

GUAM MEMORIAL HOSPITAL AUTHORITY

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

YEARS ENDED SEPTEMBER 30, 1998 AND 1997



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Memorial Hospital Authority:

We have audited the accompanying balance sheets of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 1998 and 1997, and the related statements of revenues and expenses, changes in fund balances and cash flows for the year ended September 30, 1998 and we were engaged to audit the related statements of revenues and expenses, changes in fund balances and cash flows for the year ended September 30, 1997. These financial statements are the responsibility of GMHA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to ensure that all revenues associated with services performed were recorded in GMHA's accounting records for the year ended September 30, 1997. GMHA's records did not permit the application of other auditing procedures to such revenues.

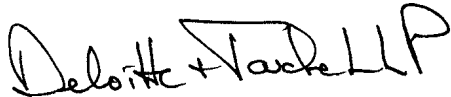
In our report dated May 31, 1999, we expressed a qualified opinion on the balance sheet at September 30, 1997 because we were unable to obtain adequate records to enable us to verify the valuation of patient accounts receivable. As described in note 11 to the financial statements, GMHA performed an evaluation of its patient accounts receivable during 1998 and restated its balance sheet at September 30, 1997. Accordingly, our present opinion on the balance sheet at September 30, 1997, as presented herein, is different than that expressed in our previous report.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of GMHA as of September 30, 1998 and 1997, and the results of its operations and its cash flows for the year ended September 30, 1998. Due to the matter specified in the third paragraph above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of GMHA's operations, changes in fund balances and cash flows for the year ended September 30, 1997.

The year 2000 supplementary information on page 13 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to

apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that GMHA is or will become year 2000 compliant, that GMHA's year 2000 remediation efforts will be successful in whole or in part, or that parties with which GMHA does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have issued our report dated October 11, 1999, on our consideration of Guam Memorial Hospital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

October 11, 1999

GUAM MEMORIAL HOSPITAL AUTHORITY

Balance Sheets
September 30, 1998 and 1997

<u>ASSETS (note 5)</u>	<u>1998</u>	1997 As restated (note 11)
Unrestricted funds:		
Current assets:		
Cash	\$ 4,417,585	\$ 1,278,742
Patient accounts receivable, net (note 8)	25,650,429	26,954,525
Other receivables (note 10)	1,354,108	126,525
Inventories	2,328,058	2,535,938
Prepaid expenses	<u>89,057</u>	<u>119,915</u>
Total current assets	33,839,237	31,015,645
Property, plant and equipment, net (notes 2 and 6)	<u>49,125,531</u>	<u>50,003,522</u>
Total unrestricted funds	\$ <u>82,964,768</u>	\$ <u>81,019,167</u>
Restricted funds:		
Cash	\$ 577,029	\$ 886,135
Due from unrestricted funds	<u>2,139,104</u>	<u>2,135,770</u>
Total restricted funds	\$ <u>2,716,133</u>	\$ <u>3,021,905</u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Balance Sheets, Continued
September 30, 1998 and 1997

<u>LIABILITIES AND FUND BALANCE</u>	<u>1998</u>	1997 As restated (note 11)
Unrestricted funds:		
Current liabilities:		
Current portion of long-term debt (note 6)	\$ 2,995,624	\$ 1,323,033
Accounts payable - trade	2,728,646	5,516,343
Accounts payable - Government of Guam (note 9)	6,179,367	17,509,171
Accrued payroll and benefits	481,100	2,461,171
Current portion of accrued annual leave	1,276,666	1,256,585
Due to restricted funds	2,139,104	2,135,770
Deferred revenue	-	1,503,613
Other accrued liabilities (note 10)	<u>1,213,123</u>	<u>-</u>
Total current liabilities	17,013,630	31,705,686
Long-term debt (note 6)	35,904,499	10,321,797
Deferred retirement fund contributions (note 4)	16,180,353	17,062,984
Accrued annual leave - non-current portion	<u>1,692,325</u>	<u>1,645,458</u>
Total liabilities	70,790,807	60,735,925
Fund balance	<u>12,173,961</u>	<u>20,283,242</u>
Total unrestricted funds	\$ <u>82,964,768</u>	\$ <u>81,019,167</u>
Restricted funds:		
Accounts payable	\$ 127,859	\$ 52,249
Fund balance	<u>2,588,274</u>	<u>2,969,656</u>
Total restricted funds	\$ <u>2,716,133</u>	\$ <u>3,021,905</u>

Commitments and contingencies (note 5)

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Statements of Revenues and Expenses Years Ended September 30, 1998 and 1997

	<u>1998</u>	1997 As restated (note 11)
Net patient service revenue (note 6)	\$ 61,224,310	\$ 54,940,479
Other operating revenue:		
Food sales, cafeteria	709,249	525,809
Other	<u>983,394</u>	<u>292,249</u>
Total operating revenue	<u>62,916,953</u>	<u>55,758,537</u>
Operating expenses:		
Nursing	24,087,329	22,800,102
Ancillary	14,704,130	13,047,534
General services	7,834,822	6,119,101
Administrative support	7,501,754	-
Bad debts	5,955,131	5,060,374
Depreciation	3,795,316	3,962,454
Medical staff	1,957,098	350,260
Administration	<u>1,470,784</u>	<u>10,304,342</u>
Total operating expenses	<u>67,306,364</u>	<u>61,644,167</u>
Excess of operating expenses over operating revenues	<u>(4,389,411)</u>	<u>(5,885,630)</u>
Non-operating revenues (expenses):		
Contributions	133,280	8,950
Transfers from the Government of Guam (note 7)	528,888	496,423
Other (expense) revenues, net	(331,686)	228,281
Interest and penalties (note 9)	<u>(4,451,734)</u>	<u>(2,264,139)</u>
Total non-operating revenues (expenses)	<u>(4,121,252)</u>	<u>(1,530,485)</u>
Net excess of expenses over revenues	\$ <u>(8,510,663)</u>	\$ <u>(7,416,115)</u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Statements of Changes in Fund Balances Years Ended September 30, 1998 and 1997

	<u>1998</u>	1997 As restated (note 11)
Unrestricted funds:		
Balance at beginning of year	\$ 20,283,242	\$ 30,554,550
Excess of expenses over revenues	(8,510,663)	(7,416,115)
Transfers from (to) restricted funds	<u>401,382</u>	<u>(2,855,193)</u>
Balance at end of year	\$ <u>12,173,961</u>	\$ <u>20,283,242</u>
Restricted funds:		
Balance at beginning of year	\$ 2,969,656	\$ 113,563
Other sources	20,000	900
Transfers (to) from unrestricted funds	<u>(401,382)</u>	<u>2,855,193</u>
Balance at end of year	\$ <u>2,588,274</u>	\$ <u>2,969,656</u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Statements of Cash Flows
Years Ended September 30, 1998 and 1997

	<u>1998</u>	1997 As restated (note 11)
Cash flows from operating activities:		
Cash received from patients	\$ 53,842,077	\$ 43,857,448
Payments to suppliers and employees for goods and services	(73,017,310)	(45,237,791)
Other operating revenues	<u>1,360,957</u>	<u>1,046,339</u>
Net cash used in operating activities	<u>(17,814,276)</u>	<u>(334,004)</u>
Cash flows from non-capital financing activities:		
Transfers from the Government of Guam	528,888	496,423
Repayment of notes payable	(9,286,837)	(682,702)
Interest paid	(4,451,734)	(2,264,139)
Contributions	133,280	8,950
Proceeds from notes payable	37,346,171	4,561,057
Other sources	<u>20,000</u>	<u>900</u>
Net cash provided by non-capital financing activities	<u>24,289,768</u>	<u>2,120,489</u>
Cash flows from capital and related financing activities:		
Repayment of capital leases	(804,038)	(956,771)
Acquisition and construction of capital assets	(2,917,327)	(1,157,045)
Increase in restricted payables	<u>75,610</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(3,645,755)</u>	<u>(2,113,816)</u>
Net increase (decrease) in cash	2,829,737	(327,331)
Cash at beginning of year	<u>2,164,877</u>	<u>2,492,208</u>
Cash at end of year	\$ <u>4,994,614</u>	\$ <u>2,164,877</u>
<u>Reconciliation of operating loss to net cash used in operating</u>		
<u>activities:</u>		
Operating loss	\$ (4,389,411)	\$ (5,885,630)
Other revenues	(331,686)	228,281
Adjustments to reconcile operating income and other revenues to		
net cash provided by operating activities:		
Depreciation	3,795,316	3,962,454
Bad debts	5,955,130	5,060,374
(Increase) decrease in assets:		
Patient accounts receivable, net	(4,651,037)	(12,621,825)
Other receivables	(1,227,583)	35,181
Inventories	207,880	246,093
Prepaid expenses	30,858	140,360
Increase (decrease) in liabilities:		
Accounts payable	(14,117,501)	6,595,696
Accrued payroll and employee benefits	(1,980,071)	1,028,951
Accrued annual leave	66,949	225,597
Deferred retirement fund contributions	(882,630)	(853,149)
Deferred revenue	(1,503,613)	1,503,613
Other accrued liabilities	<u>1,213,123</u>	<u>-</u>
Net cash used in operating activities	\$ <u>(17,814,276)</u>	\$ <u>(334,004)</u>
<u>Reconciliation of cash to balance sheet:</u>		
Unrestricted funds	\$ 4,417,585	\$ 1,278,742
Restricted funds	<u>577,029</u>	<u>886,135</u>
	\$ <u>4,994,614</u>	\$ <u>2,164,877</u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 1998 and 1997

(1) Summary of Significant Accounting Policies

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

Restricted Funds. Restricted funds are used to differentiate the use of funds which may be designated by a particular donor from funds on which the donor places no restriction or which arise as a result of normal operations of the Hospital.

Funds which are restricted for plant replacement and expansion are transferred from Restricted to Unrestricted Funds to the extent expended within the period.

Grants, Donations and Contributions. Restricted grants, donations and contributions are directly credited to the applicable fund balance. To the extent expended within a period, resources restricted to specific purposes are transferred from Restricted Funds to Unrestricted Funds.

Unrestricted grants, donations and contributions are recorded as non-operating revenue in the Unrestricted Funds.

Net Patient Service Revenue. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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.

Cash. For the purpose of the balance sheets and the statements of cash flows, cash is defined as cash on hand and cash on deposit in banks.

At September 30, 1998, cash balances in banks of \$300,000 are covered by the Federal Deposit Insurance Corporation. The remaining balances are not insured.

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

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

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

Accrued Annual Leave. Employees are credited with vacation leave at rates depending on their length of service. Accumulation of vacation leave is limited to 480 hours at fiscal year end and is convertible to pay upon termination of employment.

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Notes to Financial Statements
September 30, 1998 and 1997

(1) Summary of Significant Accounting Policies, Continued

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

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

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles 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.

Accounting Standards. Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Facilities that use Proprietary Fund Accounting*, GMHA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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 provided for claims arising from such matters. GMHA is self insured for medical malpractice claims and judgements, as discussed in note 5.

(2) Property, Plant and Equipment

A summary of property, plant and equipment at September 30, 1998 and 1997, follows:

	<u>1998</u>	<u>1997</u>
Depreciable assets:		
Building and land improvements	\$ 59,751,040	\$ 59,307,865
Equipment	16,805,957	14,331,805
Equipment under capital lease	<u>3,159,028</u>	<u>3,159,028</u>
	79,716,025	76,798,698
Less accumulated depreciation and amortization	<u>(31,256,287)</u>	<u>(27,460,969)</u>
	48,459,738	49,337,729
Construction-in-progress	<u>665,793</u>	<u>665,793</u>
	\$ <u>49,125,531</u>	\$ <u>50,003,522</u>

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Notes to Financial Statements
September 30, 1998 and 1997

(3) Contracts with Government Agencies

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

(4) Employees' Retirement Plan

Employees of GMHA hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the new Defined Contribution Retirement System (DCRS). Through 1998, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, have the option to switch to the Defined Contribution Retirement System. Otherwise, they remain under the old plan.

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

As a result of most recent actuarial valuation performed as of September 30, 1997, it has been determined that for the fiscal year ended September 30, 1998, a minimum combined employer and employee contribution rate of 28.01% of covered Defined Benefit payroll, is required to appropriately fund current retirement costs, to amortize prior service costs and to provide for interest on the unfunded accrued liability. Statutory contribution rates for employer and employee contributions were 18.6% and 9.5%, respectively, for the year ended September 30, 1998. The effect of GMHA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.51% to an effective rate of 15.91% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 2.69% is necessary to reduce the unfunded liability based on the difference between 15.91% and the employer's statutory rate of 18.6%. The effective employer's accrual rate for the year ended September 30, 1997 was 16.26%.

Retirement expense for the years ended September 30, 1998 and 1997 is as follows:

	<u>1998</u>	<u>1997</u>
Current contributions	\$ 4,573,606	\$ 4,593,233
Reduction of unfunded retirement liability	<u>(882,630)</u>	<u>(853,149)</u>
	\$ <u>3,690,976</u>	\$ <u>3,740,084</u>

The plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5½% per annum. The most recent actuarial valuation performed as of September 30, 1997, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GMHA as a separate entity, the accrual unfunded liability at September 30, 1998 and 1997, may be materially different than that recorded in the accompanying financial statements.

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Notes to Financial Statements
September 30, 1998 and 1997

(4) Employees' Retirement Plan, Continued

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

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan.

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

(5) Commitments and Contingencies

Litigation - GMHA is the defendant in several malpractice claims and has received several claims which are pending review or are expected to proceed 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. At September 30, 1998, GMHA's maximum exposure under these claims is approximately \$5 million. However, GMHA is unable to estimate the actual monetary damages from these self-insured malpractice claims. Accordingly, no provision has been recorded in the financial statements for any loss that may result from these claims.

Reserve for Encumbrances - As of September 30, 1998, GMHA had material purchase commitments under outstanding encumbrances.

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

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

Lien - The Government of Guam Department of Revenue and Taxation has placed a lien against essentially all assets of GMHA for unpaid withholding taxes.

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Notes to Financial Statements September 30, 1998 and 1997

(6) Long-Term Debt

At September 30, 1998 and 1997, long-term debt consists of the following:

	<u>1998</u>	<u>1997</u>
Promissory note payable to a bank in monthly installments of \$292,260 including interest at a variable rate based on the bank's index rate less one half percentage point (8% at September 30, 1998), due in 2002 with an extension of promissory note for seven additional years, collateralized by a pledge and assignment of medical services revenue and property mortgage on the hospital facility and guaranteed by the Government of Guam and a pledge of Government of Guam Section 30 revenues, subordinate to certain Government of Guam bond issuances.	\$ 25,749,644	\$ -
Balance due on several capital leases of computer hardware and software with a computer manufacturer, payable in total monthly installments of \$87,869 including interest at effective rates ranging from 6.2% to 7.8%, collateralized by computer hardware and software, with a bargain purchase option at the end of the lease of \$1 in 1999.	835,929	1,302,349
Promissory note payable to a medical equipment vendor, payable in quarterly installments of \$60,195 including interest at the prime rate plus 2% (10% at September 30, 1998), due December 18, 2001.	467,124	-
Non-interest bearing, uncollateralized advance from the Government of Guam, to be repaid by endorsing back to the Government of Guam, 50% of the payments received by GMHA for approved and adjudicated Medically Indigent Program (MIP) charges. No MIP payment deductions have been requested by the Government of Guam for the last two years.	2,901,446	2,901,446
Promissory note payable to the Government of Guam Retirement Fund in equal quarterly installments of \$366,064 including interest at the bank's prime rate plus 1% (9.5% at September 30, 1998 and 1997) starting March 1998 with a balloon payment in March 2003.	<u>8,945,980</u>	<u>7,441,035</u>
Total long-term debt	38,900,123	11,644,830
Current portion	<u>2,995,624</u>	<u>1,323,033</u>
	\$ <u>35,904,499</u>	\$ <u>10,321,797</u>

The scheduled maturities of long-term debt at September 30, 1998 are as follows:

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Notes to Financial Statements
September 30, 1998 and 1997

(6) Long-Term Debt, Continued

Year ending
September 30,

1999	\$ 2,995,624
2000	2,672,536
2001	2,645,373
2002	2,757,916
2003	8,071,250
Thereafter	<u>19,757,424</u>
	\$ <u>38,900,123</u>

The promissory note payable to the Government of Guam Retirement Fund at September 30, 1997 represents the portion of the balance due to the Government of Guam Retirement Fund which was refinanced into a note payable in March 1998. The increase in the note payable from 1997 to 1998 is due to additional balances accruing through March 1998 when the note was signed.

(7) Transfers from the Government of Guam

Subsidy transfers from the Government of Guam General Fund to GMHA were \$528,888 and \$496,423 for the years ended September 30, 1998 and 1997, respectively.

(8) Patient Accounts Receivable, Net

As of September 30, 1998 and 1997, patient accounts receivable, net, were as follows:

	<u>1998</u>	<u>1997</u>
Total patient accounts receivable	\$ 48,138,568	\$ 62,406,262
Less allowance for doubtful receivables	<u>(22,488,139)</u>	<u>(35,451,737)</u>
Patient accounts receivable, net	\$ <u>25,650,429</u>	\$ <u>26,954,525</u>

(9) Accounts Payable - Government of Guam

Accounts payable to the Government of Guam at September 30, 1998 and 1997 includes \$5,901,470 and \$9,478,254 due to the Department of Revenue and Taxation and \$277,897 and \$8,030,917 due to the Government of Guam Retirement Fund, respectively. GMHA incurred \$2,757,811 and \$2,138,885 in interest and penalties with these two agencies during the years ended September 30, 1998 and 1997, respectively, due to its failure to deposit income taxes withheld from employees with the Department of Revenue and Taxation and employee and employer retirement payments with the Government of Guam Retirement Fund.

(10) Typhoon Damages

On December 16, 1997, Guam experienced the effects of a major typhoon. Estimated damage was approximately \$1,300,000. Management believes that virtually all damage costs will be recovered from insurance and Federal Emergency Management Agency (FEMA) claims.

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Notes to Financial Statements September 30, 1998 and 1997

(10) Typhoon Damages

At September 30, 1998, other receivables includes \$1,020,455 of receivables from estimated insurance and FEMA claims and other accrued liabilities represents estimated unpaid typhoon costs.

(11) Prior Period Adjustment

GMHA did not evaluate the collectibility of patient accounts receivable as required by generally accepted accounting principles at September 30, 1997 and 1996. During the year ended September 30, 1998, a proper evaluation of accounts receivable collectibility was performed and a prior period adjustment was recorded. The effect of this prior period adjustment on the 1997 financial statements is as follows:

	As previously <u>presented</u>	<u>As restated</u>	<u>Difference</u>
Patient accounts receivable	\$ <u>53,529,265</u>	\$ <u>26,954,525</u>	\$ <u>(26,574,740)</u>
Beginning unrestricted fund balance	51,476,633	30,554,550	(20,922,083)
Net excess of expenses over revenues	<u>(1,763,458)</u>	<u>(7,416,115)</u>	<u>(5,652,657)</u>
	\$ <u>49,713,175</u>	\$ <u>23,138,435</u>	\$ <u>26,574,740</u>

The 1997 statement of cash flows has been restated to include the cash flows of restricted cash.

(12) Restricted Fund Balance

The restricted fund balance at September 30, 1998 and 1997 is temporarily restricted for use in capital improvements to renovate or expand the hospital and its long-term care facility.

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Supplementary Year 2000 Issue Information
Year Ended September 30, 1998

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect GMHA's operations. GMHA has identified computer systems and other electronic equipment, which may be affected by the year 2000 issue.

Because of the unprecedented nature of the year 2000 issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that GMHA is or will be year 2000 ready, that GMHA's remediation efforts will be successful in whole or in part, or that parties with whom GMHA does business will be year 2000 ready.

See Accompanying Independent Auditors' Report.