,390,879</u>

## GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

(8) Long-Term Debt

At September 30, 2002 and 2001, long-term debt consists of the following:

	<u>2002</u>	<u>2001</u>
<p>Promissory note payable to Bank of Guam in monthly installments of \$292,260 including interest at a variable rate based on the bank's index rate less one half percentage point (5.5% and 9% at September 30, 2002 and 2001, respectively), due in 2002 with an extension of the promissory note for seven additional years, collateralized by a pledge and assignment of medical services revenue and a property mortgage on the hospital facility and guaranteed by the Government of Guam Section 30 revenues, subordinate to certain Government of Guam bond issuances. The note was paid in full in December 2001.</p>	\$ -	\$ 20,767,568
<p>Promissory note payable to the Government of Guam Retirement Fund in equal quarterly installments of \$366,064 including interest at the Bank of Hawaii's prime rate plus 1% (9% at September 30, 2002 and 2001) starting March 1998 with a balloon payment in March 2003. Effective for the quarter ended June 30, 2001, and thereafter, the quarterly installments increased to \$401,330. (See note 14)</p>	6,932,542	7,748,022
<p>Balance due on electrical service with electric utility, payable in total monthly installments of \$45,965 including interest at 4.47%, due September 2005.</p>	1,591,861	2,016,892
<p>Balance due on several capital leases of computer hardware and software with a computer manufacturer, payable in total monthly installments of \$10,210 including interest at effective rates ranging from 6.7% to 7.6%, collateralized by computer hardware and software, with a bargain purchase option at the end of the lease.</p>	<u>50,055</u>	<u>164,448</u>
<p>Total notes payable</p>	8,574,458	30,696,930
<p>Less current portion</p>	<u>7,521,048</u>	<u>3,855,062</u>
<p>Long-term debt</p>	<u>\$ 1,053,410</u>	<u>\$ 26,841,868</u>

## GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

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

At September 30, 2002, GMHA failed to make its quarterly payment of \$401,330 in accordance with its promissory notes with the Government of Guam Retirement Fund. Therefore, GMHA is not in compliance with its debt covenants with the Government of Guam Retirement Fund promissory note.

The aggregate maturities of long-term debt at September 30, 2002 are as follows:

Year Ending <u>September 30,</u>	
2003	\$ 7,521,048
2004	514,957
2005	538,453
2006	-
2007	-
	<u>\$ 8,574,458</u>

### (9) Related Party Transactions

At September 30, 2002 and 2001, accounts payable due to the Government of Guam Retirement Fund was \$8,954,915 and \$ 8,796,288, respectively.

During the years ended September 30, 2002 and 2001, GMHA incurred related party interests and penalties as follows:

	<u>2002</u>	<u>2001</u>
Retirement Fund	\$ 219,355	\$ 735,091
Department of Revenue and Taxation	272,675	2,165
Guam Power Authority	<u>80,583</u>	<u>-</u>
	<u>\$ 572,613</u>	<u>\$ 737,256</u>

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

## (10) Transfers from the Government of Guam and Going Concern

At September 30, 2002 and 2001, GMHA's transfers from the Government of Guam consist of the following:

	<u>2002</u>	<u>2001</u>
Appropriations:		
Used for GMHA's debt extinguishment of its notes payable with Bank of Guam	\$ 20,380,334	\$ -
Used to pay-off GMHA's tax obligations in arrears with Department of Revenue and Taxation	2,240,258	5,651,175
Cash Transfers-in from Tobacco Bond Proceeds:		
Used for GMHA's operating support and capital expenditures	<u>2,615,676</u>	<u>-</u>
	<u>\$ 25,236,268</u>	<u>\$ 5,651,175</u>

For the fiscal years ended September 30, 2002 and 2001, GMHA has recorded operating expenses in excess of operating revenues of \$3,292,112 and \$7,063,825, respectively. These conditions raise substantial doubt about GMHA's ability to continue as a going concern without continuing subsidies from the Government of Guam. Additionally, as discussed in note 14, the Hospital defaulted on its note payable to the Government of Guam Retirement Fund which totaled \$6.9 million.

## (11) Commitments and Contingencies

### Litigation

GMHA is the defendant in several malpractice claims and has received several claims that are pending review or are expected to go to litigation. While GMHA intends to pursue an aggressive defense of these cases and claims, the possibility exists that some may result in material monetary damages being awarded to claimants or plaintiffs. As of September 30, 2002, GMHA's known maximum exposure under these claims is approximately \$4.8 million. However, GMHA is unable to estimate the actual monetary damages from these self-insured malpractice claims. At September 30, 2002, a provision of \$210,000 has been recorded in the financial statements for losses that may result from these claims. Subsequently, amounts of settlements and judgments actually paid against this accrual were \$167,376.

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

## (11) Commitments and Contingencies, Continued

### Reserve for Encumbrances

As of September 30, 2002, GMHA had material purchase commitments under outstanding encumbrances totaling \$3,176,425.

### Self-Insurance

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

### Medicare

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

### Memorandum of Understanding

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

# GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements  
September 30, 2002 and 2001

## (12) Typhoon Expenses

On July 5, 2002, the island of Guam was struck by a super typhoon. Damages from this typhoon are recorded under General Services in the amount of \$395,315.

## (13) Reclassifications

Certain balances in the 2001 financial statements have been reclassified to correspond to the 2002 presentation.

## (14) Subsequent Events

On November 21, 2002, the Superior Court of Guam ordered GMHA to pay its outstanding liabilities to the Government of Guam Retirement Fund. Also, in March 2003, GMHA defaulted on this note for failure to make a final balloon payment with the Government of Fund Retirement Fund due March 2003. As of September 30, 2002, outstanding liabilities to the Government of Guam Retirement Fund totaled \$15,887,457.

On December 8, 2002, the island of Guam was struck by Super Typhoon Pongsona. The hospital building was severely damaged. Damages from the typhoon are estimated at \$2.8 million. GMHA expects much of the damage to be covered by insurance for \$1.8 million and \$1 million from Federal Emergency Management Agency (FEMA) assistance.



## GUAM MEMORIAL HOSPITAL AUTHORITY

Supplementary Information  
 Schedule of Expenses  
 Year Ended September 30, 2002  
 (With Comparative Figures for 2001)

	2002	2001
<b>Nursing:</b>		
Salaries - regular	\$ 15,590,927	\$ 14,509,325
Salaries - overtime and incentive pay	4,762,664	7,017,070
Fringe benefits	3,666,073	3,371,481
Total personnel costs	24,019,664	24,897,876
Supplies and materials	3,539,404	3,488,654
Miscellaneous	611,600	683,909
	<b>\$ 28,170,668</b>	<b>\$ 29,070,439</b>
<b>Ancillary:</b>		
Salaries - regular	\$ 4,503,031	\$ 5,562,331
Salaries - overtime and incentive pay	2,336,943	2,206,253
Fringe benefits	1,457,956	1,476,058
Total personnel costs	8,297,930	9,244,642
Supplies and materials	5,511,141	5,401,780
Contractual services	1,729,572	2,050,218
Miscellaneous	56,467	96,348
	<b>\$ 15,595,110</b>	<b>\$ 16,792,988</b>
<b>General services:</b>		
Salaries - regular	\$ 3,194,447	\$ 3,387,349
Salaries - overtime and incentive pay	447,839	723,281
Fringe benefits	1,015,547	996,312
Total personnel costs	4,657,833	5,106,942
Utilities	1,682,447	1,723,971
Supplies and materials	584,092	885,735
Contractual services	671,932	1,024,007
Typhoon expenses	395,315	-
Miscellaneous	128,227	105,517
	<b>\$ 8,119,846</b>	<b>\$ 8,846,172</b>

**GUAM MEMORIAL HOSPITAL AUTHORITY**

Supplementary Information  
 Schedule of Expenses, Continued  
 Year Ended September 30, 2002  
 (With Comparative Figures for 2001)

	<u>2002</u>	<u>2001</u>
Administrative support:		
Salaries - regular	\$ 3,591,093	\$ 3,882,973
Salaries - overtime and incentive pay	375,621	812,450
Fringe benefits	1,028,608	1,076,904
Annual leave expenses	<u>403,834</u>	<u>472,570</u>
Total personnel costs	5,399,156	6,244,897
Contractual services	1,049,687	907,410
Supplies and materials	833,278	900,123
Miscellaneous	<u>147,900</u>	<u>156,070</u>
	<u>\$ 7,430,021</u>	<u>\$ 8,208,500</u>
Medical staff:		
Salaries - regular	\$ 589,809	\$ 671,288
Salaries - overtime and incentive pay	44,851	144,984
Fringe benefits	<u>229,114</u>	<u>252,114</u>
Total personnel costs	863,774	1,068,386
Contractual Services	1,605,260	1,646,729
Miscellaneous	<u>19,617</u>	<u>22,452</u>
	<u>\$ 2,488,651</u>	<u>\$ 2,737,567</u>
Administration:		
Salaries - regular	\$ 756,636	\$ 686,386
Salaries - overtime and incentive pay	61,150	71,952
Fringe benefits	<u>124,754</u>	<u>461,148</u>
Total personnel costs	942,540	1,219,486
Miscellaneous	764,213	829,940
Contractual Services	<u>305,900</u>	<u>209,373</u>
	<u>\$ 2,012,653</u>	<u>\$ 2,258,799</u>
Employees at end of year	<u>952</u>	<u>945</u>