

**HAWAII HEALTH SYSTEMS**  
C O R P O R A T I O N

*"Touching Lives Everyday"*

December 30, 1999

CFO-99-230

The Honorable Benjamin J. Cayetano  
Governor of Hawaii  
Office of the Governor  
State of Hawaii  
Honolulu, Hawaii 96813

Dear Governor Cayetano:

We appreciate the opportunity to submit the annual report of the Hawaii Health Systems Corporation (HHSC) to the Governor and the Legislature of the State of Hawaii. Thanks to the hard work and dedication of our employees, medical staff, advisors, Board of Directors, union partners, and many other stakeholders, coupled with support from our legislators, we have had many successes this past year.

Our financial performance continues to improve in spite of declining reimbursements associated with the Balanced Budget Act of 1997. The FY 99 audited accrual loss (before general fund appropriation) was \$25.9 million. It should be noted that this includes retroactive collective bargaining costs of \$13.3 million and \$1.2 million for Y2K remediation. The net operational loss of \$11.4 million for FY 99 compares most favorably to audited operational losses of \$17.7 million and \$46 million for FYs 98 and 97, respectively.

In addition to the significant operational improvements that HHSC has achieved in the fiscal year ending June 30, 1999, we continue to improve our financial management and accounting systems throughout the corporation. While the Corporation received a qualified audit with many material weaknesses in FY 97, we have now received our second consecutive "clean" unqualified audit with no material weaknesses for both FY 99 and FY 98. The audit report is enclosed in accordance with H.R.S. Section 323F-22.

As a public hospital system, HHSC depends heavily on input and support from our local communities. Over this past year, hundreds of community volunteers Statewide donated nearly 100,000 service hours to our facilities. The attached report details the donations of time and money from our communities in support of our facilities.

In accordance with H.R.S. Section 323F-22, we are pleased to enclose optional annual reports from all five of our Management Advisory Committees (MACs): East Hawaii, West Hawaii, Maui, Kauai, and Oahu. Our Physicians Advisory Group (PAG) has also submitted an optional annual report. The continuing guidance and support of the MACs and PAG are

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HILO • HONOKAA • KAU • KONA • KOHALA • WAIMEA • KAPAA • WAILUKU • KULA • LANAI • HONOLULU

The Honorable Benjamin J. Cayetano  
December 30, 1999  
Page 2

tremendously important to the successful functioning of our system. Enclosed for your additional reference is a summary of the accomplishments by HHSC over the past fiscal year.

Several quality improvement and corporate compliance initiatives were undertaken this year. HHSC standardized its quality assurance program, established a quality council, and implemented a corporate compliance program. These initiatives, which have provided the system with measurable solutions for improving quality of care, were accomplished through the dedicated efforts and cooperation of our staff, community physicians and other healthcare professionals. Additionally, the three HHSC facilities surveyed by the Joint Commission on Accreditation of Healthcare Organizations this year (Maui Memorial Medical Center, Hilo Medical Center, and Kona Community Hospital) all received a full three-year accreditation.

This year, HHSC management, in concert with our Board of Directors, MACs, PAG and many other external constituencies, developed a strategic plan to guide us toward fiscal self-sufficiency. The resulting plan, entitled Healthier Hawaii 21<sup>st</sup> Century (a printout of the presentation slides are enclosed), will set the direction as we embark upon the new millennium. We will work with the communities we serve, the Administration, and the Legislature to implement the plan realizing that the Legislature must pass the necessary legislation to make the plan a reality.

If you have any questions, please call me personally at 733-4151.

Most sincerely,



THOMAS M. DRISKILL, JR.  
President and Chief Executive Officer  
Hawaii Health Systems Corporation

Enclosures:

1. HHSC Facility Community Support
2. MAC Reports for East Hawaii, West Hawaii, Maui, Kauai, and Oahu
3. PAG Report
4. Healthier Hawaii 21<sup>st</sup> Century presentation slides (printed)
5. FY 99 Summary of Accomplishments
6. Annual Audit Report: Financial Statements and Supplemental Information for the Year Ended June 30, 1998 and Independent Auditors' Reports

December 23, 1999

## **FISCAL YEAR 1999 HAWAII HEALTH SYSTEMS CORPORATION (HHSC) FACILITY COMMUNITY SUPPORT**

Community support has played an integral role in enhancing the mission of the Hawaii Health Systems Corporation (HHSC) over the past year. Each community has diligently worked together with HHSC to ensure the continuance of quality healthcare provided by its respective facility. Numerous community groups and individuals have generously contributed their time and expertise to assist in serving the health needs of their respective communities. There are close to 1,000 active volunteers who contribute nearly 100,000 volunteer service hours each year for the combined facilities. Community improvement projects include:

### **EAST HAWAII REGION**

#### **■ Hilo Medical Center**

- 117 active volunteers
  - Nearly 18,320 volunteered service hours each year
  - HMC Auxiliary raises \$25,000 annually
- Hilo Medical Center Foundation
  - Since inception, raised more than \$70,000 via community contributions and grants

#### **■ Hale Ho'ola Hamakua**

- 32 active volunteers
  - Nearly 10,940 volunteered service hours each year
- Auxiliary has raised more than \$5,000, in addition to providing two (2) \$250 scholarships

#### **■ Kau Hospital**

- 5 active volunteers
  - Nearly 1,040 volunteered service hours each year

## **WEST HAWAII REGION**

### **■ Kona Community Hospital**

- 68 active volunteers
  - Nearly 11,310 volunteered service hours each year
- Birthing Unit Renovation Project
  - Community donations – Over \$200,000 raised plus a \$300,000 Weinberg grant
  - Cable Television Service - \$4,000 value donated by Sun Cable
- Wall murals in cafeteria and ICU waiting room paid by Kona Hospital Foundation donation
- Community supported Wellness Concert raised \$6,000 for Medical/ Surgical Unit renovations
- \$14,000 in grant funding and \$21,000 for in kind services donated to create a landscaped Healing Garden for the hospital

### **■ Kohala Hospital**

- 21 active volunteers
  - Nearly 3,460 volunteered service hours each year
- Advanced Cardiac Life Support (ACLS) computer recertification program
  - Funds donated by community physicians, residents, and hospital auxiliary - \$4,000
- Exterior painting of hospital cottage
  - Donated time and labor of Kohala Eagle Scouts - \$1,000
- Annual Hospital Auxiliary Fund Raising
  - Community spaghetti dinner - \$6,000

## **MAUI REGION**

### **■ Maui Memorial Medical Center**

- 72 active volunteers
  - Nearly 17,700 volunteered service hours each year
  - Auxiliary raises more than \$50,000 annually
- MMMC Charitable Foundation
  - Established office and hired Executive Director, Jackie Harp
  - Conducted Strategic Planning – Mission, Vision, Values, and Goals
  - Formed Committees and conducted Board training
  - Contributed 3-page coverage in MMMC "Heartbeat"
  - Developed 6-panel color brochure
  - Held 2 planned giving seminars
  - Received \$19,000 from original employee foundation
  - Raised more than \$100,000 to include a gift of \$38,000 for life safety equipment

### **■ Kula Hospital**

- 55 active volunteers
  - Nearly 6,870 volunteered service hours each year

### **■ Lanai Community Hospital**

- 106 active volunteers
  - Nearly 1,550 volunteered service hours each year
  - \$500 student scholarship from the Auxiliary
    - ▶ Donated entrance mural - \$1500 value
    - ▶ Donated microwave oven - \$200 value

## **KAUAI REGION**

### **■ Kauai Veterans Memorial Hospital**

- 25 active volunteers
  - Nearly 940 volunteered service hours each year
  - Auxiliary raised more than \$123,800 in 1998
- Auxiliary Gift Shop Project
  - Donated labor, equipment, and materials - \$6,000
- KVMH Foundation
  - Nine-member committee formed

### **■ Samuel Mahelona Memorial Medical Center**

- 56 active volunteers
  - Nearly 6,650 volunteered service hours each year
  - Auxiliary raises more than \$15,000 annually
  - \$4,000 donated from AlohaCare
  - \$5,000 donated from Hawaii Hotel Industry Association
  - \$1,450 donated from community projects
- Pavilion Awning Project
  - Donated materials - \$5,000 est. project cost
- Long-Term Care Upgrading and Refurbishing
  - Donated materials - \$9,000 est. project cost (on-going)

## **OAHU REGION**

### ■ **Leahi Hospital**

- 171 active volunteers
  - Nearly 14,150 volunteered service hours each year
  - Thrift Shop raises more than \$16,000 per year

### ■ **Maluhia**

- 59 active volunteers
  - Nearly 7,920 volunteered service hours each year
  - Gift Shop raises more than \$12,000 per year

Hawaii Health Systems Corporation  
Regional Public Health Facility  
Management Advisory Committee  
East Hawaii Region  
Annual Report for 1999

The committee is made up of representatives from the Hilo, Kau and Hamakua districts of Hawaii Island. We have met once a month during the year and have visited the various HHSC facilities in East Hawaii during the year.

We have had good attendance during the meetings, lively discussions about various issues, and gained a lot of knowledge about HHSC and how hospital systems work, and, in particular, how HHSC works.

It has been enlightening to all, and, we believe, we have contributed to HHSC's understanding of the communities we represent, and their concerns.

We are impressed with the task before HHSC as they progress from a State run operation to a private albeit non-profit operation. We would suggest that the State could be more helpful in this transition. In particular, **if the State really wants to have HHSC be able to operate on their own....to not have to fund them in the future, then they must give them the tools to accomplish this.** I am sure the State, at first wasn't too sure of the direction of HHSC and their leadership, and so, wanted to keep control. We believe that the direction of HHSC is well thought out and their leadership is committed to accomplish it, but the State needs to buy into this so it can be accomplished.

Certainly, the reduction in operating losses that has occurred in the last couple of years shows competency and direction and this needs to be encouraged by giving them the necessary powers to move forward.

We continually are impressed with the leadership of Tom Driskill. We do believe that many others in his shoes would have given up a long time ago.

Thank you for this opportunity to express our feelings.

  
Bobby Cooper, Chair



**Kauai Region  
Public Health Facilities Management Advisory Committee  
1999 Annual Report to Legislature**

As the year 1999 comes to a close, we reflect on events which highlight the opportunities we were able to support on the Hawaii Health System's Corporation operations and strategic direction. With this intent, Kauai Veteran's Memorial Hospital and Samuel Mahelona Hospital, which make up the Kauai Region, encompassed a detailed Strategic Planning session with assistance of Mr. Norm Baker from the Service Excellence Center. Henceforth, the actual *Regionalization* of the two facilities was accomplished, and *restructure*, became a necessity. The Kauai Region is now under the auspices of one regional CEO, Ms. Orianna Skomoroch, who is aided by an Assistant Administrator for each facility. To further ascertain *Regionalization*, the two facilities share a Regional Medical Director, Regional facilities Director, Regional Informational Systems Officer, Regional Chief Financial Officer, and a Regional Human Resources Director.

After a three-year absence of an Obstetrics and Gynecology department at KVMH, the westside welcomed a re-opening of this much needed health service for the community. Within this past year, the Waimea Ohana Physicians Group Clinic have been enhanced with the opening of the Eleele Ohana Physicians Group Clinic. This has certainly been instrumental in giving KVMH a more stable patient flow. SMMH also celebrated its new Eastside Walk-In have Clinic, serving the Kapaa and North Shore areas, and seeing approximately 100 patients a month. Their grand opening extravaganza was held in the latter part of this year, backed by an overwhelming crowd of community supporters, Advisory Board members, Legislators, staff and physicians.

We were confronted with a very difficult Legislative session, but the endeavors of both hospitals to keep afloat and strong were realized by all concerned. Other opportune commitments involving KVMH/SMMH partnership have surfaced. The Kauai Region is making a concerted effort to work with the Pacific Islands Initiative Project and the Hawaii Management Alliance Association (HMAA). We continue to build a firm relationship with HMAA through our exertion of becoming a viable *Region*. Another focal point of importance to our state health systems is the Critical Access Hospital (CAH) program. We look forward to our Legislature in actualizing this extension of a safety net for the people of Hawaii, and for the stability of rural health care.

As we continue to provide support for HHSC, we received the approval from the Executive MAC to include Mr. Douglas, County of Kauai Engineer employee, as its newest member of the Kauai PHFMAC. We enjoy the continuous exuberance of the hospital auxiliaries, and the interest of a Hospital Foundation group being formulated.

We, the members of the Kauai Public Health Facilities Management Advisory, and as a formal Governing Body, strive to advocate for our Kauai Region in its efforts to give quality health care. We remain prudent and never cease in our energies to accomplish goals of the Hawaii Health Systems Corporation. We thank Mr. Thomas Driskill Jr., President and CEO, staff, and Diane Plotts, Board of Directors chairperson, and past and present Board members of the HHSC, for their tireless courage, stamina, knowledge, expertise and leadership in forging the pathways our state hospitals have to follow. They have been instrumental in the success experienced by all of the facilities.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mabel Jean Odo".

(Mrs.) Mabel Jean Odo  
Kauai Region PHFMAC Chair

**WEST HAWAII REGION  
MANAGEMENT ADVISORY COMMITTEE  
Hawaii Health Systems Corporation  
REPORT TO THE LEGISLATURE  
December, 1999**

The West Hawaii Regional Management Advisory Committee (MAC) is responsible for Kona Community Hospital and Kohala Hospital. It should be noted that the several of the 1998 amendments to the law which created HHSC has given the Regional MACs greater input to the Corporate Board and brought the concerns of the local communities more directly to the decision-making source. (The amendments include: Formalizing the Executive MAC (EM); the EM Chair and Regional Physician Member shall sit on the Corporate Board.) These amendments have proven very helpful in the function of the EM.

The West Hawaii Regional MAC members are:

Richard Boyd (Kohala)	Roy Nagle, M.D.
John Broussard (Kohala)	Laura Power (Kohala)
Ken Clewett	Frank Sayre, D.D.S.
Robyn Cook, M.D.	Mark Van Pernis
Virginia Isbell	

The CEO of the Corporation, Tom Driskill, has been outstanding and easy to work with. He attends all monthly MAC meetings and Executive MAC meetings. He is quick to grasp the concerns brought forward and follows through with all suggestions made.

Most of the problems which affect the physical plant of the Kona Community Hospital are directly related to the Department of Accounting and General Services and its design of major changes and additions to the structure, i.e., The wheelchair ramp access to and from the lower main entrance and the Emergency Room is poorly designed and is undoubtedly going to require modification; The doors at the upper and lower levels are difficult to open and especially so with a wheelchair; the sewage system has been a source of problems because of its design and has still not been resolved.

On a positive note, there has been tremendous support and improvements wherever the local community has been involved:

- 1) The Kona Community Hospital (KCH) has been able to work very effectively with a private Hospital Foundation which helped fund renovations to the Birthing Center, wall murals in the KCH Cafeteria and ICU waiting room, and develop a chapel within the hospital with input from the chaplains.
- 2) The community supported an excellent hospital-sponsored "wellness" music concert;

- 3) The MAC is working with the KCH "Healing Environment Council" which is partnering with the Kona Outdoor Circle (KOC) to develop a "wellness garden" which will be located near the upper entrance and landscaped with the KOC expertise and funds from a Department of Agriculture rural area grant;
- 4) The local Hospice and KCH are working together to help the terminally ill;
- 5) Non-profit local agencies have been able to use the VTC on a time-available basis which has helped reduce their costs of time and travel to meetings. (The VTC network was funded by the Weinberg Foundation.) The first agency to use the VTC was Kona Assn. for Retarded Citizens (Kona Krafts);
- 6) The West Hawaii community supported installation of an ACLS Computer Software Recertification Program in Kohala Hospital; and
- 7) The MAC has been involved with the distribution of the "Healthwise Handbook" in West Hawaii which has been a joint effort with several agencies, healthcare groups and members of the community.

The MAC has been invited to be a part of the KCH Facility Planning Committee which has been formed to 1) address the most immediate needs; 2) develop an overall plan for the present KCH property; and 3) Develop a Master Plan for the future needs of West Hawaii.

The MAC completed its "Rules of Procedure", a copy of which is available.

The MAC took part in SHPDA Certificate-of-Need Hearings for installation of an MRI at KCH. SHPDA approved the CON.

The West Hawaii Regional MAC uses the VTC for its monthly meetings, which eliminates the need for the 100+ mile round-trip between Kohala Hospital and Kona Community Hospital.

KCH was identified as being the second least expensive hospital in the state which members of the MAC have been made aware of and are relating to the community.

The KCH was actively involved with the Cancer Society "Relay for Life" and many of its medical staff are involved in the World Championship Ironman Triathlon. Several of the MAC members are also part of the volunteer group in the Ironman Triathlon. In turn, the Ironman has donated \$1,000 to the Hospital Foundation.

A recent vehicle accident on the Mamalahoa Highway which blocked access to the hospital, and which involved a utility pole and high-voltage wires, required real creativity in continuum of care for

individuals needing to get to the hospital. The closure lasted over six hours, but emergency personnel were able to manage transfer of patients without incident.

A concerted effort has been made to learn more about Critical Access Hospitals (CAH) for rural areas which could include Kohala Hospital. Any reduction in long-term care beds, regardless of where they are located, is going to require placement in home care. There are limited numbers of individuals willing to go into the home-care business, especially if it requires major renovations to their homes. The MAC has been involved in rule-making which is meant to conform to last year's legislation which became law regarding "Choice" and "Social Model" for home- and community-based care homes. The Executive MAC members all have long-term beds within their regions and this has become a point of great concern, especially as the rate of reimbursement continues its downward trend.

It appears that unless there is a willingness to modify the Rules under which the Department of Health (DOH) regulates the care homes, there will not be a significant increase in the ability to place long-term care individuals.

The West Hawaii MAC encourages the Legislature to examine carefully the present and proposed DOH Rules and how they reflect implementation of the law which passed last year regarding "Choice" and "Social Model" for long-term care residents.

The West Hawaii MAC is available to the Legislature for further information on any parts of our Report to you.

Virginia Isbell, Chair  
West Hawaii Regional MAC  
Phone (808) 323-2565  
FAX (808) 323-2920  
E-Mail donvirg@GTE.net

**Maui Region Public Health Facility Management Advisory Committee  
Hawaii Health Systems Corporation  
Annual Report to the Hawaii State Legislature  
December, 1999**

Thank you for the opportunity to provide this report. On behalf of the Maui Region Public Health Facility Management Advisory Committee, I would like to report that we have been extremely impressed with the Hawaii Health Systems Corporation. Under the leadership of Thomas Driskill, Jr., and the new Board of Directors, HHSC has shown great improvement over the entire history of the system. Maui Region, in particular, is most fortunate to have William "Boyd" Kleefisch as the Regional CEO. Mr. Kleefisch has greatly improved the entire Region (i.e., quality of healthcare, morale, and direction towards future healthcare). The entire Maui Management Advisory Committee recognizes Mr. Kleefisch as a great asset to the system.

We ask for your assistance with the Bond issue for the Maui Memorial Medical Center Master Plan. This project improves patient care areas that are most critical to the medical center's growth and profits. The Master Plan is vital in order to keep Maui Region viable, but the ultimate benefactors will be the citizens of Hawaii. Healthcare delivery is critical to the state's economy. Without adequate healthcare services for the residents and tourists...tourism and the economy will suffer.

As mentioned in my report submitted to you last year, there will always be a need for legislative support and knowing the state of our economy, we express our gratitude to you, our Legislators, for your support and commitment to healthcare in Hawaii. As the saying goes, "united we stand, divided we fall."

Additionally, we are hopeful that funding will be provided for the emergency and supplemental appropriation for Hawaii Health Systems Corporation 2000/2001.

I have attached a copy of the Master Plan for Maui Memorial Medical Center for your information.

Respectfully submitted



**Herbert Sakakihara**  
Maui Region Management Advisory Committee Chairman

# **MASTER PLAN**

Maui Memorial Medical Center

 **Final Report**  
February 1999

**Complete plan available for review during normal business hours  
at:**

**Maui Memorial Medical Center – Administrative Office  
Hawaii Health Systems Corporation – Corporate Office**

**WATG/NBBJ**

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Oahu Region

PUBLIC HEALTH FACILITIES MANAGEMENT ADVISORY COMMITTEE

December 1999

The Oahu Region has progressed well this past year. The most significant improvement has been in the Program for the All-Inclusive Care for the Elderly (PACE) at Maluhia, which is now sound and operating in the black. The program expects to increase its client census with the addition of 5,000 sq.ft. for their program area. We also, in the near future, expect to open a branch of the PACE program at Leahi Hospital.

Leahi Hospital, also, is considering the expansion of the Adult Day Health Center to service the East Honolulu area. Both facilities are looking at additional services that may be provided in the future to include home and community based services. The services under consideration are geriatric and urgent care clinics, respite care, hospice, outpatient rehab and possibly home health.

The Oahu Region has had a good financial year this fiscal period which resulted in coming well under our financial targets for both facilities. Regionalization continues to move along as Maluhia and Leahi have already consolidated several areas to increase our overall efficiency with appropriate cost reductions. Work in this area will continue.

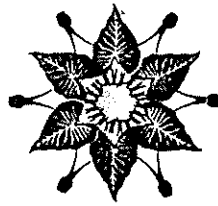
Both Leahi and Maluhia continue to provide quality patient care and maintain their Medicare/Medicaid certifications and meet State licensure requirements.

We continue to improve our community relations through our volunteer and auxiliary programs which provide equipment and thousands of hours of volunteer time. We continue to maintain relations with patients, families and staff and the highlight for both facilities were family days which are becoming annual events. The Leani Summer Fest II during July 1999 raised \$5,000 to benefit the needs of the residents.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Cliff Cisco".

CLIFF CISCO, Chair



Maui Memorial  
MEDICAL CENTER

Hawaii Health Systems Corporation — Maui Region

Hawaii Health Systems Corporation  
Physician's Advisory Group  
Annual Report to Hawaii State Legislature  
1999 In Review

The HHSC Physician's Advisory Group consists of elected Physician leaders who represent an HHSC Medical Staff which is now over 800 strong. We would like to thank CEO Tom Driskill, his Executive Management Team, the HHSC Board of Directors, the Regional CEOs and their administrative staffs, and the Regional Management Advisory Committees for their collaboration and support in 1999.

HHSC has continued to support its Medical Staff in providing quality medical care to the residents and visitors of Hawaii. Our Physicians have been invited to participate in:

1. Corporate Strategic Planning
2. Development of decision support systems based on clinical and financial criteria.
3. Development of telemedicine system for specialty consultations.
4. Development of video teleconferencing for meetings and continuing medical education.
5. Y2K Compliance.

These successes have been achieved and at the same time, HHSC has reduced our audited losses over the past three years by nearly 67%. Their efforts and accomplishments have been above and beyond our expectations.

We hope there has been an improved understanding by the Legislature of what HHSC stands for and where it is going through strategic planning. There are some tough times ahead as our Medicaid reimbursements may be decreased through provisions of the Balanced Budget Act. However, with your continued support, we will as a team continue to provide quality medical care well into the next century.

Sincerely,

Anthony Manoukian, M.D., Chairman  
HHSC Physician's Advisory Group

*Hawaii Health Systems Corporation*

# **Hawaii Health Systems Corporation**

## **Healthier Hawaii 21st Century**

**FY 2000 Update**

Healthier Hawaii 21st Century

1

December 1999



*Hawaii Health Systems Corporation*

## **Why We Need To Change**

- Changes in patient care. Healthcare today is a rapidly changing, competitive market.
- Balanced Budget Act (1997) - reduced reimbursements.
- Decreasing State \$ support/funding
- Demands upon HHSC to be self-sufficient
- Archaic civil service system
- Ensure long-term survival of the "safety net"

Healthier Hawaii 21st Century

2

December 1999

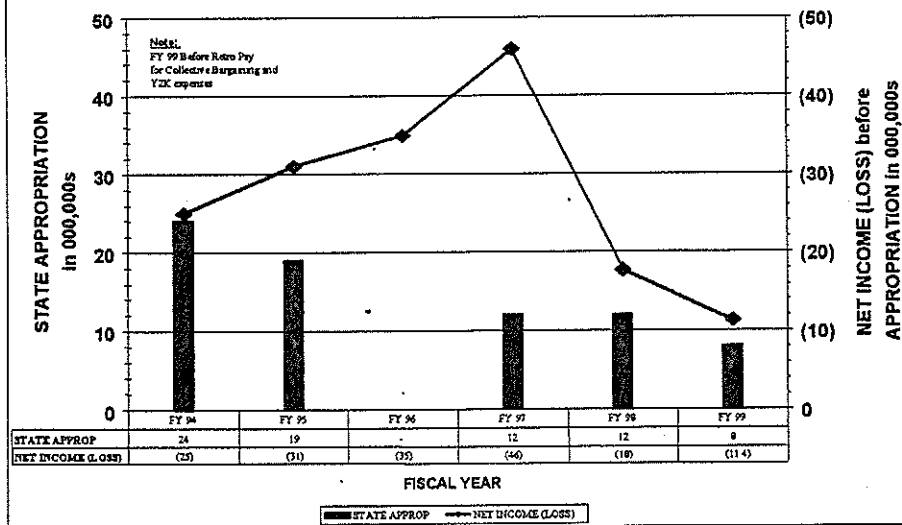


## UNFUNDED LIABILITIES (When HHSC Was Formed)

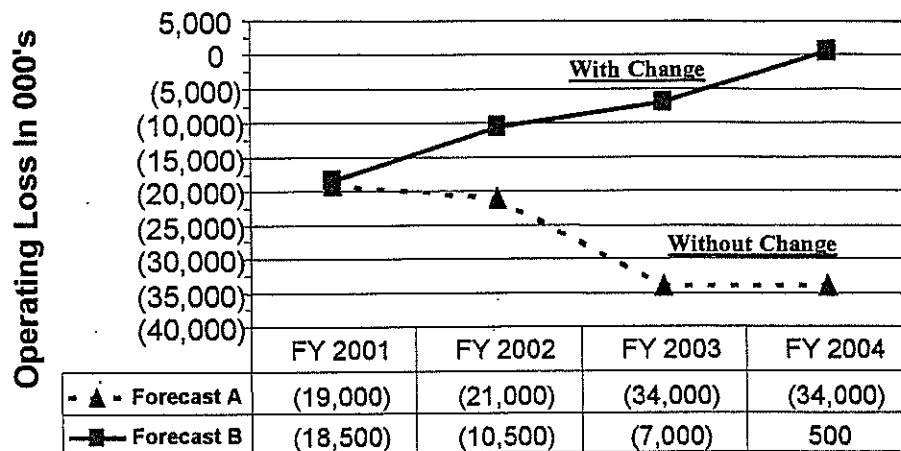
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12. Retired Public Employee Health Fund Costs



### HAWAII HEALTH SYSTEMS CORPORATION COMPARISON OF NET INCOME (LOSS) TO STATE APPROPRIATION



## FORECASTED OPERATING LOSSES FOR FISCAL YEARS 2001 THROUGH 2004



The intent in establishing a hospitals public corporation is to retain hospitals as part of the state government, but to give them sufficient autonomy to operate as ongoing businesses. The corporation would have three kinds of autonomy: legal, administrative, and fiscal. Legal autonomy would give it separate corporate status in law. Administrative autonomy would give it freedom from such state controls as civil service and pay scales, budgeting and audit controls, and procurement regulations. Fiscal autonomy means that it would support itself from revenues derived from sources other than taxes.

-- Study of the Division of  
Community Hospitals,  
Submitted by the Auditor of  
the State of Hawaii, January  
1992



**RECOMMENDATION:**

1. The Board of Directors should develop a plan that includes:
  - a. Detailed descriptions of implementation tasks that still need to be done to complete the transition of the Division of Community Hospitals to a competitive and viable public benefit corporation;
  - b. Justification for additional legislation that may be necessary to achieve goals;
  - c. Specific time frames for when the tasks will be completed;
  - d. A communication plan for the community and hospital staff on issues involving the reorganization of the community hospitals; and
  - e. An implementation plan for its personnel system with specific time frames by which personnel related tasks will be accomplished.

— Audit of the Hawaii Health  
Systems Corporation, Submitted  
by the Auditor of the State of  
Hawaii, February 1999



## National Association of Public Hospitals & Health Systems Study

### "GAGE II STUDY"

- NAPH President Larry Gage assisted 1994 Governor's Task Force, leading to Act 262 and HHSC creation
- NAPH is updating original Task Force report
- Updated report will also respond to 1999 State Auditor recommendations
- Over 60 stakeholders already interviewed
- Report due to HHSC Board by December 13





## Contents of NAPH Report

- Assess status of HHSC transition in areas such as governance, structure, budgeting, capital, communications, personnel, and planning
- Identify additional implementation steps possible under current law
- Specify additional legislative authority required
- Particular attention to reforms in civil service, access to capital, and changes in services
- Will include implementation plan and time frames



## Preliminary NAPH Findings

- HHSC has made significant progress in implementing regional structure & effective governance, & improving financial & information systems & medical staff relations. Inadequate control over personnel policies remains major obstacle to future success
- Access to capital for renovations & new equipment impedes ability to improve quality and increase revenues
- Statutory constraint on eliminating services also limits ability to respond effectively to industry trends and changing patient needs



## Preliminary NAPH Recommendations

- HHSC should increase attention to expanding its use of existing statutory authority in some areas
- However, statutory amendments are required to exempt HHSC from civil service, permit Corporation to establish its own independent personnel system, provide more autonomy in obtaining access to capital, and repeal or further limit need for legislative approval for substantial reduction of services
- The Corporation should continue to increase coordination and cooperation with DOH and DHS to implement important rural health and long term care initiatives, and to enhance Medicaid reimbursement to the extent possible without increasing State taxpayer burden



Declining Reimbursements  
Increased Labor Costs



Increased Regulatory Mandates



Managed Care  
Deteriorating Facilities



*" Does the State want to continue to provide healthcare services as a direct, safety-net provider " ?*

Yes (   ) or No ( ✓ )

### OPTIONS:

- ✓ Sell the System \*
- (Note: System must be re-structured if sold to generate a profit)
- ✓ Create a 501(c)3 not-for-profit System
- ✓ Insolvency

\* HHSC has never advocated this alternative



**Hawaii Health Systems Corporation**

Declining Reimbursements  
Increased Labor Costs



Increased Regulatory Mandates



Managed Care  
Deteriorating Facilities



*" Does the State want to continue to provide healthcare services as a direct, safety-net provider " ?*

Yes ( ☒ ) or No ( ☐ )

**OPTIONS:**

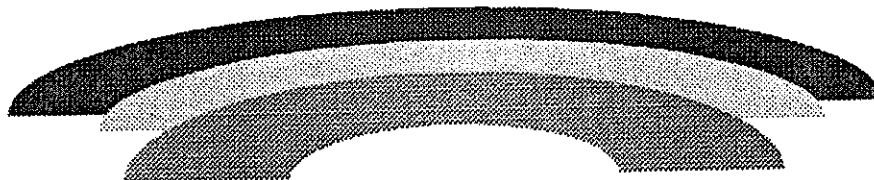
- ✓ Struggle to get increasing funds from the State when State funding capability is dramatically decreasing
- ✓ Insolvency
- ✓ Healthier Hawaii 21st Century



**Hawaii Health Systems Corporation**

**7 Key Strategies for Change**

- Rural Healthcare
- Home & Community Based Care
- Focused Acute Psychiatric Services
- Partnership for Change
- Automation Upgrade
- Facility Modernization
- Civil Service Modernization



## **Strengthening Rural Healthcare**

1. The era of isolated, stand alone rural hospitals has ended.
2. Remaining rural hospitals are banding together into systems to survive.
3. Communications technology is helping rural hospitals organize into integrated systems.
4. Patient care patterns are changing.
5. Federal government has recognized trends by Critical Access Hospital (CAH) process.
6. CAH provides enhanced reimbursement solution.
7. The State has an opportunity to implement the CAH concept, & maximize federal financial support for rural hospitals thru Federal Matching Funds and Grants.



## **Strengthening Rural Healthcare**

**Establish Medicare and Medicaid Critical Access Hospitals (CAH):**

- Kauai Veterans Memorial Hospital ( 1st facility to transition)
- Hale Ho'ola Hamakua
- Kau Hospital
- Kohala Hospital
- Kula Hospital
- Lanai Community Hospital
- Samuel Mahelona Memorial Hospital



## Home & Community Based Healthcare

1. Population is aging.
2. Costs are going up & reimbursements are going down.
3. People prefer home care.
4. Technology makes home care more feasible.
5. Federal programs support home care.
6. Nationwide trend toward caring for people at home, versus institutionalization.



## Home & Community Based Healthcare

### 1. Hilo Medical Center

- Alternatives:

- Outpatient Sleep Lab
- Senior Care Clinic
- Adult Day Care
- Respite Care
- Mobile Lithotripsy
- Eliminate/Reduce LTC Beds \*

### 2. Leahi Hospital

- Alternatives:

- 24 HR Adult Day Care
- Urgent Care Clinic
- Assisted Living Services
- PACE Program
- Eliminate LTC Beds \*

### 3. Maluhia

- Alternatives:

- Hospice Service
- Respite Care
- Adult Day Care
- Expanded PACE Program
- Eliminate LTC Beds \*

\* May require legislative approval.



## Home & Community Based Healthcare

4. Kona Community Hospital

- Alternatives:

- MRI & Nuclear Medicine
- Mobile Lithotripsy
- Reduce LTC Beds

5. Kauai Veterans Memorial Hospital

- Alternatives:

- I/P Rehab Services
- Continuum of Care Initiatives
- Reduce LTC Beds

6. Maui Memorial Medical Center

- Alternatives:

- I/P Rehab Services
- Outpatient Sleep Lab
- Observation Unit
- Upgraded MRI



## Focused Acute Psychiatric Services

Work with Department of Health for the provision of neighbor island acute psychiatric services

- Kona Community Hospital
- Samuel Mahelona Memorial Hospital
- Maui Memorial Medical Center
- Hilo Medical Center



## **Partnership for Change**

**Partner With Department of Health (DOH) and  
Department of Human Services (DHS) to maximize  
Federal Matching Funds and Grants:**

**1. DOH**

- Establish Medicare and Medicaid Critical Access Hospitals,  
with Cost-Based Reimbursement, Effective July 1, 2000
- Coordinate Provision of Psychiatric Services for the Neighbor  
Islands

**2. DHS**

- Establish Medicare and Medicaid Critical Access Hospitals,  
with Cost-Based Reimbursement, Effective July 1, 2000
- Increase Access to Home Care, Through Enhanced Service to  
Communities & Increased Access to Federal Program Funds



## **Automation/Telecommunications Systems Upgrade**

**Implement/Enhance the following systems to improve patient care, improve  
productivity, and provide performance reporting:**

- Clinical Information
- Financial Information
- Human Resources/Payroll
- Decision Support
- Long Term Care
- Electronic Data Interchange (electronic billing, purchasing)
- Internet/Intranet Deployment
- Telecommunications Connectivity
- Telemedicine Primary Care Work Stations

**(All Systems Y2K Compliant)**



## **Facility Modernization**

1. **\$ 38 million Revenue Bond for Maui Memorial Medical Center - New Patient Tower for expansion of services and Parking Structure.**
2. **RFP for energy conservation retrofits and facilities upgrade.**
3. **\$ 30 million Revenue Bond authorization ( FY 2000 - 2001 Biennium ) for facilities' expansion and refurbishment.**



## **Civil Service Modernization**

1. **Governance** - Recognize HHSC Board of Directors as a public employer.
2. **Labor Relations**- Separate bargaining units/agreements for HHSC; combine to reduce # units; allow HHSC to negotiate directly with union partners.
3. **Civil Service** - Allow HHSC to develop its own recruitment, classification and personnel system without the restriction of the various related chapters in HRS (76,77,78, etc.) and refer negotiable items for collective bargaining.





## **FY 2000 / 2001 Legislative Initiatives**

- 1. Levels of Service - HHSC Bill**
- 2. Critical Access Hospitals - HHSC Bill**
- 3. Civil Service Reform - DHRD Bill**
- 4. FY 2000 Emergency Appropriation**
- 5. FY 2001 Supplemental Appropriation**
- 6. Maui Revenue Bond**



**We are asking You to support the  
Hawaii Health Systems Corporation's  
TRANSITION into the 21st Century.**

**- Mahalo Nui Loa**



3/13/99

## HAWAII HEALTH SYSTEMS CORPORATION (HHSC) JULY 1, 1998 – JUNE 30, 1999 ACCOMPLISHMENTS

### BOTTOM LINE IMPROVEMENT:

- Reduced losses from \$46M in FY 97 to \$17.7 M in FY 98 to projected \$13.5 M in FY99 exclusive of collective bargaining increases and Y2K cost.
- Increased revenue per bed day from \$602 in FY98 to \$620 in FY99 while cost per bed day only increased from \$644 in FY98 to \$655 in FY99 (based upon FY99 annualized results).
- Covered over 96% of expenses with less than 4% State support in FY 99.
- Renegotiated individual contracts with third-party payors and medical supply companies into more favorable system-wide contracts.
- Achieved contract partnership status with both American Samoa and RMI for off-island care.
- Obtained fee simple ownership of 7 HHSC facilities.
- Turned Maluhia PACE from \$500K per year loss to profit center.

### QUALITY:

- Achieved JCAHO full three-year accreditation for Maui, Hilo, and Kona.
- Achieved annual DOH/HCFR certification for all HHSC facilities.
- Increased levels of services in several rural healthcare areas (no decrease of service in any community supported by HHSC). Added: Neuro Surgery – Maui; Renal Dialysis – Lanai; Primary Care Clinic – Kula; Catherization Lab – Hilo; New Cancer Center – Hilo; OB/GYN – KVMH; Administrative Services Wing – Kona. Closed: Maluhia Wait List Program.
- Developed and initiated corporate compliance/quality improvement program for the system.
- Reorganized Board QI Committee and established corporate Quality Council standardized quality work and reporting throughout the system.

### INFORMATION MANAGEMENT:

- Initiated and began to implement Y2K compliance program.
- Consolidated mainframe from two to one location.
- Developed and implemented e-mail and internet mail.
- Developed and implemented full motion video telemedicine system for all HHSC hospitals partnering with U of H and HTDC to develop State of Hawaii TeleAccess Network (STAN) and projected HHSC into the Pacific Rim.
- Instituted AP and General Ledger automation programs for the system.

### PERSONNEL:

- Established union partnership through recurring HGEA/UPW/HHSC leadership meetings.
- Reorganized enterprise into five regions with supporting corporate entity, recognized levels of work and decentralized empowerment.
- Implemented system fix for Workers' Compensation problems, including reduced new claims 33% in two years.
- Initiated system-wide customer satisfaction training and middle management training.
- Initiated system-wide employee satisfaction survey and involved employees in process of resolving identified concerns.
- Signed MOAs with HGEA on sick leave and scheduling.

### COMMUNITY:

- Solidified community input process through markedly enhanced HHSC/MAC/PAG interaction.
- Community recognition for President/CEO as Ernst & Young 1999 Hawaii Healthcare Entrepreneur of the Year.

### STRATEGIC PLANNING:

- Conducted three-day facilitated offsite in Hilo with 50 representatives from all HHSC stakeholder groups.
- Developed strategic plan/direction for corporation – customer focused road map to 2010.

**Deloitte &  
Touche**

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***HAWAII HEALTH  
SYSTEMS CORPORATION***

**Financial Statements and Supplemental Information for the  
Year Ended June 30, 1998 and Independent Auditors' Reports**

# HAWAII HEALTH SYSTEMS CORPORATION

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# HAWAII HEALTH SYSTEMS CORPORATION

## INTRODUCTION

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### PURPOSE OF THE REPORT

The purpose of this report is to present the financial statements of Hawaii Health Systems Corporation (HHSC) as of and for the year ended June 30, 1998 and the independent auditors' report thereon.

### SCOPE OF THE AUDIT

The audit was required to be performed in accordance with generally accepted auditing standards and *Government Auditing Standards*. Those standards require that the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

### ORGANIZATION OF THE REPORT

This report on the financial statements is divided into three sections:

- The first section presents this introduction.
- The second section presents the financial statements of HHSC as of and for the year ended June 30, 1998 and the independent auditors' report thereon. This section also presents supplemental financial information.
- The third section presents the independent auditors' report in accordance with *Government Auditing Standards* on HHSC's internal control and compliance with laws and regulations.



## **INDEPENDENT AUDITORS' REPORT**

**Board of Directors of Hawaii Health Systems Corporation:**

We have audited the accompanying statement of financial position of Hawaii Health Systems Corporation (HHSC), a component unit of the State of Hawaii, as of June 30, 1998, and the related statements of operations - unrestricted funds, changes in fund balances, and cash flows - unrestricted funds for the year then ended. These financial statements are the responsibility of HHSC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. HHSC has included such disclosures in Note 9. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support HHSC's disclosures with respect to the year 2000 issue. Further, we do not provide assurance that HHSC is or will be year 2000 ready, that HHSC's year 2000 remediation efforts will be successful in whole or in part, or that parties with which HHSC does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, such financial statements present fairly, in all material respects, the financial position of HHSC at June 30, 1998 and the results of its operations and the cash flows of its unrestricted funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1, in fiscal 1997, the administration of the facilities that comprise HHSC was transferred from the State Department of Health - Division of Community Hospitals (State) to HHSC. As of June 30, 1998, negotiations between the State and HHSC relating to the transfer of assets and liabilities (including amounts due to the State) were on-going. Accordingly, the assets, liabilities and fund balances reflected in the accompanying statement of financial position at June 30, 1998 may be significantly different from those eventually included in the final settlement.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 18 and 19 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplemental combining schedules on pages 20 through 22 are presented for the purpose of additional analysis of the basic financial statements rather than to present the financial position and results of operations of individual facilities, and are not a required part of the basic financial statements. This supplemental information and the supplemental combining schedules are the responsibility of HHSC's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 1998 on our consideration of HHSC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

*Schutte & Touche LLP*

November 23, 1998

# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENT OF FINANCIAL POSITION JUNE 30, 1998

### ASSETS

#### CURRENT ASSETS:

Cash and cash equivalents	
On deposit with the State of Hawaii	\$ 3,948,952
On deposit with banks and on hand	<u>14,824,070</u>

Total cash and cash equivalents 18,773,022

Patient accounts receivable - less allowances of \$68,574,063 for contractual adjustments and doubtful accounts	39,195,319
Supplies and other current assets	<u>6,357,801</u>

Total current assets 64,326,142

PROPERTY, PLANT AND EQUIPMENT - Net (Note 3) 144,071,470

ASSETS LIMITED AS TO USE (Notes 2 and 8) 4,792,454

TOTAL \$213,190,066

### LIABILITIES AND FUND BALANCES

#### CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 17,254,294
Accrued vacation	16,794,576
Accrued workers' compensation liability (Note 7)	20,000,000
Estimated third-party payor settlements	7,551,350
Patients' safekeeping deposits (Note 2)	421,917
Capital lease obligations - current portion (Note 4)	1,702,965
Other current liabilities	<u>1,395,575</u>

Total current liabilities 65,120,677

CAPITAL LEASE OBLIGATIONS - Less current portion (Note 4) 2,670,665

DUE TO THE STATE OF HAWAII 20,115,465

Total liabilities 87,906,807

#### FUND BALANCES:

Unrestricted:	
Board-designated (Note 8)	3,000,000
Other	<u>120,912,722</u>

Total unrestricted 123,912,722

Restricted 1,370,537

Total fund balances 125,283,259

TOTAL \$213,190,066

See notes to financial statements.



# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENT OF OPERATIONS - UNRESTRICTED FUNDS YEAR ENDED JUNE 30, 1998

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### OPERATING REVENUES:

Net patient service revenues (Note 5)	\$ 218,936,675
Other (Note 5)	<u>2,817,224</u>

Total operating revenues 221,753,899

### OPERATING EXPENSES:

Salaries and benefits	141,713,737
Medical supplies and drugs	20,395,242
Purchased services (Note 5)	16,925,228
Professional fees	15,369,996
Depreciation and amortization	9,760,293
Other supplies	9,306,298
Provision for doubtful accounts	8,324,675
Interest	506,602
Other	<u>17,977,881</u>

Total operating expenses 240,279,952

LOSS FROM OPERATIONS (18,526,053)

### NONOPERATING REVENUES (EXPENSES):

Appropriations from the State of Hawaii	12,912,012
Write-off of investment in Hana Medical Center	(1,326,095)
Subsidy to Hana Medical Center	(923,988)
Other - net	<u>2,115,963</u>

Nonoperating revenues - net 12,777,892

EXCESS OF EXPENSES OVER REVENUES \$ (5,748,161)

See notes to financial statements.

# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 1998

---

### UNRESTRICTED FUNDS:

Balance, beginning of year	\$ 127,779,540
Prior-period adjustments, primarily workers' compensation liability (Note 10)	<u>(8,896,926)</u>
Balance at beginning of year, as restated	118,882,614
Excess of expenses over revenues	<u>(5,748,161)</u>
Property, plant and equipment contributed by the State of Hawaii (Note 3)	<u>10,778,269</u>
Balance, end of year	<u>\$ 123,912,722</u>

### RESTRICTED FUNDS:

Balance, beginning of year	\$ 458,746
Restricted contributions	1,213,765
Reclassification of patients' safekeeping deposits	<u>(301,974)</u>
Balance, end of year	<u>\$ 1,370,537</u>

See notes to financial statements.

# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENT OF CASH FLOWS - UNRESTRICTED FUNDS YEAR ENDED JUNE 30, 1998

### OPERATING ACTIVITIES:

Loss from operations	\$(18,526,053)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation and amortization	9,760,293
Provision for doubtful accounts	8,324,675
Loss on sale of property	113,004
Change in operating assets and liabilities:	
Receivables	(2,084,296)
Supplies and other current assets	(1,709,544)
Accounts payable, accrued expenses, and other liabilities	2,526,313
Accrued vacation	964,924
Accrued workers' compensation liability	2,891,165
Estimated third-party payor settlements	(6,905,299)
Other	(23,571)
Net cash used in operating activities	(4,668,389)

### NONCAPITAL FINANCING ACTIVITIES:

Appropriations from the State of Hawaii	12,912,012
Subsidy to Hana Medical Center	(923,988)
Other nonoperating revenues - net	1,223,781
Net cash provided by noncapital financing activities	13,211,805

### CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital expenditures	(4,611,504)
Cash designated as assets limited as to use	(3,000,000)
Repayments on capital lease obligations	(2,280,833)
Interest income	509,468
Net cash used in capital and related financing activities	(9,382,869)

NET DECREASE IN CASH AND CASH EQUIVALENTS (839,453)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 19,612,475

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 18,773,022

### SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid, primarily on capital lease obligations	\$ 506,602
Non-cash financing and investing activities:	
• Property, plant and equipment contributed by the State of Hawaii	10,778,269
• Interest capitalized on construction projects	382,714
• Equipment acquired under capital leases	449,244
• Write-off of investment in Hana Medical Center	1,326,095

See notes to financial statements.

# HAWAII HEALTH SYSTEMS CORPORATION

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1998

---

### 1. ORGANIZATION

Hawaii Health Systems Corporation (HHSC) is a public body corporate and politic and an instrumentality and agency of the State of Hawaii (State). HHSC is managed by a chief executive officer under the control of an 11-member board of directors.

In June 1996, the Legislature of the State passed Act 262, S.B. 2522. The Act transferred all facilities under the administration of the Department of Health - Division of Community Hospitals to HHSC. The facilities are as follows:

**Hawaii County:**

Hilo Medical Center  
Hale Ho'ola Hamakua  
Ka'u Hospital  
Kohala Hospital  
Kona Community Hospital

**City and County of Honolulu:**

Leahi Hospital  
Maluhia

**Maui County:**

Maui Memorial Medical Center  
Kula Hospital  
Lanai Community Hospital

**Kauai County:**

Kauai Veterans Memorial Hospital  
Samuel Mahelona Memorial Hospital

The Act became effective in fiscal 1997. Act 262 also amended a previous act to exempt all facilities from the obligation to pay previously allocated central service and departmental administration expenses by the State.

HHSC is considered to be administratively attached to the Department of Health of the State of Hawaii, and is a component unit of the State of Hawaii. The accompanying financial statements relate only to HHSC and the facilities and are not intended to present the financial position, results of operations, or cash flows of the Department of Health.

Negotiations between HHSC and the State relating to the transfer of assets and assumption of liabilities (including amounts due to the State) pursuant to Act 262 were continuing as of June 30, 1998. Accordingly, the assets, liabilities and fund balances of HHSC reflected in the accompanying statement of financial position may be significantly different from those eventually included in the final settlement.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** - HHSC uses the proprietary fund method of accounting, which recognizes revenues and expenses on the accrual basis.

**Financial Statement Presentation** - The accompanying financial statements are presented in accordance with the pronouncements of the Government Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants audit guide for health care organizations. Pursuant to GASB

Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, HHSC has elected not to apply the provisions of relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

**Use of 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 disclosure 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 and Cash Equivalents** - Cash and cash equivalents include short-term investments with original maturities of three months or less. It also includes amounts held in the State Treasury. The State Director of Finance is responsible for the safekeeping of all moneys paid into the State Treasury (cash pool). HHSC's portion of this cash pool at June 30, 1998 is indicated in the accompanying statement of financial position as "Cash on deposit with State of Hawaii." The Hawaii Revised Statutes authorize the Director of Finance to invest in obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with State Statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

HHSC has cash in financial institutions which is in excess of available depository insurance coverage.

**Supplies** - Supplies consist principally of medical and other supplies and are valued at the lower of first-in, first-out cost, or market.

**Property, Plant and Equipment** - Property, plant and equipment assumed from the State at inception are recorded at cost less accumulated depreciation. Other property, plant and equipment are recorded at cost or estimated fair market value at the date of donation. Donated buildings, equipment and land are considered additions to the permanent capital of HHSC and, therefore, are credited directly to the unrestricted fund balance. Equipment under capital leases is recorded at the present value of future payments. Buildings, equipment and improvements are depreciated by the straight-line method over their estimated useful lives. Gains or losses on the sale of property, plant and equipment are reflected in other nonoperating revenues. Normal repairs and maintenance expenses are charged to operations as incurred.

Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets.

HHSC's capital improvement projects are managed by the State Department of Accounting and General Services. The related costs are transferred to HHSC's property, plant and equipment accounts as a contribution of capital as costs are incurred.

**Assets Limited as to Use** - Assets limited as to use are restricted funds, board-designated funds, and patient trust funds. Patient trust funds represent funds received, or property belonging to the facilities' patients, that are held by HHSC in a fiduciary capacity as custodian. Receipts and disbursements of these funds are not reflected in HHSC's operations. In addition, such assets also include restricted contributions.

**Accrued Vacation and Compensatory Pay** - HHSC accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences (such as employer payroll taxes and fringe benefits), in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation is earned at the rate of one and three quarters working days for each month of service. Vacation days may be accumulated to a maximum of 90 days.

**Net Patient Service Revenues** - Net patient service revenues are recorded on an accrual basis in the period in which the related services are provided at established rates, less contractual adjustments. HHSC, as a safety net provider, provides charity care to certain patients; the specific cost of such care is not determinable for the year ended June 30, 1998.

HHSC has agreements with third-party payors that provide for payments at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The estimated third-party payor settlement accrual of \$7,551,350 as of June 30, 1998 is based on estimates, as complete information is not currently available to determine the final settlement amounts for certain cost report years. Management has used its best efforts, judgment, and certain methodologies to estimate the anticipated final outcome.

A summary of the payment arrangements with major third-party payors follows:

- **Medicare** - Inpatient acute services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, outpatient services and defined capital and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. HHSC is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The appropriateness of admissions are subject to an independent review by peer review organizations under contract with HHSC. HHSC's Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal 1996.
- **Medicaid** - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. HHSC is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. HHSC's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through fiscal 1996.
- **Hawaii Medical Service Association (HMSA)** - Inpatient services rendered to HMSA subscribers are reimbursed at prospectively determined case rates for hospitalization or procedures performed. The prospectively determined case rates are not subject to retroactive adjustment. In addition, outpatient services and certain contracts are reimbursed on a discounted charges method basis.

HHSC has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established rates, and prospectively determined daily rates.

**Donations** - Restricted donations are recorded as additions to restricted funds. Resources restricted for specific operating purposes are transferred to the unrestricted fund and reflected as other operating revenues to the extent expended by the unrestricted fund during the year. Funds which are restricted for property expenditures are transferred from the restricted fund to the unrestricted fund to the extent expended within the year.

Unrestricted donations are recorded as nonoperating revenues.

**Contributed Services** - Volunteers have made contributions of their time in furtherance of HHSC's mission. The value of such contributed services is not reflected in the accompanying financial statements since it is not susceptible to objective measurement or valuation.

**Bond Interest** - HHSC reports as nonoperating expense the interest paid by the State for general obligation bonds whose proceeds were used for hospital construction. A corresponding contribution from the State is reported as nonoperating revenues. The bonds are obligations of the State, to be paid by the State's general fund, and are not reported as liabilities of HHSC.

Bond interest costs incurred on construction projects funded with State general obligation bonds are capitalized during the construction period.

**Risk Management** - HHSC is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The facilities are self-insured for workers' compensation and disability claims and judgments as discussed in Note 7.

**Concentration of Credit Risk** - Patient accounts receivable consists of amounts due from insurance companies and patients for services rendered by facilities. The facilities grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables from patients and third-party payors at June 30, 1998 was as follows:

Medicare	22%
Medicaid	21
HMSA	14
Other third-party payors	22
Patients and other	<u>21</u>
	<u>100%</u>

### 3. PROPERTY, PLANT AND EQUIPMENT

At June 30, 1998, property, plant and equipment consisted of the following:

Land and land improvements	\$ 2,807,345
Buildings and improvements	169,014,172
Major moveable equipment	47,894,842
Fixed equipment	17,166,682
Construction in progress	<u>14,192,444</u>
	251,075,485
Less accumulated depreciation and amortization	<u>(107,004,015)</u>
Property, plant and equipment - net	<u>\$ 144,071,470</u>

In 1998, the State Department of Accounting and General Services transferred property, plant and equipment, including construction in progress, aggregating \$10,778,269 to HHSC as a contribution of capital.

### 4. CAPITAL LEASE OBLIGATIONS

The facilities lease equipment under capital leases which expire on various dates through fiscal 2004. Future lease payments as of June 30, 1998 were as follows:

Year ended June 30:	
1999	\$ 1,994,771
2000	1,731,484
2001	675,414
2002	325,961
2003	162,607
Thereafter	<u>8,392</u>
Total future minimum payments	4,898,629
Less amount representing interest	<u>(548,581)</u>
Total capital lease obligations	4,350,048
Current portion	<u>(1,702,965)</u>
Noncurrent portion	<u>\$ 2,647,083</u>

The cost of the leased equipment as of June 30, 1998 approximated \$10,735,000, and the related accumulated depreciation was approximately \$6,371,000.

### 5. FACILITY-BASED TECHNICAL SERVICE AGREEMENTS

HHSC has facility-based technical service agreements relating to certain ancillary services. These arrangements are generally related to administrative services, clinical personnel, space rental, and clinical services. Reimbursement arrangements vary by contractor and range from fixed amounts per month to 100% reimbursements of the charges. Amounts charged by the contractors are included in operating expenses in purchased services and aggregated approximately \$16 million during fiscal 1998.



In compliance with Medicare and Medicaid regulations, HHSC bills third-party payors for the services provided to patients by the contractors. These billings are included in net patient service revenues.

HHSC charges the contractors for use of the premises, supplies and laundry. These amounts are included in other operating revenues and aggregated approximately \$1,530,000 during fiscal 1998.

## **6. EMPLOYEE BENEFITS**

### **Defined Benefit Pension Plans**

All full-time employees of HHSC are eligible to participate in the Employees Retirement System of the State of Hawaii (ERS), a cost sharing, multiple-employer public employee retirement system covering eligible employees of the State and counties.

The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Eligible employees who were in service and a member of the existing contributory plan on June 30, 1984, were given an option to remain in the existing plan or join the noncontributory plan, effective January 1, 1985. All new eligible employees hired after June 30, 1984, automatically become members of the noncontributory plan. Both plans provide death and disability benefits and cost of living increases. Benefits are established by State statute. In the contributory plan, employees may elect normal retirement at age 55 with 5 years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching five years of service; retirement benefits are actuarially reduced for early retirement. Covered contributory plan employees are required by State statute to contribute 7.8% of their salary to the plan; HHSC is required by State statute to contribute the remaining amounts necessary to pay contributory plan benefits when due. In the noncontributory plan, employees may elect normal retirement at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching ten years of service; retirement benefits are actuarially reduced for early retirement. HHSC is required by State statute to contribute all amounts necessary to pay noncontributory plan benefits when due.

HHSC's contributions to the ERS for the years ended June 30, 1998, 1997 and 1996 approximated \$14,552,000, \$12,918,000, and \$12,755,000, respectively, equal to the required contributions for each year.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employee Retirement System, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813-2929 or by calling (808) 586-1660.

### **Post-Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State of Hawaii Public Employees Health Fund provides certain health care (medical, prescription drug, vision and dental) and life insurance benefits for retired employees. Contributions are based upon negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage. HHSC pays for 100% of these benefits for employees who have at least 10 years of service. HHSC's share of the cost of these benefits is pro-rated for

employees with less than 10 years of service. HHSC also reimburses Medicare expenses of retirees and qualified spouses (through the State of Hawaii) who are at least 62 years of age and have at least 10 years of service. HHSC's post-retirement benefits expense approximated \$6,273,000 for the year ended June 30, 1998.

#### **Sick Leave**

Accumulated sick leave as of June 30, 1998 was approximately \$26 million. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded in the accompanying financial statements.

### **7. COMMITMENTS AND CONTINGENCIES**

#### **Professional Liability**

HHSC maintains professional and general liability insurance with a private insurance carrier with a \$40 million limit per claim. HHSC's General Counsel advises that, in the unlikely event any judgments rendered against HHSC exceed HHSC's professional liability coverage, such amount would likely be paid from an appropriation from the State's general fund.

#### **Workers' Compensation Liability**

HHSC is self-insured for workers' compensation claims. HHSC pays a portion of wages for injured workers (as required by law), medical bills, judgments as stipulated by the State's Department of Labor, and other costs. HHSC's facilities also directly provide treatment for injured workers. HHSC has accrued a liability of \$20 million for unpaid claims as of June 30, 1998.

#### **Ceded Lands**

The Attorney General of the State of Hawaii reported that an action was filed in 1994 by the Office of Hawaiian Affairs (OHA) against the State of Hawaii claiming the State's alleged failure to properly account and pay to OHA monies due to OHA under the provisions of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes for use by the State of certain ceded lands. In May 1996, the Plaintiff filed certain motions for partial summary judgment as to the State's liability to pay OHA 20% of monies due from four specific sources, one of which included patient service receipts from three of HHSC's facilities. The State opposed Plaintiff's motions but on October 24, 1996, was denied dismissal by the First Circuit Court of Hawaii which granted OHA's motions for partial summary judgment.

The State filed an immediate appeal from the order denying its motion to dismiss to the Hawaii Supreme Court, and filed a second appeal from both orders after the Circuit Court granted the State permission to file an interlocutory appeal to the Hawaii Supreme Court. All other proceedings, including the trial previously scheduled to begin on November 18, 1996, were stayed pending the Hawaii Supreme Court's disposition of the two appeals. In April 1998, the Hawaii Supreme Court instructed the State and OHA to attempt to settle the dispute through negotiations. As of June 30, 1998, the State and OHA had agreed to enter into such negotiations.

The State is not able to estimate with reasonable certainty the magnitude of its potential loss, if any, nor its effect, if any, on HHSC. OHA's complaint and motions do not specify the State's alleged failures, nor do they state the dollar amount of the claims. OHA has not provided complete information for its claims

for the period from 1981 through 1991, and has provided no information as to its claims for the period from 1991 to the present. The Circuit Court's October 24, 1996 order granting OHA's motions for partial summary judgment did not determine the amounts owing. The basis and methodology for calculating any such amount are disputed. The amount, if any, of the State's (or HHSC's) liability will not be determined until the Hawaii Supreme Court rules on the State's interlocutory appeal and, if the State is unsuccessful, after any subsequent trial and related appeals have been concluded.

At the present time, the State is not able to estimate the magnitude of a potential adverse ruling (or that portion of the exposure which may ultimately be allocated to claims relating to HHSC and certain of its facilities). HHSC does not believe that it will suffer any material adverse impact from an adverse ruling against the State because the claim is against the State and not HHSC. In addition, should any payments be made to OHA, management believes that the Legislature would appropriate funds to cover any amounts allocated to HHSC.

### **Litigation**

HHSC is a party to certain litigation arising in the normal course of business. In management's opinion, the outcome of such litigation will not have a material impact on HHSC's financial statements.

### **Asbestos Contamination**

There is known asbestos contamination of the old hospital building located next to the Hilo Hospital facility. Present estimates by management to demolish the building and remediate the asbestos contamination approach \$2 million or more. No decision has yet been made by HHSC on how to proceed on this issue. The ultimate ownership of the old building is still in negotiation between the State of Hawaii and HHSC, since Act 262 did not specify which assets and liabilities would transfer to HHSC. As such, a liability for the cost of the remediation has not been recorded in HHSC's financial statements.

## **8. BOARD-DESIGNATED FUNDS**

As of June 30, 1998, HHSC's Board of Directors had designated cash reserves as follows:

For capital equipment acquisitions and/or equity investments for growth initiatives	\$2,500,000
For settlement and extinguishment of residual workers' compensation claims	<u>500,000</u>
Total	<u>\$3,000,000</u>

The designated funds are included in assets limited as to use and in the board-designated fund balance.

## **9. YEAR 2000 ISSUES (UNAUDITED)**

The approach of the year 2000 presents significant issues for HHSC's financial, information, and operational systems and for equipment with imbedded microchips. These systems may not be able to appropriately interpret dates after December 31, 1999, because certain systems allow only two digits to indicate the year in a date. As a result, such systems are unable to distinguish January 1, 2000 from January 1, 1900, which could have adverse consequences on HHSC's operations and on the integrity of information processing, causing safety, operational, and financial issues. In addition, equipment with imbedded chips could malfunction at the turn of the century.

The following are the key components of HHSC's plan to address the year 2000 issues:

- a) **Written and Approved Plan** - A plan has been developed that outlines HHSC's procedures for resolving the year 2000 issues. Such plan has been reviewed with senior management and the Board of Directors.
- b) **Personnel and Resources** - A project team has been established with a Project Manager and seven supervisors for each of the project areas: Hardware, Applications, Desktop, Networks, External Interfaces, Biomedical Devices, and Facilities. In addition, external consultants have been engaged to support the project team.
- c) **Monitoring Progress** - A process has been established for monitoring progress against the plan. A software program has been developed which includes expected completion dates for various phases of the projects.
- d) **Comprehensive Inventory** - The plan includes a process for preparing a comprehensive inventory of financial, informational, operational systems, and equipment and services that are reliant on computer technology. The plan includes procedures to identify those mission critical systems that may be negatively impacted by year 2000 system deficiencies. The inventory is in the process of being completed.
- e) **Strategy to Fix Critical Systems** - HHSC's plan for fixing critical systems and equipment is either to upgrade or replace as considered necessary. A detailed schedule for problem resolution or system replacement is being developed for every critical system or item of equipment with year 2000 issues.
- f) **Timing of Compliance** - HHSC expects all financial systems to be year 2000 compliant by June 1999, and all other systems, including biomedical devices and facilities, by September 1999. HHSC is uncertain as to the percentage of critical systems that are currently year 2000 compliant.
- g) **Testing** - HHSC has not yet estimated the processing resources required for renovation and testing.
- h) **External Business Relationships** - HHSC has not yet established procedures to determine that the systems of key vendors, service providers, and customers are year 2000 compliant. HHSC anticipates working on this area in January 1999.
- i) **Litigation/Regulations** - HHSC is currently establishing procedures to mitigate its risk of litigation and noncompliance with government regulations as a result of year 2000 operating problems or product/service failures. HHSC's General Counsel is reviewing such procedures.
- j) **Contingency Plans** - HHSC is developing contingency plans in the event that systems or equipment fail to function appropriately at the turn of the century.
- k) **Oversight Responsibility** - A chain of command has been established for the year 2000 project. The reporting responsibility in ascending order is as follows: (1) Year 2000 Project Manager, (2) HHSC Vice President and Chief Information Officer, (3) Regional Chief Executive Officers' Information Systems Steering Committee, (4) HHSC Chief Executive Officer, and (5) HHSC Board of Directors.
- l) **Cost** - The estimated cost of the year 2000 project has been included in HHSC's fiscal 1999 operating budget. Such cost is estimated to approximate \$5,300,000.

## 10. PRIOR-PERIOD ADJUSTMENTS

In 1998, management determined that certain facts had been misinterpreted as of June 30, 1997 and, accordingly, recorded the following adjustments at July 1, 1997 to correct the errors:

Beginning fund balance, as previously reported	\$ 127,779,540
Adjustments:	
Underaccrual of accrued workers' compensation	(8,784,161)
Other - net	<u>(112,765)</u>
Net decrease in unrestricted fund balance at July 1, 1997	<u>(8,896,926)</u>
Beginning fund balance, as restated	<u>\$ 118,882,614</u>

\* \* \* \* \*

# HAWAI HEALTH SYSTEMS CORPORATION

## SCHEDULE 1 - SUPPLEMENTAL SCHEDULE OF RECONCILIATION OF CASH ON DEPOSIT WITH THE STATE OF HAWAII JUNE 30, 1998

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### Appropriation Symbol

#### REPORTED AS CASH ON DEPOSIT WITH THE STATE OF HAWAII

##### SPECIAL FUNDS:

S-92-312-H	\$ 485
S-92-354-H	16,195
S-93-312-H	544
S-93-350-H	28,334
S-93-353-H	6,563
S-93-359-H	14,134
S-94-354-H	838
S-94-355-H	2,023
S-94-359-H	12,905
S-94-396-H	8,673
S-95-396-H	19,636
S-96-312-H	469
S-96-359-H	23,019
S-96-396-H	9,040
S-97-312-H	96,723
S-97-350-H	3,918
S-97-351-H	39
S-97-352-H	17
S-97-353-H	1,108
S-97-354-H	33,284
S-97-358-H	124
S-97-359-H	5,877
S-97-365-H	21,899
S-97-371-H	52,082
S-97-373-H	4,635
S-98-303-H	783
S-98-312-H	523,955
S-98-350-H	4,754
S-98-351-H	112,705
S-98-352-H	623,366
S-98-353-H	102,454
S-98-354-H	285,235
S-98-355-H	57,218
S-98-358-H	275,611
S-98-359-H	866,650
S-98-365-H	123,300
S-98-373-H	352,678
S-98-396-H	1,371

##### TRUST FUNDS:

T-98-909-H	(273)
T-98-909-H	6,275
T-98-909-H	3,531
T-98-914-H	28,757

# HAWAI HEALTH SYSTEMS CORPORATION

## SCHEDULE 1 - SUPPLEMENTAL SCHEDULE OF RECONCILIATION OF CASH ON DEPOSIT WITH THE STATE OF HAWAII (Continued) JUNE 30, 1998

	Appropriation Symbol	
RECONCILING ITEMS:		
Disbursements recorded by State in June 1998; recorded by HHSC in July 1998		\$ 165,436
Held in State Treasury for Hospital improvements		55,447
Other		<u>(2,865)</u>
TOTAL		<u>\$3,948,952</u>
INCLUDED IN ASSETS LIMITED AS TO USE		
GIFT FUNDS:		
	T-97-915-H	\$ 21,597
	T-98-910-H	69,928
	T-98-911-H	22,040
	T-98-995-H	2,197
PATIENT TRUST FUNDS:		
	T-97-990-H	19,275
	T-98-920-H	4,292
	T-98-921-H	6,679
	T-98-925-H	97,471
	T-98-926-H	11,700
	T-98-983-H	5,980
	T-98-988-H	12,004
	T-98-989-H	10,122
	T-98-991-H	2,449
	T-98-992-H	68,984
	T-98-996-H	28,254
	T-98-997-H	73,113
PLANT IMPROVEMENT FUNDS:		
	S-87-361-M	13,375
	S-94-361-M	25,677
SPECIFIC-PURPOSE FUNDS		
	T-97-919-H	1,044
RECONCILING ITEMS:		
Cash held by financial institutions		56,255
Other		<u>36,596</u>
TOTAL		<u>\$ 589,032</u>

# HAWAII HEALTH SYSTEMS CORPORATION

## SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION INFORMATION

JUNE 30, 1998

ASSETS	Facilities										Total Facilities	Corporate	Reclassifications and Eliminations	Total HHSC
	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Kohala Hospital	Kona Community Hospital	Mauli Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Kaual Veterans Memorial Hospital	Samuel Mahaloa Memorial Hospital	Leahi Hospital	Maluhia		
CURRENT ASSETS:														
Cash and cash equivalents:														
On deposit with the State of Hawaii	\$ 45,763	\$ 119,019	\$ 626,369	\$ 110,125	\$ 335,552	\$ 59,241	\$ 151,205	\$ 275,735	\$ 916,461	\$ 423,626	\$ 681,154	\$ 145,199	\$ 3,909,449	\$ 39,503
On deposit with banks and on hand	480,483	27,226	(736)	42,128	852,596	814,903	37,988	22,000	21,560	20,550	452,710	329,120	3,099,928	11,724,142
														\$ 3,948,952
														14,824,070
Total cash and cash equivalents	546,246	146,245	625,633	152,253	1,188,148	873,544	189,193	297,735	938,021	444,176	1,133,864	474,319	7,009,377	11,763,645
														18,773,022
Patient accounts receivable - less allowances for contractual adjustments and doubtful accounts	11,326,411	517,270	327,421	812,543	6,070,682	9,973,234	1,419,654	348,837	2,209,241	1,301,637	3,251,944	1,686,445	39,195,319	39,195,319
Due from affiliates - net	8,768,282	535,785	45,820	31,226	806,090	5,014,169	100,137	53,029	325,714	59,768	241,264	132,759	15,365,590	7,765,733
Supplies and other current assets	1,479,442	97,495			1,731,154	1,954,234					286,320		6,297,098	60,703
														6,357,801
Total current assets	22,120,381	1,296,795	998,874	996,022	9,796,074	17,765,181	1,708,984	699,601	3,472,976	1,805,581	4,913,392	2,293,523	67,867,384	19,590,081
														(23,131,323)
PROPERTY, PLANT AND EQUIPMENT - Net	25,116,043	16,604,548	1,107,523	881,891	20,379,418	41,759,403	5,873,089	630,601	10,683,044	4,793,306	9,956,729	4,552,143	142,287,758	1,783,712
														144,071,470
ASSETS LIMITED AS TO USE	28,254	12,004	8,876	5,980	28,133	85,103	69,215	2,449	29,069	20,319	165,426	134,205	589,033	4,203,421
														4,792,454
TOTAL	\$ 47,264,678	\$ 17,913,347	\$ 2,115,273	\$ 1,883,893	\$ 30,153,625	\$ 59,609,687	\$ 7,651,288	\$ 1,332,651	\$ 14,185,089	\$ 6,619,226	\$ 15,035,547	\$ 6,979,871	\$ 210,744,175	\$ 25,577,214
														(23,131,323)
														\$ 213,190,066



# HAWAII HEALTH SYSTEMS CORPORATION

## SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION INFORMATION (Continued)

JUNE 30, 1998

	Facilities											Total Facilities	Corporate	Reclassifi- cations and Elim- inations	Total HHSC	
	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Kohala Hospital	Kona Community Hospital	Mau Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Leahi Hospital					Maluhia
LIABILITIES AND FUND BALANCES																
CURRENT LIABILITIES:																
Accounts payable and accrued expenses	\$ 4,390,606	\$ 339,538	\$ 228,381	\$ 560,406	\$ 1,981,979	\$ 4,071,750	\$ 602,178	\$ 138,608	\$ 950,019	\$ 444,446	\$ 1,287,608	\$ 1,159,941	\$ 16,105,460	\$ 1,148,834	\$ 17,254,294	
Accrued vacation	3,496,751	422,764	183,492	283,666	1,762,460	4,142,210	1,172,231	238,613	1,019,909	1,065,605	1,299,387	1,464,176	16,551,264	243,312	16,794,576	
Accrued workers' compensation liability	5,370,000	480,000	270,000	280,000	2,280,000	4,940,000	1,100,000	200,000	980,000	840,000	1,800,000	1,360,000	19,800,000	200,000	20,000,000	
Due to affiliates			2,026,120	907,915			2,686,371	1,852,278	8,272,654	2,742,922		4,643,063	23,131,323		\$ (23,131,323)	
Estimated third-party payor settlements	816,193	206,282	8,021	304,484	567,709	2,440,271	107,974	230,099	553,001	550,915	1,608,785	157,616	7,551,350		7,551,350	
Patients' self-sweeping deposits	28,254	12,004	8,876	5,980	8,255		69,215	2,449	29,070	19,275	165,426	73,113	421,917		421,917	
Capital lease obligations - current portion	712,952		13,976		148,994	681,375	4,143		96,986	7,790		23,467	1,689,683	13,282	1,702,965	
Other current liabilities	1,171,124				57,634				171,817				1,395,575		1,395,575	
Total current liabilities	15,935,880	1,460,588	2,688,866	2,342,451	6,802,031	16,225,606	5,742,112	2,662,047	12,073,456	5,670,953	6,161,206	8,881,376	86,646,572	1,605,428	(23,131,323)	65,170,677
CAPITAL LEASE OBLIGATIONS - Less current portion	1,212,568				313,820	782,011	23,582		283,291	7,047		27,370	2,649,689	20,976		2,670,665
DUE TO THE STATE OF HAWAII																
Total liabilities	17,148,448	1,966,741	2,688,866	2,870,600	14,721,056	17,007,617	6,879,598	2,662,047	13,393,050	8,095,150	12,577,997	9,400,196	109,411,716	1,626,404	(23,131,323)	87,906,807
FUND BALANCES:																
Unrestricted:																
Board-designated	30,116,230	15,946,606	(573,593)	(986,707)	15,412,693	42,516,967	771,330	(1,379,396)	792,039	(1,476,968)	2,457,550	(2,481,417)	101,165,334	3,000,000		3,000,000
Other														19,747,388		120,912,722
Total unrestricted	30,116,230	15,946,606	(573,593)	(986,707)	15,412,693	42,516,967	771,330	(1,379,396)	792,039	(1,476,968)	2,457,550	(2,481,417)	101,165,334	22,747,388		123,912,722
Restricted					19,876	85,103				1,044		61,092	167,115	1,203,422		1,370,537
Total fund balances	30,116,230	15,946,606	(573,593)	(986,707)	15,432,569	42,602,070	771,330	(1,379,396)	792,039	(1,475,924)	2,457,550	(2,420,325)	101,332,449	23,950,810		125,283,259
TOTAL	\$ 47,264,678	\$ 17,913,347	\$ 2,115,273	\$ 1,883,893	\$ 30,153,625	\$ 59,609,687	\$ 7,651,288	\$ 1,332,651	\$ 14,185,089	\$ 6,619,226	\$ 15,035,547	\$ 6,979,871	\$ 210,744,175	\$ 25,577,214	\$ (23,131,323)	\$ 213,190,066

# HAWAII HEALTH SYSTEMS CORPORATION

## SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS - UNRESTRICTED FUNDS INFORMATION

YEAR ENDED JUNE 30, 1998

	Hilo	Hale	Ka'u	Kohala	Kona	Maul	Facilities			Kaula	Samuel	Leahi	Maluhia	Total	Corporate	Reclassifi- cations and Eliminations	Total
		Hale	Ka'u	Kohala	Kona	Memorial	Kula	Community	Lanai	Veterans	Memorial	Hospital					
	Medical	Ho'ola	Hospital	Hospital	Community	Medical	Hospital	Hospital	Hospital	Hospital	Hospital	Hospital					
	Center	Hamakua	Hospital	Hospital	Hospital	Center	Hospital	Hospital	Hospital	Hospital	Hospital	Hospital					
OPERATING REVENUES:																	
Net patient service revenues	\$ 62,998,936	\$ 5,323,457	\$ 1,773,842	\$ 2,401,499	\$ 26,327,360	\$ 74,049,497	\$ 8,623,241	\$ 947,037	\$ 947,037	\$ 7,087,689	\$ 5,684,996	\$ 13,664,179	\$ 10,054,942	\$ 218,936,675			\$ 218,936,675
Other	2,054,202	17,025	9,388	1,876	111,743	251,085	38,424			49,552	23,851	227,452	32,626	2,817,224			2,817,224
Total operating revenues	65,053,138	5,340,482	1,783,230	2,403,375	26,439,103	74,300,582	8,661,665	947,037	947,037	7,137,241	5,708,847	13,891,631	10,087,568	221,753,899			221,753,899
OPERATING EXPENSES:																	
Salaries and benefits	36,324,460	3,385,178	1,542,640	2,021,671	15,930,347	35,826,867	7,760,477	1,407,326	1,407,326	6,875,057	5,885,175	12,542,646	9,597,695	139,099,539	\$ 2,614,198		141,713,737
Medical supplies and drugs	6,337,036	317,242	76,359	90,761	4,355,790	6,385,523	414,894			659,611	236,146	1,051,762	470,118	20,395,242			20,395,242
Purchased services	9,255,923	518,107	47,872	263,742	389,703	3,934,186	233,448	147,451	147,451	228,576	71,249	1,176,163	642,781	16,909,201	16,027		16,925,228
Professional fees	535,845		369,752	86,664	567,713	7,619,121	187,296	81,999		1,037,587	251,647	261,714	110,199	11,427,538	3,942,458		15,369,996
Depreciation and amortization	2,235,115	567,769	87,711	115,299	1,120,644	2,481,776	400,524			540,390	460,566	943,926	421,292	9,457,011	303,282		9,760,293
Other supplies	2,165,092	63,196	58,524	92,971	491,362	4,479,895	544,927			203,283	357,259	317,863	461,040	9,235,412	70,886		9,306,298
Provision for doubtful accounts	1,883,325	(42,145)	858	148,219	1,943,008	2,778,288	161,326	30,000		483,943	257,853	110,000	420,000	8,174,675	150,000		8,324,675
Interest	185,369	90	1,640		25,074	248,692				23,052	1,548	11,243		502,919	3,683		506,602
Insurance and other	4,574,788	372,685	197,976	235,828	2,377,214	5,563,094	508,925	419,133	419,133	1,298,109	455,527	484,173	750,264	17,257,716	720,165		17,977,881
Total operating expenses	63,496,953	5,182,122	2,383,332	3,075,155	27,600,855	69,317,442	10,211,817	2,085,909	2,085,909	11,349,608	7,976,970	16,899,490	12,879,600	232,459,253	7,820,699		240,279,952
INCOME (LOSS) FROM OPERATIONS	1,556,185	158,360	(600,102)	(671,780)	(1,161,752)	4,983,140	(1,550,152)	(1,138,872)	(1,138,872)	(4,212,367)	(2,268,123)	(3,007,859)	(2,792,032)	(10,705,354)	(7,820,699)		(18,526,053)
NONOPERATING REVENUES (EXPENSES):																	
Appropriations from the State of Hawaii																	
Write-off of investment in Hana Medical Center																	
Subsidy to Hana Medical Center																	
Other - net	(1,355,856)	(90,217)	(37,317)	(169,742)	(430,799)	(1,640,533)	(251,030)	(55,573)	(55,573)	(195,518)	(213,749)	(542,978)	(368,064)	(5,351,376)	7,467,339		2,115,963
Nonoperating revenues - net	(1,355,856)	(90,217)	(37,317)	(169,742)	(430,799)	(1,640,533)	(251,030)	(55,573)	(55,573)	(195,518)	(213,749)	(542,978)	(368,064)	(5,351,376)	18,129,268		12,777,892
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	\$ 200,329	\$ 68,143	\$ (637,419)	\$ (841,522)	\$ (1,592,551)	\$ 3,342,607	\$ (1,801,182)	\$ (1,194,445)	\$ (1,194,445)	\$ (4,407,885)	\$ (2,481,872)	\$ (3,550,837)	\$ (3,160,096)	\$ (16,056,720)	\$ 10,308,569	\$	\$ (5,748,161)

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors of Hawaii Health Systems Corporation:

We have audited the financial statements of Hawaii Health Systems Corporation (HHSC) as of and for the year ended June 30, 1998, and have issued our report thereon dated November 23, 1998. We conducted our audit 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.

**Compliance**

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

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered HHSC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect HHSC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in a separate letter to management of HHSC dated November 23, 1998 and are summarized as follows:

- Reconciliations of certain accounts, including cash, accounts receivable, and property, are not performed on a timely basis.
- Due to limited personnel resources, there is a lack of segregation of cash-related duties, as the same individuals have the ability to handle, record and reconcile cash.

- Procurement policies and procedures are not consistently followed. Such policies include:
  - Goods and services
    - » \$4,000 - \$24,999 - At least two quotes, either written or oral, should be obtained.
    - » \$25,000 - \$99,999 - At least two written quotes must be obtained.
  - Construction
    - » \$10,000 - \$49,999 - At least two oral bids should be obtained.
    - » \$50,000 - \$200,000 - At least two written quotes should be obtained.
- Due to limited information systems and resources, budgetary monitoring is inadequate.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Directors and management of Hawaii Health Systems Corporation. However, this report is a matter of public record and its distribution is not limited.

*Schutte : Touche up*

November 23, 1998