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, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Memorial Hospital Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, which comprise the statements of net position as of September 30, 2016 and 2015, the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Memorial Hospital Authority as of September 30, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 as well as the Schedule of Proportional Share of the Net Pension Liability on page 46, and the Schedule of Pension Contributions on page 45, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability-Post Employment Benefits Other than Pensions that GASB requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by GASB which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenses, patient service revenues by patient classification, and billings and collections and reconciliation of billings to gross patient revenues on pages 47 to 51 are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of expenses, patient service revenues by patient classification, and billings and collections and reconciliation of billings to gross patient revenues are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 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, patient service revenues by patient classification, and billings and collections and reconciliation of billings to gross patient revenues are fairly stated, in all material respects, in relation to the financial statements as a whole.

The schedule of full time employee count on page 52 has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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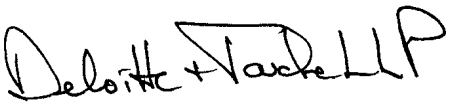
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GMHA's internal control over financial reporting and compliance.



April 24, 2017

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

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

INTRODUCTION

Guam Memorial Hospital Authority ("GMHA"), a component unit of the Government of Guam ("GovGuam"), was created on July 26, 1977 pursuant Public Law 14-29 as an autonomous agency of GovGuam. GMHA owns and operates the Guam Memorial Hospital (the "Hospital"). The Hospital provides acute, outpatient, long term, urgent care and emergency care treatment to all patients who seek medical services at the Hospital. The Hospital has 161 licensed acute care beds, plus 40 beds at its long-term care Skilled Nursing Unit (SNU). GMHA was accredited in 2010 by the Joint Commission, an independent body accrediting healthcare providers in the United States, and recently completed its tri-annual survey conducted by the Joint Commission Surveyors.

The following Management's 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, 2016 and September 30, 2015. The information contained in the MD&A has been prepared by management and should be considered together with the financial statements and includes the following:

Overview

- Payer Mix - Reimbursements of 3 M's (Medicare, Medicaid, and Medically Indigent Program)
  - TEFRA
  - History
  - Rebasing
  - Impact on Medicaid and MIP
- Uncompensated Care
- Fee Schedule
- Staffing & Employment Costs

Financial Performance

- Summarized Statements of Net Position
- Summarized Statements of Revenues, Expenses and Changes in Net Position
- Summarized Statements of Cash Flows
- Long-term Debt

Patient Census

Economic Overview/Outlook-Looking Forward

- On-line Payment
- Insurance Provider Agreement
- Information Technology Upgrades
- Family Birth Center Project

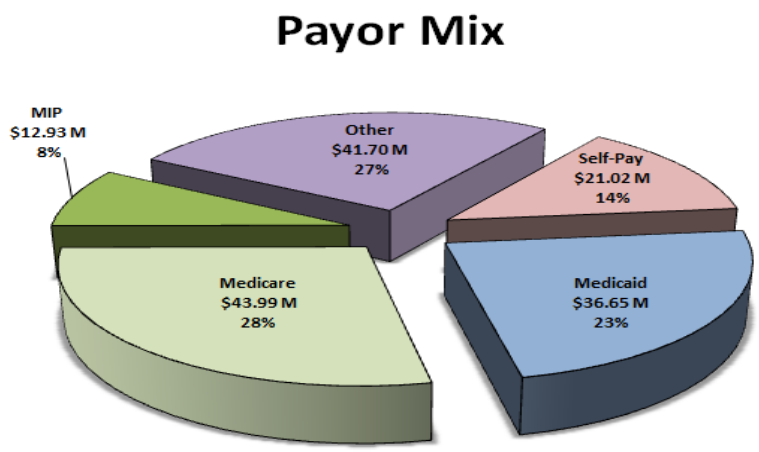
OVERVIEW

The healthcare industry continues to face significant challenges as it adjusts to the changing government reimbursement levels enacted with the Affordable Care Act ("ACA"). It is important that readers of these financial statements have a working knowledge of the environment in which the Hospital operates. Some of the issues having significant impact on the Hospital include, but are not limited to:

- Payer Mix - Reimbursements of 3 M's
- Uncompensated Care
- Fee Schedule

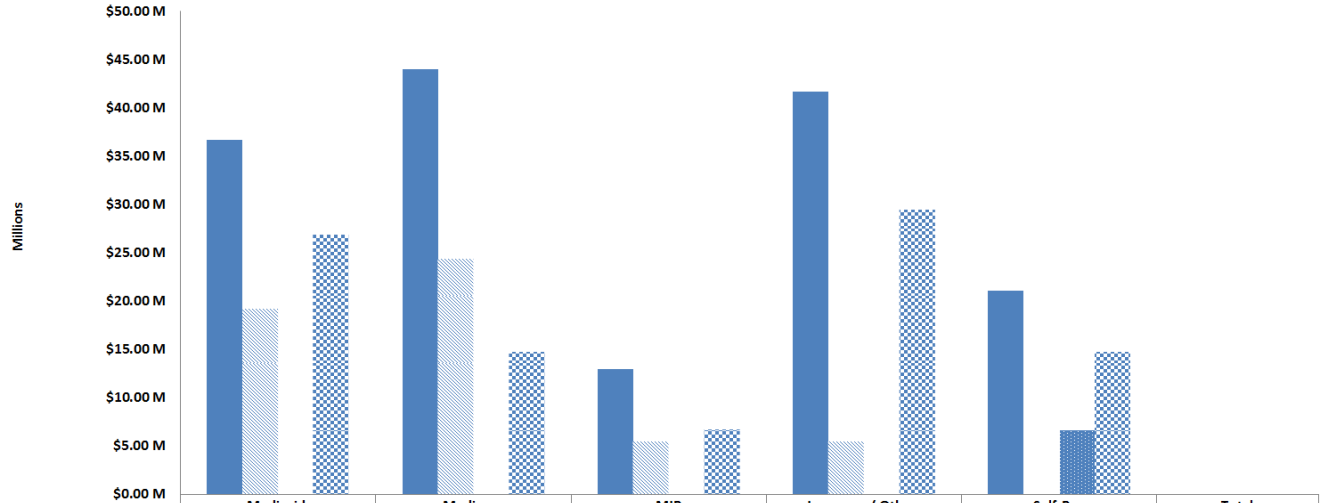
Payer Mix - Reimbursements of 3 M's

An understanding of GMHA's "Payer Mix" is essential to an appreciation of why GMHA continues to face financial challenges. The following Payer Mix chart below shows the percentage of revenue from different sources. The 3 M's constituted 59% (Medicare 28%, Medicaid 23%, and MIP 8%) or $93.5M (Medicare $43.9M, Medicaid $36.7M, and MIP $12.9) of the Hospital's $156 M of gross billing, followed by Third Party Payers and Others at 27% or $41.7M, and Self-Pay at 14% or $21.0M.



Reimbursements from the 3 M's do not increase at the same rate as the increase in the costs of providing healthcare (labor, supplies, and pharmaceutical costs). In light of reimbursement decreases brought about by changes in wage index calculations, coding adjustments, Medicare funding sequestration and other initiatives aimed at capitating payments, it is even more critical that the Medicare Rate be rebased as it also impacts payments by Medicaid and Medically Indigent Program (MIP).

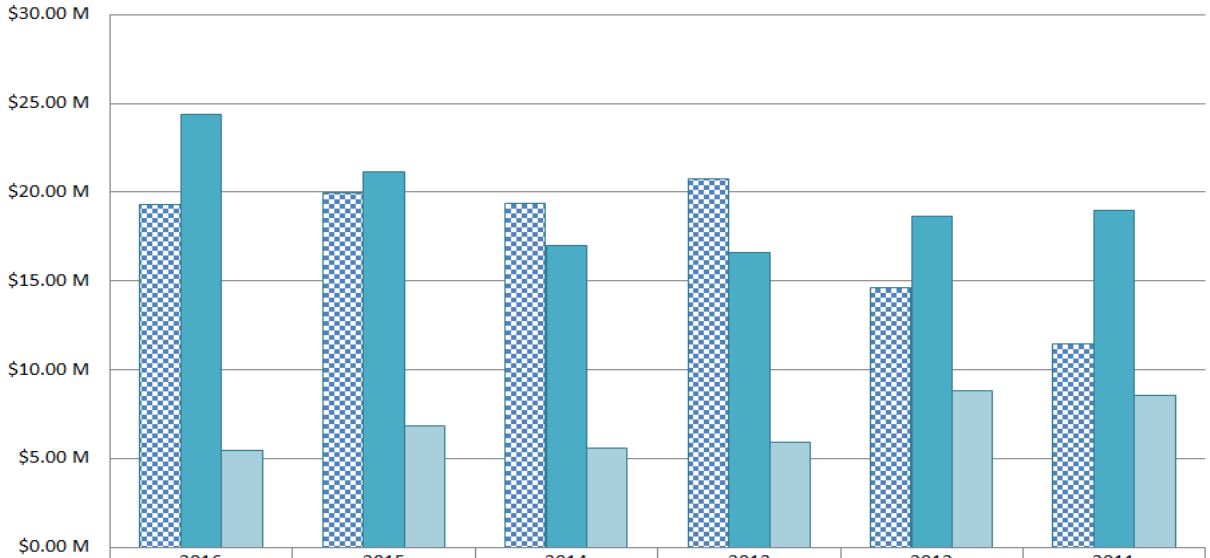
FY2016 Gross Billing, Contractual Adjustment, and Collections Comparison



	Medicaid	Medicare	MIP	Insurance/ Other	Self-Pay	Total
Gross Billing	$36.65 M	$43.99 M	$12.93 M	$41.70 M	$21.02 M	$156.29 M
Contractual Adjustments	$19.26 M	$24.35 M	$5.48 M	$5.47 M		$54.56 M
Bad Debt Provision					$6.66 M	$6.66 M
Total Collections	$26.85 M	$14.78 M	$6.69 M	$29.52 M	$14.77 M	$92.61 M

If Medicare reimbursement rate is adjusted to reflect the current costs of delivering services, Medicaid and MIP (since they mirror Medicare reimbursement) will also need to be adjusted. This will help align the imbalance and bridge the gap between the 3M's revenue mix and the collection ratios, thus reducing the contractual adjustments for the 3M's which have such a significant impact on the financials. These adjustments ranged from $39M in FY2011 to $49M in FY2016, as illustrated in the contractual adjustment chart below. The Hospital considers this increasing contractual allowance as a largely significant underpayment and a major contributing factor to its financial shortfall.

Contractual Allowance - 3 M's by Fiscal Year



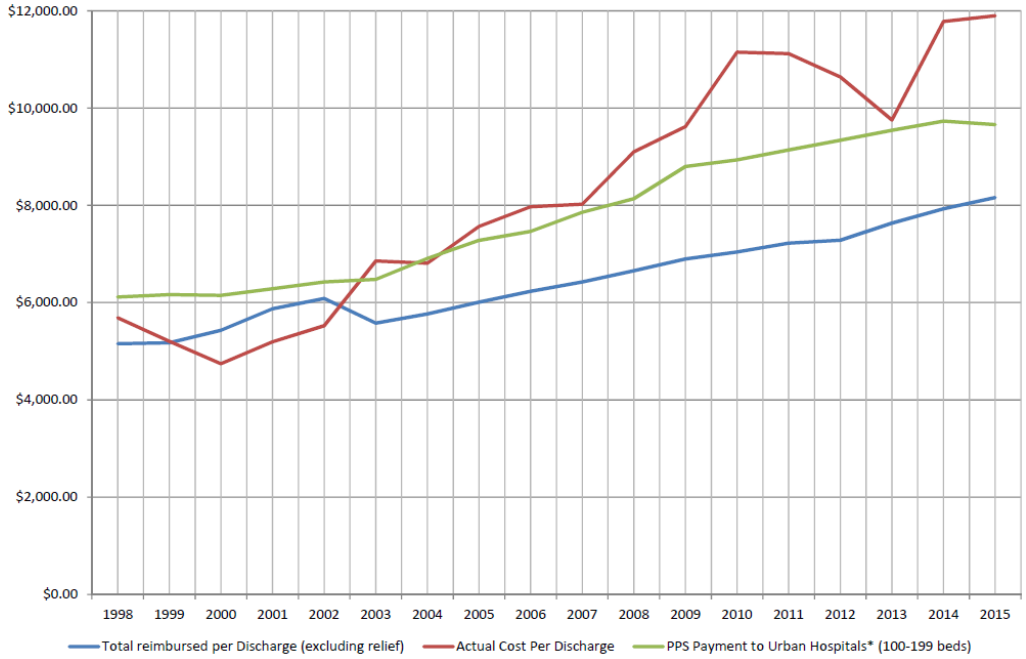
	2016	2015	2014	2013	2012	2011
Medicaid	$19.26 M	$19.92 M	$19.33 M	$20.74 M	$14.63 M	$11.43 M
Medicare	$24.35 M	$21.15 M	$16.98 M	$16.62 M	$18.65 M	$18.94 M
MIP	$5.48 M	$6.80 M	$5.58 M	$5.94 M	$8.80 M	$8.53 M
Total	$49.09 M	$47.88 M	$41.89 M	$43.29 M	$42.08 M	$38.90 M

TEFRA

History

In 1982 Congress passed the Tax Equity and Fiscal Responsibility Act (TEFRA) including changes to the Medicare program. These changes created the Prospective Payment system called Diagnostic Related Groups (DRGs) and legislated that all Medicare Hospital Inpatient Services be paid on this payment system except the following: Long Term Care Hospitals, Children's Hospitals, Rehabilitation Hospitals, and hospitals in Guam, American Samoa, Commonwealth of the Northern Marianas and Puerto Rico.

These exempted hospitals were to continue to be reimbursed based on the cost of treating Medicare patients as determined by the Medicare Cost Report with an aggregate per Discharge Limit (TEFRA Limit) that was set based on the facilities cost of care in 1982. The TEFRA limit was updated each year by the Medicare determined Hospital Market Basket Index (MBI). The graph (Figure 14.1) below reflects that reimbursement to the hospital is significantly less in comparison to other hospitals in the mainland with the similar bed size. The reimbursements lag industry standards and have contributed to the long term financial instability of GMHA. The graph also shows that the actual reimbursement is significantly lower than the actual cost per discharge amount.

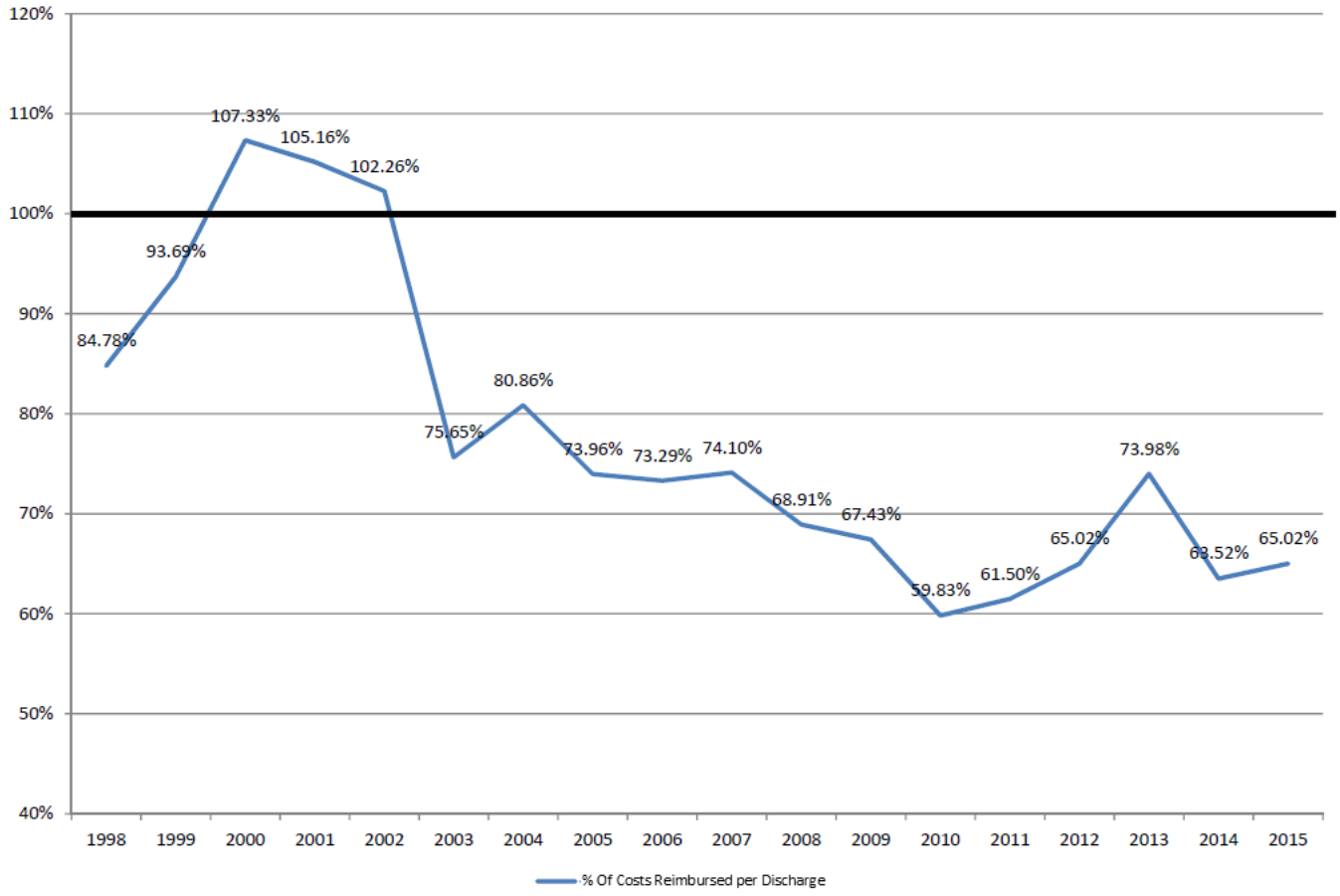


Rebasing

Rebasing is the process of updating the base year cost per discharge. GMHA's current base year is 1997, but at the 1992-1994 cost. In 1997, Congress allowed a one-time rebasing adjustment. The Hospital used 1992-1994 as the base years due to unavailability of records due to a computer system overhaul in 1995-1996. Since the base year being used was still 1992-1994 costs (23 years ago), the standard reimbursement rates failed to capture costs that should have been included in the TEFRA base and resulted in significant reimbursement shortfalls accumulating year to year. Reimbursements are processed each year on a per discharge basis, including an annual update by the Market Basket Index (MBI), which is intended to account for average inflation rates. However, since the base years used (1992-1994) were not "current" at that time (1997), the opportunity to more accurately reflect the Hospital's true costs to provide services moving forward was missed.

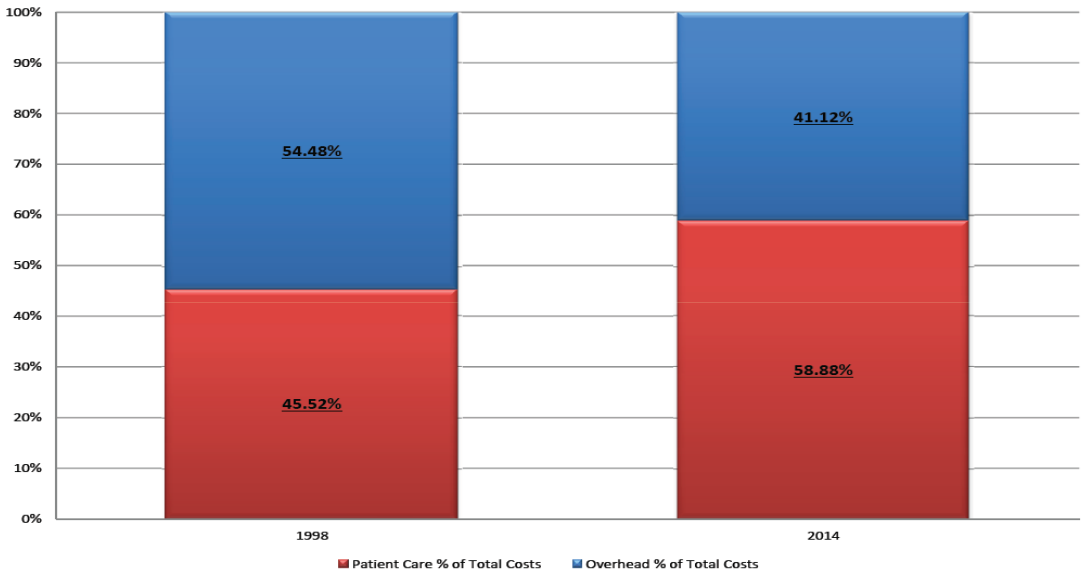
During FY2015, GMHA's FY2013 Medicare Cost Report was audited, presumably to Rebase the Hospital's Medicare rate. The audit validated the hospital's cost of delivering services to Medicare patients. However in June 2016, CMS denied GMHA's application stating it can obtain additional reimbursement through the Adjustment process which must be done on an annual basis. The Adjustment approach delays the receipt of almost 15% of reimbursements by almost three or more years; FY2007 and FY2008 Adjustment reimbursements were not received until September 2015. That is 8 long years that the hospital has had to wait to be reimbursed. FY2013 Adjustment reimbursement was received in July 2016.

The graphs and chart below illustrates the actual Costs Per Discharge in 1998 at $5,690 with reimbursement per discharge at $5,154 or 85% of costs. In FY2014, the actual costs per discharged was $11,780 with reimbursement per discharge at $7,929 or 64% of costs. This is a significant decline in reimbursement and the hospital must find other revenue sources to meet the Medicare underpayment.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actual Cost Per discharge	5,689.60	5,204.10	4,741.94	5,191.19	5,523.90	6,854.15	6,808.33	7,566.05	7,971.82	8,022.12	9,101.53	9,618.10	11,149.26	11,120.25	10,638.88	9,755.03	11,780.33	11,897.96
% Reimbursed per Discharge	84.78%	93.69%	107.33%	105.16%	102.26%	75.65%	80.86%	73.96%	73.29%	74.10%	68.91%	67.43%	59.83%	61.50%	65.02%	73.98%	63.52%	65.02%

The hospital continues to pursue its Adjustment and Rebasing efforts and has submitted another request on March 31, 2017 using FY2014 base year cost data. In each FY2014 Adjustment and Rebasing Request, GMHA affirms that the bases for its Rebasing request are higher costs which are the result of substantial and permanent changes in furnishing patient care services since the base period. GMHA's position is that healthcare has substantially and permanently changed across the board over the past 25 years. This position is widely accepted by the Federal and state governments, the private sector, academia, and CMS which provides data showing healthcare costs increasing upwards of 200% faster than the Market Basket Index utilized in the TEFRA reimbursement process. The following chart illustrates the patient care costs in 1998 at 45.52% of total costs and overhead costs at 54.48%. However, the total patient care costs in FY2014 is 58.88% of total costs versus overhead costs at 41.12%. What this means is GMH has controlled its overhead expenditures, but has invested more of its financial resources in direct patient care.



Impact on Medicaid and MIP

The Rebasing of the Medicare rate would also impact Medicaid and MIP per diem payments. Payments from these two plans will be expected to increase because Medicaid and MIP closely mirror Medicare payment methodology. In addition to the regular per diem payments by Medicare, unlike Medicaid and MIP, Medicare requires that a Medicare Cost Report be submitted each year. This cost report allows the Hospital to submit allowable costs and any resulting underpayment is paid after the Notice of Program Reimbursement is issued. However, ***Medicaid and MIP do not have such a process and consequently no method of recovering the shortfall***. This issue must be addressed with Public Health so that once CMS approves an Adjustment request for a given period, Medicaid and MIP reimbursements must be similarly adjusted. This will help bridge the significant underpayment from the 3Ms.

Uncompensated Care

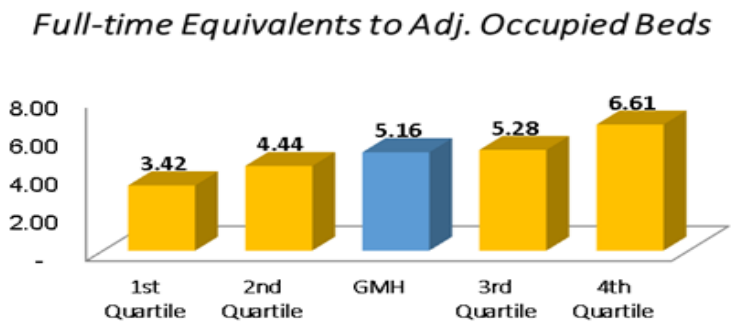
Another issue seriously impacting the Hospital is uncompensated care delivered to the self-pay population – i.e. patients who are underinsured or without insurance coverage – under federal and local legal mandates. For the past 5 years, self-pay patients received an average of $27M of care per year, with a provision for bad debt averaging $16M annually as reflected in the chart below. GMHA establishes a provision for bad debt when it considers that it is unlikely that the patient account balance will be collected. This issue has a significant impact on the Hospital's continued sustainability. Although considerable progress was made in 2016, GMHA continues to seek ways to improve collections, and has implemented an online payment system. It is in active discussion with the Department of Public Health regarding a process to enroll individuals who qualify for Medicaid and MIP at the time that medical treatment has been first provided. The goal is to have eligibility workers from Public Health stationed at GMHA to process prospective patients eligible for these benefits. A permanent external funding source must be identified to reimburse the Hospital for the cost of providing uncompensated care for those individuals that do not qualify for public support services, but continue to drain the resources of the Hospital.

GMHA's fee schedule is below industry standards and therefore continues to negatively impact the Hospital's revenue stream. Although the Board of Trustees approved a 5% increase effective April 1, 2015 and additional 5% increases each year thereafter, GMHA's rates are still significantly outdated because most of the rates were established in the early 90s. In its December 2014 report, the Office of Inspector General recommended that GMHA "review the fee schedule on a regularly scheduled basis and, where necessary, make adjustments to ensure costs are covered". GMHA continues to review its charge library to identify outdated charges that must be adjusted. Legislative approval would, however, be required for any fee increase that exceeds the 5% threshold. In November 2015, the hospital achieved a major milestone when it successfully requested and obtained legislative approval to adjust 300 fee items that were significantly below Medicare rate to equal the Medicare rate. The hospital is continuing its efforts to review its charge library to update its fees and will go to the legislature again to obtain authorization for those fees that need to be adjusted above 5%.

Staffing & Employment Costs

Shortages of certain physician specialists as well as specialty care nurses both locally and nationally are expected to continue to grow over the next several years, and competition from mainland hospitals is contributing to upward pressure on the costs of employing physicians and nurses.

GMHA has also been required to shoulder a growing proportion of GovGuam's pension deficit, principally as a result of a continuing increase in GMHA's share of total GovGuam employees in the pension plan. Total pension expense included in fringe benefits in 2016 was $20.7M requiring a cash contribution of $13.7M. This was a major contributing factor to the hospital's operating loss of $29M.



Note: 1st quartile is considered "high performing" according to Healthcare Management Partners Metric's Report.

A comparison of full-time equivalent employees (FTEs) with adjusted occupied beds in state and local government owned hospitals as reported by Healthcare Management Partners is shown above. This data is based on a survey of 3,000 acute care hospitals. It shows that GMHA, with 985 FTEs in FY 2016, to be at the average of its peer group for employees per adjusted occupied hospital beds.

FINANCIAL PERFORMANCE

A comparative analysis is provided between Fiscal Year ("FY") 2016 and FY 2015 for the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows.

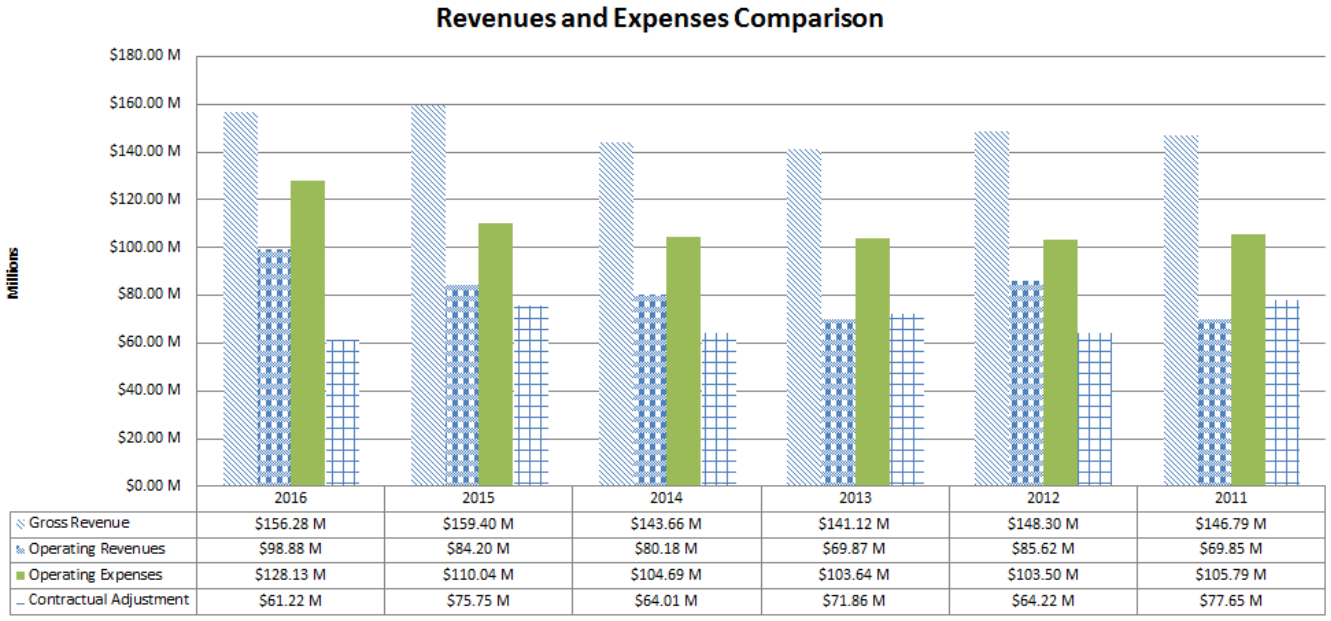
SUMMARIZED STATEMENTS OF NET POSITION

	2016	2015	2014 As Restated	% Change 2015 to 2016
Assets:				
Current assets	$ 35,622,341	$ 25,933,469	$ 30,929,990	37.36%
Noncurrent assets	35,514,495	39,158,013	41,274,794	-9.30%
Deferred outflows of resources	16,209,666	13,406,201	11,552,350	20.91%
Total assets and deferred outflows of resources	$ 87,346,502	$ 78,497,683	$ 83,757,134	11.27%
Liabilities and Net Position				
Liabilities:				
Current liabilities	$ 13,507,316	$ 35,014,278	$ 29,113,838	-61.42%
Noncurrent liabilities	133,481,057	133,680,712	143,959,338	-0.15%
Total liabilities	146,988,373	168,694,990	173,073,176	-12.87%
Deferred inflows of resources	-	9,460,899	6,960,590	-100.00%
Net position:				
Net investment in capital assets	35,457,259	38,855,016	40,937,232	-8.74%
Unrestricted	(95,099,130)	138,513,222	137,213,864	-31.34%
Total net position	(59,641,871)	(99,658,206)	(96,276,632)	-40.15%
Total liabilities, deferred inflows of resources and net position	$ 87,346,502	$ 78,497,683	$ 83,757,134	11.27%

SUMMARIZED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2016	2015	2014 As Restated	% Change 2015 to 2016
Operating revenues	$ 98,883,247	$ 84,200,642	$ 80,181,484	17.44%
Operating expenses	128,132,323	110,041,761	104,692,861	16.44%
Operating loss	(29,249,076)	(25,841,119)	(24,511,377)	13.19%
Non-operating revenues, net	68,735,953	21,200,589	27,064,819	224.22%
Capital grants and contributions	529,458	1,258,956	4,399,446	-57.94%
Change in net position	$ 40,016,335	$ (3,381,574)	$ 6,952,888	-1283.36%

- Current and other assets increased by $9,688,872 or 37.36% representing increase in cash and amounts due from GovGuam, offset by a small decrease in inventory and prepaid expenses.
- Current liabilities decreased by $21,506,962 or 61.4% principally due to a decrease in payables as funds advanced from Section 30 bond permitted GMHA to pay down amounts due to vendors and other liabilities.
- Non-current liabilities reduced by $19.5M as the loan from Bank of Guam was paid off with Section 30 bond funds. However, offsetting this reduction was an increase of $19.3M in pension liability.



	2016	2015	2014	2013	2012	2011
Gross Revenue	$156.28 M	$159.40 M	$143.66 M	$141.12 M	$148.30 M	$146.79 M
Operating Revenues	$98.88 M	$84.20 M	$80.18 M	$69.87 M	$85.62 M	$69.85 M
Operating Expenses	$128.13 M	$110.04 M	$104.69 M	$103.64 M	$103.50 M	$105.79 M
Contractual Adjustment	$61.22 M	$75.75 M	$64.01 M	$71.86 M	$64.22 M	$77.65 M

- GMHA's gross revenues of $156M was similar to 2015.
- Operating revenues increased by $14M, or 17.4%.
- Operating expenses increased by $18M, or 16.4%, mainly due to the pension expense noted above.
- Operating loss increased $3.4M, or 13.2%. Without the pension share increase, the Hospital would have instead reduced its operating loss to $9.7M.

- Non-operating revenues improved by $47.5M or 224% principally due to transfers from GovGuam funded by Section 30 bond advanced to pay off liabilities.

- Change in Net Position improved by $40M or 1,283.6%.

SUMMARIZED STATEMENTS OF CASH FLOWS

	2016	2015	2014 As Restated	% Change 2015 to 2016
Cash used for operating activities	$ (34,309,690)	$ (20,437,913)	$ (32,461,043)	(67.87%)
Net cash provided by noncapital financing activities	37,240,417	18,582,210	32,764,889	100.41%
Cash flows used by capital and related financing activities	(1,312,589)	(1,286,531)	(705,125)	(2.03%)
Cash flows provided by investing activities	209,267	-	-	100%
Net change in cash	$ 1,827,405	$ (3,142,234)	$ (401,279)	158.16%

- Patient receipts collected in FY 2016 exceeded receipts collected in FY2015 by $10,217,165 or 12.2%.
- Payments to suppliers increased by $28,668,812 or 129.3%.
- Non–capital contributions from GovGuam increased by $38,082,149 or 1968%.
- Capital contributions from GovGuam decreased by $719,638 or 57.6%.

Capital Assets

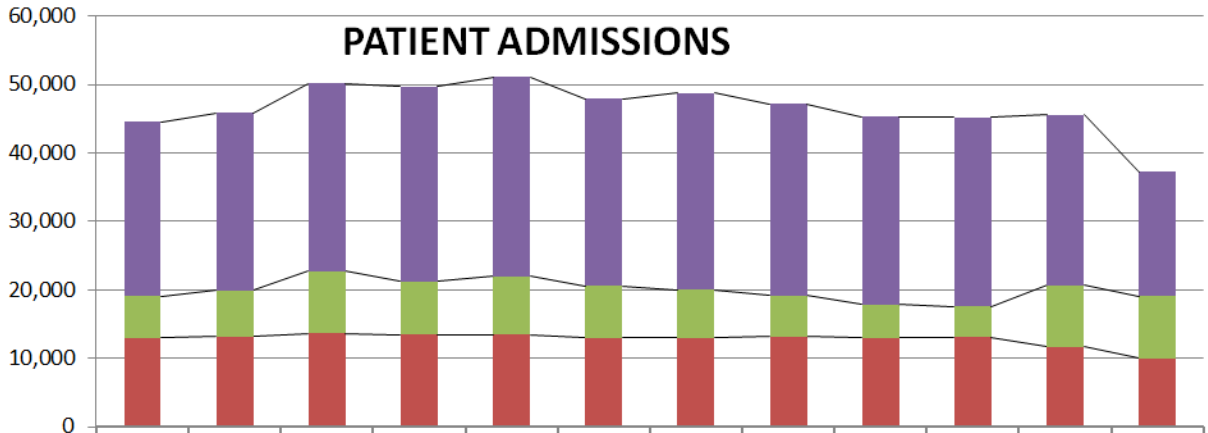
At the end of FY2016, GMHA had $35.5 million invested in capital assets. See Note 7 to the financial statements for additional information.

Long-term Debt

GMHA obtained a $25 million note payable with a local bank in January 2014 which was used to pay and discharge the remaining balance of a $12 million loan obtained in 2011 and for other purposes permitted by law. As of September 30, 2016, this loan was paid off with Section 30 bond funds. Refer to Note 9 for additional information.

Patient Census

Patient census decreased in 2016, mainly in Emergency Room and Inpatient admissions to 37,202. GMHA had anticipated a reduction of patient census due to the opening of Guam Regional Medical Center. However, the decrease in 2016, approximately 18%, is lower than originally expected and does not reflect the severity of the patients' condition or length of stay, hence the cost of providing necessary medical services to these patients.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Emergency room	25,409	25,963	27,434	28,481	29,103	27,416	28,804	27,939	27,414	27,559	24,877	18,130
Outpatient	6,109	6,753	9,095	7,832	8,496	7,552	7,004	6,033	4,913	4,500	9,074	9,113
Inpatient	12,996	13,173	13,661	13,420	13,475	12,993	13,006	13,168	12,975	13,117	11,632	9,959
Total	44,514	45,889	50,190	49,733	51,074	47,961	48,814	47,140	45,302	45,176	45,583	37,202

Economic Outlook - Looking Forward

GMHA continues to provide the best patient care despite decades of financial challenges. Its continued effort to improve efficiencies, contain costs and generate internal revenue enhancements will contribute to GMHA's sustainability. Some of those efforts include, but are not limited to:

Online Payment

The Hospital has negotiated with a vendor to provide online payment services to patients and has successfully launched these services in February 2017. Not only are patients able to make payments on line, they can also view their account at their own convenience and privacy. This has the potential to provide a positive impact on the Hospital's collections especially the self-payer mix.

Insurance Provider Agreement

GMHA has successfully negotiated a new Insurance Provider Agreement essentially ending a ten year old Payer Agreement originally signed in 2006. The 2006 Payer Agreement allowed insurance providers an 8% discount as an incentive to remit payments to GMHA within 30 days on billings received to help cash flow. GMHA successfully negotiated the terms of the new Payer Agreement without the 8% discount generating approximately $2M in additional income per year. All four local insurance providers have signed the new Payer Agreement.

Family Birth Center

The US Department of Agriculture has approved a loan of $9.2M to finance the design and construction of a new Family Birth Center within the Hospital, with additional Federal grant funds of up to $3.0M to finance new equipment for this facility. The plan for this project includes a construction period of about eighteen months during which certain departmental relocations will occur after the design and procurement process has been completed. When commissioned, the new center will offer an improved delivery of care to support the approximately 250 babies born at GMHA each month with opportunities for enhanced and additional revenues from services provided in the modernized facility.

Information Technology Upgrades and Meaningful Use

The American Recovery and Reinvestment Act (Recovery Act) of 2009 provides incentives for eligible hospitals that are meaningful users of certified electronic health record (EHR). Meaningful Use encourages eligible hospitals to switch from paper charts to electronic records while providing the best care for its patients. GMHA received Stage 1 of the Meaningful Use payment of $1.3M in May 2014.

As part of the system upgrade, in October, 2014, the first phase of the complete and certified Electronic Health Record (EHR) system migration was implemented replacing an old 1995 Patient Information ("PI") system. The AS400 PI system was migrated to the Optimum Revenue Cycle Management (RCM) system. The Optimum RCM system includes different modules such as the patient accounting, patient admissions/discharge, medical records, chart management, chart tracking, coding and reimbursement, patient billing, electronic claims and remittance, collections, payments and follow-up processing, and accounts receivable.

The Optimum General Financials System was also implemented in July 2015. This new system, promotes efficient management of entity's business cycle by capturing financial information. The system includes financial tracking and reporting, general ledger, fixed assets, inventory management (supply chain), budgeting and accounts payable. Cost accounting is still being refined and will be introduced by the end of the current financial year. The payroll module was brought online for the first payroll of 2017. GMHA's electronic time and attendance system will be implemented by the end of June 2017. The biometric time clocking system will replace the current system reducing potential abuse, thus reducing cost.

The Optimum iMed (EHR) and Pharmacy System was converted in 2016. Optimum iMed is a web-enabled suite of clinical applications that work together to bring complete patient information directly to the point of service, improving clinical decision making, enhancing collaborative care, and reducing medical errors. This clinician-friendly system provides a single, consolidated view of an entire patient record, anytime, anywhere — whether at the hospital, patient's bedside, physician's office, or at the clinic, thereby helping clinicians to improve the delivery of care. The Optimum iMed suite includes the following modules Optimum iMed Clinical System, Pharmacy Management, Computerized Physician Order Entry (CPOE), Electronic Medication Administration Record (EMAR), Enterprise Scheduling. The CPOE, EMAR and Enterprise Scheduling was introduced in June 2016.

During 2016, as part of its Business Sustainability Plan, GMHA intends to conduct a thorough review of its information systems to determine whether Optimum remains the best answer to its information needs. GMHA, in order to comply with regulatory standards, needs systems which integrate clinical, demographic, and financial information seamlessly. GMHA's goal is to acquire the system which best responds to its needs and objectives in delivering patient care and promoting efficiency.

CONTACTING HOSPITAL EXECUTIVES

The Management's Discussion and Analysis report is designed to provide 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 receives and spends.

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in GMHA's report on the audit of financial statements which is dated June 24, 2016. That Discussion and Analysis explains in more detail major factors impacting the 2015 financial statements.

If you have any questions about this report, please contact the Hospital Chief Executive Officer at 647-2418/2367 or the Chief Financial Officer at 647-2934/2190.

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

Statements of Net Position
September 30, 2016 and 2015

ASSETS	2016	2015
Current assets:		
Cash	$ 1,883,960	$ 56,555
Patient accounts receivable, net of estimated uncollectibles of $66,070,980 in 2016 and $276,963,343 in 2015	22,265,866	21,323,440
Due from the Government of Guam	7,849,854	79,626
Other receivables, net of allowance for doubtful accounts of $260,012 in 2016 and $346,497 in 2015	-	-
Inventory, net	3,486,628	4,173,463
Prepaid expenses	136,033	300,385
Total current assets	35,622,341	25,933,469
Note receivable	57,236	93,730
Capital assets:		
Depreciable assets, net	34,293,912	35,238,574
Construction in progress	1,163,347	3,616,442
Restricted cash	-	209,267
Total noncurrent assets	35,514,495	39,158,013
Total assets	71,136,836	65,091,482
Deferred outflows of resources:		
Deferred outflows from pension	16,209,666	13,406,201
Total assets and deferred outflows of resources	$ 87,346,502	$ 78,497,683
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of note payable	$ -	$ 2,133,170
Accounts payable - trade	3,579,551	16,278,913
Accounts payable - Government of Guam Retirement Fund	1,977,709	2,183,198
Accrued taxes and related liabilities	14,405	6,690,893
Accrued payroll and benefits	2,657,584	2,405,181
Unearned revenues	893,077	50,000
Current portion of accrued annual leave	1,749,990	1,689,949
Other current liabilities	2,635,000	3,582,974
Total current liabilities	13,507,316	35,014,278
Note payable, net of current portion	-	19,462,561
Accrued annual leave, net of current portion	2,117,722	2,260,502
Accrued sick leave	4,328,404	4,211,029
Net pension liability	127,034,931	107,746,620
Total liabilities	146,988,373	168,694,990
Deferred inflows of resources:		
Deferred inflows from pension	-	9,460,899
Commitments and contingencies		
Net position:		
Net investment in capital assets	35,457,259	38,855,016
Unrestricted	(95,099,130)	(138,513,222)
Total net position	(59,641,871)	(99,658,206)
Total liabilities, deferred inflows of resources and net position	$ 87,346,502	$ 78,497,683

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 Position
Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Net patient service revenue (net of contractual adjustments and provision for bad debts of $61,219,683 in 2016 and $75,747,122 in 2015)	$ 95,065,140	$ 83,652,660
Other operating revenues:		
Cafeteria food sales	511,387	443,698
Other revenue	3,306,720	104,284
Total operating revenues	98,883,247	84,200,642
Operating expenses:		
Nursing	61,515,851	51,153,215
Professional support	30,367,052	26,417,388
Administrative support	13,588,634	12,551,194
Fiscal services	8,958,952	8,378,854
Depreciation	5,121,496	4,627,703
Administration	4,559,584	3,464,586
Retiree healthcare costs	3,090,962	2,779,965
Medical staff	929,792	668,856
Total operating expenses	128,132,323	110,041,761
Operating loss	(29,249,076)	(25,841,119)
Nonoperating revenues (expenses):		
Transfers from GovGuam	67,453,312	19,944,226
Federal grants	2,804,665	3,410,668
Contributions	234,568	262,630
Federal program expenditures	(93,508)	(291,938)
Interest and penalties	(1,540,091)	(1,948,237)
Loss from disposal of fixed asset	(118,308)	-
Others	(4,685)	(176,760)
Total nonoperating revenues	68,735,953	21,200,589
Income (loss) before capital grants and contributions	39,486,877	(4,640,530)
Capital grants and contributions:		
Government of Guam	529,458	1,249,096
Federal grants	-	9,860
Total capital grants and contributions	529,458	1,258,956
Change in net position	40,016,335	(3,381,574)
Net position at the beginning of the year	(99,658,206)	(96,276,632)
Net position at the end of the year	$ (59,641,871)	$ (99,658,206)

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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 94,159,209	$ 83,942,044
Receipts from sales and other services	3,818,105	878,853
Payments to suppliers and contractors	(50,844,159)	(22,175,347)
Payments to employees	(81,442,845)	(83,083,463)
Net cash used for operating activities	(34,309,690)	(20,437,913)
Cash flows from noncapital financing activities:		
Contributions from the Government of Guam	57,435,199	19,353,050
Federal grants received	2,804,665	3,410,668
Contributions	234,568	262,630
Interest and penalties paid	(1,540,091)	(1,948,237)
Payments made under federal programs	(93,508)	(291,938)
Principal repayment of note payable	(21,595,731)	(2,027,203)
Other payments	(4,685)	(176,760)
Net cash provided by noncapital financing activities	37,240,417	18,582,210
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,842,047)	(2,545,487)
Contributions from the Government of Guam	529,458	1,249,096
Federal grants received	-	9,860
Net cash used for capital and related financing activities	(1,312,589)	(1,286,531)
Cash flows from investing activities:		
Transfers from restricted cash	209,267	-
Net change in cash	1,827,405	(3,142,234)
Cash at beginning of year	56,555	3,198,789
Cash at end of year	$ 1,883,960	$ 56,555

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, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (29,249,076)	$ (25,841,119)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Contractual adjustments and provisions for uncollectible accounts	61,219,683	75,747,122
Depreciation	5,121,496	4,627,703
Retiree healthcare costs	3,090,962	2,779,965
Noncash pension cost	7,023,947	(8,061,718)
(Increase) decrease in assets:		
Patient accounts receivable	(62,162,109)	(75,492,303)
Note receivable	36,494	34,565
Other receivables	-	330,871
Inventory	686,835	(636,593)
Prepaid expenses	164,352	(233,599)
Increase (decrease) in liabilities:		
Accounts payable - trade	(12,699,361)	6,249,555
Accounts payable - Government of Guam Retirement Fund	(205,489)	190,310
Accrued taxes and related liabilities	(6,676,488)	518,126
Accrued payroll and benefits	252,403	(1,768,306)
Accrued annual leave and sick leave	34,636	612,715
Other current liabilities	(947,975)	504,793
Net cash used in operating activities	$ (34,309,690)	$ (20,437,913)

See accompanying notes to financial statements.

(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 bassinettes, 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).

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, deferred outflows of resources, liabilities and deferred inflows of resources 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.

Net Position

Net position represents the residual interest in GMHA's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consists of the following sections:

- Net investment in capital assets – includes capital assets restricted and unrestricted, net of accumulated depreciation reduced by outstanding debt net of debt service reserve.

- Restricted nonexpendable - net position subject to externally imposed stipulations that require GMHA to maintain the position permanently.

- Restricted expendable - net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of GMHA pursuant to those stipulations or that expire with the passage of time.

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

- Unrestricted – net position that is not subject to externally imposed stipulations. Unrestricted net position 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.

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 position and of cash flows, cash is defined as cash on hand, cash held in demand accounts, and time certificates of deposit maturing within ninety days, but excludes restricted cash. As of September 30, 2016 and 2015, cash and restricted cash is $1,883,960 and $265,822, respectively, and the corresponding bank balances are $3,123,309 and $1,164,756, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, bank deposits in the amount of $250,000 are FDIC insured. GMHA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Restricted cash of $209,267 as of September 30, 2015 represents reserve funds pursuant to a loan agreement with a bank. The bank loan was paid in full as of September 30, 2016.

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 GMHA'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 or payor program.

(2) Summary of Significant Accounting Policies, Continued

Patient Accounts Receivable, Continued

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 consists of reimbursable expenditures from Federal grant awards and receivables from local appropriations.

Inventory

Inventory consists of pharmaceutical and other hospital supplies. GMHA 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

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. GMHA has determined the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and pension contributions made subsequent to the measurement date qualify for reporting in this category.

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. GMHA has determined the differences between projected and actual earnings on pension plan investments and changes in proportion and differences between GMHA pension contributions and proportionate share of contributions qualify for reporting in this category.

Compensated Absences

Compensated absences are recorded as a long-term liability in the statements of net position. 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, 2016 and 2015, GMHA has accrued an estimated sick leave liability of $4,328,404 and $4,211,029, respectively. However, this amount is an estimate and the actual payout may be materially different than estimated.

Unearned Revenues

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned.

(2) Summary of Significant Accounting Policies, Continued

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. GMHA recognizes a net pension liability for the pension plan in which it participates, which represents GMHA's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer defined benefit plan, measured as of the fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Net Patient Service Revenues

GMHA 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.

GovGuam Contributions

GMHA 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 position. 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 position.

(2) 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 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 and contributions in the statements of revenues, expenses and changes in net position.

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, GMHA and all property acquired by or for the Hospital, and all revenues and income are exempt from taxation by GovGuam.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years. GMHA is self-insured for medical malpractice claims and judgments.

Pledged Revenues

GMHA has pledged, in addition to the full faith and credit of the Government of Guam, all future gross revenues to repay a $25 million bank loan issued in January 2014. Note proceeds were used to pay in full the remaining loan balance of $10,522,226 of the $12 million bank loan obtained in fiscal year 2011 and to retire current liabilities. The note is payable from total operating revenues and is payable through 2024. The total interest and principal remaining on the notes as of September 30, 2015 is $0 and $21,595,731, respectively. Principal and interest paid for fiscal years 2016 and 2015 were $22,603,537 and $3,218,877, respectively, and total operating revenues for fiscal years 2016 and 2015 were $96,105,708 and $84,200,642, respectively. The bank loan was paid in full as of September 30, 2016.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2016, GMHA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has not evaluated the impact that the implementation of this statement will have on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Patient Accounts Receivable

GMHA 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, 2016 and 2015, consist of:

	2016	2015
Account referrals - Department of Revenue and Taxation	$ 6,485,232	$ 61,708,787
Self-pay Patients	7,359,575	51,287,175
Medically Indigent Program	5,295,315	12,653,485
Local Third-Party Payor and Other	23,392,454	41,491,369
Medicaid Assistance Program	12,801,339	26,759,444
Medicare	19,754,261	31,186,555
Collection agencies and other	13,248,670	73,199,968
	88,336,846	298,286,783
Less allowance for uncollectible accounts	(66,070,980)	(276,963,343)
	$ 22,265,866	$ 21,323,440

Patient accounts receivable from "Local Third-Party Payor and Other" includes receivables from GovGuam of $53,068 and $628,747 as of September 30, 2016 and 2015, respectively, for healthcare services.

During fiscal years 2016 and 2015, GMHA collected $8,516,721 and $7,313,581, 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 fixed interest of 6% and matures on February 1, 2018. At September 30, 2016 and 2015, the balance of the note was $57,236 and $93,730, 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, 2016 and 2015, consist of:

	2016	2015
Government of Guam:		
Department of Mental Health and Substance Abuse	$ 52,360	$ 21,256
Guam Fire Department	1,260	1,028
Other	206,358	324,213
	260,012	346,497
Less allowance for uncollectible accounts	(260,012)	(346,497)
	$ -	$ -

(6) Inventory

Inventory at September 30, 2016 and 2015, consists of the following:

	2016	2015
Pharmaceuticals, drugs and medicine	$ 2,199,987	$ 1,737,005
Medical and pharmaceutical supplies	1,642,594	2,428,822
Dietary food supplies	32,769	39,991
	3,875,350	4,205,818
Less allowance for obsolescence	(388,722)	(32,355)
	$ 3,486,628	$ 4,173,463

(7) Capital Assets

Capital assets activity for the years ended September 30, 2016 and 2015 was as follows:

	2016			
	Balance October 1,	Transfers and Additions	Transfers and Deletions	Balance September 30,
Depreciable assets:				
Building and land improvements	$ 74,059,726	$ 563,105	$ (508,188)	$ 74,114,643
Long-term care facility	11,021,985	-	-	11,021,985
Movable equipment	26,660,389	3,732,037	(4,555,619)	25,836,807
	111,742,100	4,295,142	(5,063,807)	110,973,435
Less accumulated depreciation and amortization	(76,503,526)	(5,121,496)	4,945,499	(76,679,523)
	35,238,574	(826,354)	(118,308)	34,293,912
Non-depreciable assets:				
Construction in progress	3,616,442	916,205	(3,369,300)	1,163,347
Total capital assets, net	$ 38,855,016	$ 89,851	$ (3,487,608)	$ 35,457,259

	2015			
	Balance October 1,	Transfers and Additions	Transfers and Deletions	Balance September 30,
Depreciable assets:				
Building and land improvements	$ 65,565,585	$ 8,494,141	$ -	$ 74,059,726
Long-term care facility	11,021,985	-	-	11,021,985
Movable equipment	29,044,648	855,345	(3,239,604)	26,660,389
	105,632,218	9,349,486	(3,239,604)	111,742,100
Less accumulated depreciation and amortization	(75,074,427)	(4,627,703)	3,198,604	(76,503,526)
	30,557,791	4,721,783	(41,000)	35,238,574
Non-depreciable assets:				
Construction in progress	10,379,441	1,828,128	(8,591,127)	3,616,442
Total capital assets, net	$ 40,937,232	$ 6,549,911	$ (8,632,127)	$ 38,855,016

(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 and Public Law 31-74 provided for the inclusion of 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 fiscal year 2012, GovGuam issued General Obligation Bonds and used $12 million from the proceeds to pay GMHA's liability to GGRF, including the aforementioned liabilities.

At September 30, 2016 and 2015, accounts payable due to GGRF reported as current liabilities consist of the following:

	2016	2015
Employer and member contributions of:		
Current fiscal year (DB) Plan	$ 121,275	$ 138,311
Unfunded liability	339,469	376,439
Employer and member contributions of current fiscal year (DCRS Plan)	9,961	161,444
Supplemental annuities/COLA benefits for retirees	1,507,004	1,507,004
	$ 1,977,709	$ 2,183,198

At September 30, 2016 and 2015, amounts due to GGRF included an outstanding obligation of $1,507,004 for supplemental benefits for the Hospital's retirees who retired prior to October 1, 1995 and Cost of Living Allowance (COLA) benefits for those employees who retired prior to October 1, 2001. In accordance with Public Law No. 26-35, as amended by Public Law No. 26-49, GMHA was among various autonomous agencies required to reimburse GGRF for certain supplemental benefits paid to its retirees by GGRF.

Statutory employer contributions for DCRS plan members for the years ended September 30, 2016 and 2015 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, 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, 2016 and 2015, GMHA's unpaid contributions toward the unfunded liability of the DB Plan amounted to $339,469 and $376,439, respectively.

(9) Long-Term Debt and Other Liabilities

As of September 30, 2016 and 2015, long-term debt consists of:

	2016	2015
Note payable to a bank, in an original amount of $25 million, variable interest at 2% over bank's reference rate subject to a minimum interest of 5.25% and maximum interest of 8% for first 18 months and variable interest at 2.25% over bank's reference rate subject to a minimum interest of 5.5% and maximum interest of 8% for the remaining term, due in monthly installments of principal and interest of $268,240 beginning February 2014 through January 2024, all remaining balance due on January 22, 2024. The note is collateralized by the full faith and credit of the Government of Guam and all of the revenues of GMHA.	$ -	$ 21,595,731
Less current portion	-	(2,133,170)
	$ -	$ 19,462,561

On January 17, 2014, GMHA entered into a $25 million bank loan. Proceeds of the loan were used to pay and discharge the obligations of an existing $12 million bank loan and for other purposes permitted by law.

Management is of the opinion that compliance with applicable loan covenants occurred during the year ended September 30, 2015. The bank loan was paid in full as of September 30, 2016 through additional appropriations from the Government of Guam.

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

The changes in long-term liabilities for the years ended September 30, 2016 and 2015, are as follows:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Note payable	$ 21,595,731	$ -	$ (21,595,731)	$ -	$ -
Annual leave	3,950,451	635,160	(717,899)	3,867,712	1,749,990
Sick leave	4,211,029	635,733	(518,358)	4,328,404	-
Net pension liability	107,746,620	31,895,141	(12,606,830)	127,034,931	-
	$ 137,503,831	$ 33,166,034	$ (35,438,816)	$ 135,231,047	$ 1,749,990

	Balance October 1, 2014	Additions	Reductions	Balance September 30, 2015	Due Within One Year
Note payable	$ 23,622,934	$ -	$ (2,027,203)	$ 21,595,731	$ 2,133,170
Annual leave	3,901,739	476,080	(427,368)	3,950,451	1,689,949
Sick leave	3,647,026	671,968	(107,965)	4,211,029	-
Net pension liability	116,454,796	5,612,029	(14,320,205)	107,746,620	-
	$147,626,495	$ 6,760,077	$ (16,882,741)	$137,503,831	$ 3,823,119

(10) Medical Malpractice/Employment and Personnel Claims

GMHA is self-insured for malpractice. GMHA's exposure under malpractice claims is limited to $300,000 per claim by the Government Claims Act. GMHA is the defendant in claims, including claims for employment and personnel matters, which 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. 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

A. General Information About the Pension Plan:

Plan Description: GMHA participates in the GovGuam Defined Benefit (DB) Plan, a single-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. 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.

Plan Membership: As of September 30, 2015, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,197
Terminated employees entitled to benefits but not yet receiving them	4,701
Current members	2,460
	14,358

Benefits Provided: The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or $6,000, whichever is greater. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 30 years of service at any age.

(11) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or completion of 30 years of service at any age.

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

Contributions and Funding Policy: Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2014 actuarial valuation was used for determining the year ended September 30, 2016 statutory contributions. Member contributions are required at 9.54% of base pay (9.55% in 2015).

As a result of actuarial valuations performed as of September 30, 2014, 2013, and 2012, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2016, 2015 and 2014, respectively, have been determined as follows:

	2016	2015	2014
Normal costs (% of DB Plan payroll)	15.86%	15.92%	16.61%
Employee contributions (DB Plan employees)	9.54%	9.55%	9.50%
Employer portion of normal costs (% of DB Plan payroll)	6.32%	6.37%	7.11%
Employer portion of normal costs (% of total payroll)	1.94%	2.05%	2.39%
Unfunded liability cost (% of total payroll)	22.42%	24.09%	24.01%
Government contribution as a % of total payroll	24.36%	26.14%	26.40%
Statutory contribution rates as a % of DB Plan payroll:			
Employer	28.16%	29.85%	30.03%
Employee	9.54%	9.55%	9.50%

(11) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

GMHA's contributions to the DB Plan for the years ending September 30, 2016, 2015 and 2014 were $2,312,583, $2,731,091 and $2,826,450, respectively, which were equal to the required contributions for the respective years then ended.

Actuarial Assumptions: Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	15.58 years
Asset Valuation Method:	3-year smoothed market value
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	7.00%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

(11) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Discount Rate: The total pension liability is calculated using a discount rate of 7.0% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate 6.0%	Current Discount Rate 7.0%	1% Increase in Discount Rate 8.0%
Net Pension Liability	$ 154,355,672	$ 127,034,931	$ 103,533,764

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability: At September 30, 2016 and 2015, GMHA reported a liability of $127,034,931 and $107,746,620, respectively, for its proportionate share of the net pension liability. GMHA's proportion of the net pension liability was based on projection of GMHA's long-term share of contributions to the pension plan relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2016 and 2015, GMHA's proportion was 9.2714% and 8.6453%, respectively.

Pension Expense: For the years ended September 30, 2016 and 2015, GMHA recognized pension expense of $4,698,305 and $4,812,657, respectively.

Deferred Outflows and Inflows of Resources: At September 30, 2016 and 2015, GMHA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(11) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,593,174	$ -	$ 799,372	$ -
Net difference between projected and actual earnings on pension plan investments	1,435,540	-	-	8,200,739
Contributions subsequent to the measurement date	10,797,566	-	12,606,829	-
Changes in proportion and difference between GMHA contributions and proportionate share of contributions	2,383,386	-	-	1,260,160
	$ 16,209,666	$ -	$ 13,406,201	$ 9,460,899

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2016 will be recognized in pension expense as follows:

Year Ended September 30	
2017	$ 3,221,524
2018	(755,035)
2019	1,050,569
2020	1,895,042

Defined Contribution Plan

Contributions into the Defined Contribution Retirement System (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 accounts available under the DCRS.

Statutory employer contributions into the DCRS plan for the years ended September 30, 2016 and 2015 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the member's individual investment account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

(11) Employee Retirement Plans, Continued

Defined Contribution Plan, Continued

GMHA's contributions toward the unfunded liability of the DB Plan for the years ended September 30, 2016, 2015 and 2014 were $8,947,051, $10,348,909 and $9,211,480, respectively, which were equal to the required contributions for the respective years then ended.

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

GMHA's contributions to the DC Plan for the years ended September 30, 2016, 2015 and 2014 were $1,925,747, $1,995,879 and $1,760,616, respectively, which were equal to the required contributions for the respective years then ended.

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 post-retirement 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, 2016, 2015 and 2014, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling $3,090,962, $2,779,965 and $2,013,433, 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

GMHA has agreements with third-party payors that provide for payments to GMHA 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. GMHA is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by GMHA and audits thereof by the Medicare fiscal intermediary. At September 30, 2016 and 2015, GMHA has no reimbursements due from Medicare cost settlements.

- Medicaid Assistance Program and Medically Indigent Program (MIP) - GMHA 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, GMHA is reimbursed on a perdiem rate for in-patient and a percentage charges for out-patient.

Gross patient revenue from the Medicare, Medicaid and MIP programs accounted for approximately 28 percent, 23 percent and 8 percent, respectively, of GMHA's gross patient revenue for the year ended September 30, 2016, and 23 percent, 22 percent and 10 percent, respectively, of GMHA's gross patient revenue for the year ended September 30, 2015. 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.

GMHA also has entered into payment agreements with certain commercial insurance carriers. The basis for payment to GMHA under these agreements includes discounts from established charges.

Patient service revenues for the years ended September 30, 2016 and 2015 are as follows:

	2016	2015
Services provided to Medicaid patients	$ 36,646,359	$ 35,704,763
Services provided to Medicare patients	43,992,290	36,823,062
Services provided to MIP patients	12,927,917	15,369,419
Services provided to Self-pay patients	21,023,081	29,216,377
Services provided to Other patients	41,695,176	42,286,161
	156,284,823	159,399,782
Less contractual adjustments and provisions for uncollectible accounts	(61,219,683)	(75,747,122)
Net patient service revenue	$ 95,065,140	$ 83,652,660

Services provided to Medicaid patients for the years ended September 30, 2016 and 2015 included $11,499,813 and $7,418,960, respectively, in revenues paid through the GMHA Pharmaceutical Fund.

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

During the years ended September 30, 2016 and 2015, 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:

	2016	2015
GMHA Pharmaceuticals Fund	$ 3,833,272	$ 2,472,987
Healthy Futures Fund	7,201,434	3,940,936
Section 30 Bond Fund	49,916,463	-
General Fund	2,560,301	7,606,119
General Fund – Retroactive Payments	-	1,114,216
General Fund – On Behalf Payments	3,090,962	2,779,965
GMHA Healthcare Trust and Development Fund	850,880	2,030,003
	$ 67,453,312	$ 19,944,226

In accordance with Public Law 33-66, GovGuam appropriated $15,333,085 from the GMHA Pharmaceuticals Fund and $9,367,283 from the Healthy Futures Fund for the year ended September 30, 2016. Of the $15,333,085 appropriations from the GMHA Pharmaceutical Fund, $11,499,813 or seventy-five percent (75%) was credited to Medicaid patient receivables. GMHA recorded the remaining $3,833,272 as non-operating revenues. Further, GMHA was also appropriated $1,175,000 from Healthy Futures Fund (Unreserved Fund Balance) and $49,916,463 from Section 30 Bond Fund in accordance with Public Law 33-44, Public Law 33-108, Public Law 33-151 and Public Law 33-183, respectively, for the year ended September 30, 2016.

In accordance with Public Law 32-181, GovGuam appropriated $9,891,947 from the GMHA Pharmaceuticals Fund, $3,940,936 from the Healthy Futures Fund and $10,959,088 from the General Fund for the year ended September 30, 2015. Of the $9,891,947 appropriations from the GMHA Pharmaceutical Fund, $7,418,960 or seventy-five percent (75%) was credited to Medicaid patient receivables. GMHA recorded the remaining $2,472,987 as non-operating revenues.

Public Law 32-60 established the GMHA Healthcare Trust and Development Fund which provided 60% of funds collected from gaming tax be allocated to GMHA for subsidizing the establishment and operation of an urgent healthcare center within the GMHA facility. For the years ended September 30, 2016 and 2015, GMHA received $850,880 and $2,030,003 in appropriations, respectively.

During the years ended September 30, 2016 and 2015, GMHA recognized certain on-behalf payments as transfers from GovGuam, totaling $3,090,962 and $2,779,965, respectively, representing certain healthcare benefits that GovGuam's general fund paid directly on behalf of Hospital retirees.

(14) 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, 2016 and 2015, was as follows:

	2016	2015
Self-Pay Patients	31%	38%
Local Third-Party Payor and Other	27%	38%
Medicaid Assistance Program	14%	9%
Medicare	22%	11%
Medically Indigent Program	6%	4%
	100%	100%

(15) Commitments and Contingencies

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

GMHA 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.

Retroactive Pay

On October 12, 2011, the Office of the Governor issued Executive Order No. 2011-14 which ordered the freezing of salary step increases for employees of line agencies and instrumentalities of the Executive Branch of the Government of Guam. On May 13, 2013, Executive Order No. 2013-004 was issued rescinding Executive Order No. 2011-14 and lifting the freeze on salary step increases. As of September 30, 2016 and 2015, GMHA recorded retroactive pay of $0.

(15) Commitments and Contingencies, Continued

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 pay any bonuses pursuant to the law from 1991 through 2002. In 2003, GMHA adopted a merit system similar to the GovGuam merit system. GMHA has assessed the impact of the requirements of the law for fiscal years 1991 through 2013. As of September 30, 2016 and 2015, GMHA recorded merit payable of $0.

Federal Award Programs

GMHA has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Questioned costs for the 2016 and prior year audits amounted to $0. Audits of federal program funds are also performed by various federal agencies. If the audits result in cost disallowances, GMHA 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.

(16) Dependency on the Government of Guam

GMHA has incurred losses from operations of $29,249,076 and $25,841,119 and negative cash flows from operations of $34,309,690 and $20,437,913 for the years ended September 30, 2016 and 2015, respectively. At September 30, 2016 and 2015, GMHA's deficiencies on delinquent and unpaid retirement contributions, including interest and penalties, with the GovGuam Retirement Fund were $1,977,709 and $2,183,198, respectively. GMHA recorded contractual adjustments and provisions for uncollectible accounts of $61,219,683 and $75,747,122 for the fiscal years ended September 30, 2016 and 2015, respectively.

GMHA management has taken the following actions and measures to address losses from operations and negative cash flows from operations:

- The Board approved to raise hospital fees by 5% effective April 1, 2017 and another 5% at the start of every subsequent fiscal year. Management is also reviewing and planning to increase fees for certain services such as room rates, supplies, among others, and also plans to ask the Legislature for larger fee increases.

- Management has submitted an application to rebase Medicare reimbursement rates for fiscal years 2013 through 2016.

- In February 2016, management has requested for the Tax Equity and Fiscal Responsibility Act (TEFRA) adjustment covering fiscal years 2009 through 2012.

- Management has entered into contracts with a collection agency for self-pay receivables.

(16) Dependency on the Government of Guam, Continued

- Management has completed its negotiations with Guam insurers.
- Management is critically evaluating staffing patterns to ensure that quality and patient safety goals are met with "prudent" staffing.
- Management has asked the Government of Guam for financial assistance through the DPHSS programs and for alternative funding of self-pay patients.

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 Medicaid and Medically Indigent Program, the collection of long outstanding patient receivables, and/or improvements in operations.

(17) Subsequent Event

In October 2016, Bill 2-33 was passed, enacting two new government retirement plans; the DB Lite Plan and the Guam Retirement Security Plan. Beginning 2018, the Security Plan and Defined Contibution Plan are to become the primary retirement systems for all new hires.

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

Required Supplemental Information (Unaudited)
Schedule of Pension Contributions
Last 10 Fiscal Years*

	2016	2015	2014
Actuarially determined contribution	$ 12,502,368	$ 11,660,743	$ 11,054,501
Contribution in relation to the actuarially determined contribution	12,606,829	11,552,350	11,059,816
Contribution (excess) deficiency	$ (104,461)	$ 108,393	$ (5,315)
GMHA's covered-employee payroll **	$ 47,411,059	$ 43,654,606	$ 41,133,673
Contribution as a percentage of covered-employee payroll	26.59%	26.46%	26.89%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Required Supplemental Information (Unaudited)
Schedule of Proportional Share of the Net Pension Liability
Last 10 Fiscal Years*

	2016	2015	2014
Total net pension liability	$ 1,370,173,934	$ 1,246,306,754	$ 1,303,304,636
GMHA's proportionate share of the net pension liability	$ 127,034,932	$ 107,746,620	$ 116,454,796
GMHA's proportion of the net pension liability	9.27%	8.65%	8.94%
GMHA's covered-employee payroll**	$ 47,411,059	$ 43,654,606	$ 41,133,673
GMHA's proportionate share of the net pension liability as percentage of its covered employee payroll	267.94%	246.82%	283.11%
Plan fiduciary net position as a percentage of the total pension liability	53.50%	56.60%	53.45%

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Schedule of Expenses
Years Ended September 30, 2016 and 2015

	2016	2015
NURSING:		
Salaries	$ 31,726,102	$ 30,882,917
Overtime	2,056,895	2,805,090
Other pay	4,779,208	5,219,754
Fringe benefits	13,796,670	5,833,734
Total personnel costs	52,358,875	44,741,495
Contractual services	2,865,004	2,939,739
Supplies and materials	6,284,053	3,410,566
Miscellaneous	7,919	61,415
	$ 61,515,851	$ 51,153,215

	2016	2015
PROFESSIONAL SUPPORT:		
Salaries	$ 9,773,451	$ 9,284,177
Overtime	1,137,133	1,020,496
Other pay	1,786,629	1,712,590
Fringe benefits	5,219,639	2,053,926
Total personnel costs	17,916,852	14,071,189
Supplies and materials	9,251,972	9,708,549
Utilities	18,963	14,786
Contractual services	3,030,131	2,515,810
Miscellaneous	149,134	107,054
	$ 30,367,052	$ 26,417,388

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, 2016 and 2015

	2016	2015
ADMINISTRATIVE SUPPORT:		
Salaries	$ 4,468,132	$ 4,320,198
Overtime	559,925	630,432
Other pay	325,464	389,544
Fringe benefits	2,550,920	1,106,335
Total personnel costs	7,904,441	6,446,509
Supplies and materials	2,396,693	2,385,142
Utilities	2,361,210	3,038,345
Contractual services	530,049	374,796
Miscellaneous	396,241	306,402
	$ 13,588,634	$ 12,551,194

	2016	2015
FISCAL SERVICES:		
Salaries	$ 3,949,381	$ 3,760,810
Overtime	281,056	488,446
Other pay	272,637	296,394
Fringe benefits	2,137,135	905,678
Annual leave lump sum pay	231,723	342,299
Sick leave (DC plan)	141,687	655,214
Total personnel costs	7,013,619	6,448,841
Supplies and materials	364,260	384,816
Contractual services	1,436,278	1,429,063
Miscellaneous	144,795	116,134
	$ 8,958,952	$ 8,378,854

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, 2016 and 2015

	2016	2015
ADMINISTRATION:		
Salaries	$ 1,515,037	$ 1,349,207
Overtime	4,518	9,815
Other pay	92,406	77,999
Fringe benefits	867,997	290,481
Total personnel costs	2,479,958	1,727,502
Supplies and materials	89,233	120,318
Contractual services	264,688	278,928
Insurance (Property)	456,765	471,625
Miscellaneous	1,268,940	866,213
	$ 4,559,584	$ 3,464,586

	2016	2015
MEDICAL STAFF:		
Salaries	$ 541,865	$ 473,979
Overtime	2,271	3,231
Other pay	37,492	35,882
Fringe benefits	292,969	107,838
Total personnel costs	874,597	620,930
Supplies and materials	25,682	10,759
Contractual services	-	792
Miscellaneous	29,513	36,375
	$ 929,792	$ 668,856
Total actual expenses, without depreciation and retiree healthcare costs	$ 119,919,865	$ 102,634,093

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Patient Service Revenues by Patient Classification
Years Ended September 30, 2016 and 2015

	2016	2015
Gross Patient Service Revenue:		
Medicaid patients	$ 36,646,359	$ 35,704,763
Medicare patients	43,992,290	36,823,062
MIP patients	12,927,917	15,369,419
Other patients	41,695,176	42,286,161
Self-pay patients	21,023,081	29,216,377
	$ 156,284,823	$ 159,399,782
Contractual Adjustments and Provision for Bad Debts:		
Contractual adjustments:		
Medicaid patients	$ 19,256,488	$ 19,923,573
Medicare patients	24,352,627	21,153,309
MIP patients	5,475,938	6,801,271
Other patients	5,474,138	8,272,565
Provision for bad debts:		
Self-pay patients	6,660,492	19,596,404
	$ 61,219,683	$ 75,747,122
Net Patient Service Revenue:		
Medicaid patients	$ 17,389,871	$ 15,781,190
Medicare patients	19,639,663	15,669,753
MIP patients	7,451,979	8,568,148
Other patients	36,221,038	34,013,596
Self-pay patients	14,362,589	9,619,973
	$ 95,065,140	$ 83,652,660

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Billings and Collections and Reconciliation of Billings to Gross Patient Revenues
For the Years ended September 30, 2016, 2015, 2014 and 2013

		Medicaid, Medicare and MIP				Self Pay and Government - DOC and Others				Third-Party Payors								
		Medicaid	Medicare	MIP	Subtotal	Self Pay	Government - DOC and Others	Subtotal	Subtotal	Payor A	Payor B	Payor C	Payor D	Payor E	Subtotal	Grand Total	Timing Differences and Adjustments	Gross Patient Revenues
2016	Billings	$ 40,386,186	$ 40,824,898	$ 14,380,718	$ 95,591,802	$ 34,034,634	$ 878,254	$ 34,912,888	$ 130,504,690	$ 2,258,734	$ 12,924,131	$ 20,734,233	$ 3,175,965	$ 3,732,492	$ 42,825,555	$ 173,330,245	$ (17,045,422)	$ 156,284,823
	Collections	$ 26,852,265	$ 14,775,217	$ 6,693,099	$ 48,320,581	$ 14,771,636	$ 599,724	$ 15,371,360	$ 63,691,941	$ 2,683,779	$ 7,049,088	$ 14,636,563	$ 2,205,959	$ 2,347,233	$ 28,922,622	$ 92,614,563		
	Percentage of collections over billing	66%	36%	47%	51%	43%	68%	44%	49%	119%	55%	71%	69%	63%	68%	53%		
2015	Billings	$ 38,620,656	$ 31,947,870	$ 17,167,090	$ 87,735,616	$ 32,230,994	$ 783,790	$ 33,014,784	$ 120,750,400	$ 3,190,464	$ 12,724,384	$ 19,922,551	$ 4,101,569	$ 4,095,892	$ 44,034,860	$ 164,785,260	$ (5,385,478)	$ 159,399,782
	Collections	$ 17,021,649	$ 12,227,719	$ 8,425,392	$ 37,674,760	$ 12,731,268	$ 305,439	$ 13,036,707	$ 50,711,467	$ 2,039,183	$ 6,762,529	$ 14,420,318	$ 2,786,961	$ 2,494,030	$ 28,503,021	$ 79,214,488		
	Percentage of collections over billing	44%	38%	49%	43%	40%	39%	39%	42%	64%	53%	72%	68%	61%	65%	48%		
2014	Billings	$ 39,319,139	$ 31,193,763	$ 14,724,367	$ 85,237,269	$ 22,725,998	$ 521,634	$ 23,247,632	$ 108,484,901	$ 1,765,378	$ 8,796,803	$ 17,741,317	$ 4,310,564	$ 4,142,359	$ 36,756,421	$ 145,241,322	$ (1,584,267)	$ 143,657,055
	Collections	$ 24,531,690	$ 14,277,153	$ 3,685,372	$ 42,494,215	$ 8,831,000	$ 464,990	$ 9,295,990	$ 51,790,205	$ 766,160	$ 5,639,440	$ 12,353,179	$ 2,556,663	$ 2,799,774	$ 24,115,216	$ 75,905,421		
	Percentage of collections over billing	62%	46%	25%	50%	39%	89%	40%	48%	43%	64%	70%	59%	68%	66%	52%		
2013	Billings	$ 39,212,864	$ 32,839,005	$ 15,154,011	$ 87,205,880	$ 19,906,788	$ 627,442	$ 20,534,230	$ 107,740,110	$ 2,334,868	$ 9,843,431	$ 20,464,503	$ 4,499,810	$ 3,861,423	$ 41,004,035	$ 148,744,145	$ (7,619,283)	$ 141,124,862
	Collections	$ 20,092,685	$ 11,024,844	$ 7,981,051	$ 39,098,580	$ 8,691,358	$ 2,883,123	$ 11,574,481	$ 50,673,061	$ 1,685,414	$ 7,096,579	$ 14,300,681	$ 2,810,175	$ 2,791,049	$ 28,683,898	$ 79,356,959		
	Percentage of collections over billing	51%	34%	53%	45%	44%	460%	56%	47%	72%	72%	70%	62%	72%	70%	53%		

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY
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Schedule of Full Time Employee (FTE) Count
Years Ended September 30, 2016 and 2015

Department	2016	2015
Actual FTE count:		
Nursing	455	485
Professional Support	200	208
Administrative Support	166	170
Fiscal Services	94	93
Administration	16	16
Medical Staff	46	47
DOC	8	-
	985	1,019
Budgeted FTE count	1,212	1,165

See accompanying independent auditors' report.