



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

*"Touching Lives Everyday"*

January 22, 2001

COO/CFO-01-002

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

Dear Governor Cayetano:

It is with sincere appreciation that we submit the annual report of the Hawaii Health Systems Corporation (HHSC) to the Governor and the Legislature of the State of Hawaii. The continued dedication and hard work of our employees, medical staff, advisors, Board of Directors, union partners, and many other stakeholders, coupled with support from our legislators and the Administration have resulted in many successes this past year.

Our financial performance continues to improve in spite of declining reimbursements and other external pressures being placed on the healthcare industry nationally and in Hawaii. The FY 00 audited accrual loss (before general fund appropriation) was \$17.2 million. It should be noted that this includes one-time costs of \$581,000 for Y2K remediation and a legislated \$7 million collective bargaining annual increase for employee pay. This operational loss of \$17.2 million for FY 00 compares favorably to audited operational losses of \$25.9 million, \$17.7 million, and \$46 million for FYs 99, 98 and 97, respectively.

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 third consecutive "clean" unqualified audit with no material weaknesses for FY 00, FY 99 and FY 98. The FY 00 and FY 99 comparative 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 over 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 the optional annual reports as submitted by four of our Management Advisory Committees (MACs): East 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 tremendously important to the successful functioning of our system. Enclosed for your

additional reference is a summary of specific accomplishments by HHSC over the past fiscal year and a general summary of our accomplishments over the past three years.

Several quality improvement and corporate compliance initiatives, previously undertaken, were continued during FY 00. In that regard, HHSC has 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. Depending upon the facility type, all HHSC facilities have either received Joint Commission on Accreditation of Healthcare Organizations (JCAHO) accreditation and/or passed their State licensure survey with full certification in all instances.

This year, HHSC management, in concert with our Board of Directors, MACs, PAG and many other external constituencies, updated its strategic plan in an effort to guide HHSC toward reduced/minimized fiscal dependency upon the State of Hawaii. This plan will assist us in setting the direction necessary to achieve success as we embark upon the new millennium. We continue to 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. Until such time as the Legislature is willing to grant HHSC more autonomy from operation under State Civil Service, State Collective Bargaining, restraints on managing our levels of service, and restraints on outsourcing non-core business, then HHSC must keep returning to the Legislature to request a minimal level of funding to support the mandated "safety net" services that we provide.

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

Mahalo Nui Loa,



THOMAS M. DRISKILL, JR.  
President and Chief Executive Officer

Enclosures:

1. HHSC Volunteer Community Support
2. MAC Reports for East Hawaii, Maui, Kauai, and Oahu
3. PAG Report
4. Summary of Accomplishments
5. Annual Audit Report: Financial Statements and Supplemental Information for the Year Ended June 30, 2000 and 1999 and Independent Auditors' Reports

## **FISCAL YEAR 2000 HAWAII HEALTH SYSTEMS CORPORATION (HHSC) VOLUNTEER 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 20,831 volunteered service hours each year
- Auxiliary raises between \$15,000-\$18,000 annually
  - Commission from Baby Photos - \$5,000
  - Palm Tree Gift Shop - \$5,000
  - Auxiliary Workshop - \$300
  - Commission from Pay Telephones - \$500
  - Grants ten (10) \$500 nursing scholarship annually to nursing students at UHH and HCC.
- Hilo Medical Center Foundation
  - Since inception, raised more than \$70,000 via community contributions and grants

#### **■ Hale Ho'ola Hamakua**

- 32 active volunteers
  - Nearly 15,220 volunteered service hours each year

- Auxiliary has raised more than \$5,500, in addition to providing two (2) \$250 scholarships

#### ■ **Kau Hospital**

- 6 active volunteers
  - Nearly 1,400 volunteered service hours each year

## **WEST HAWAII REGION**

#### ■ **Kona Community Hospital**

- 68 active volunteers
  - Nearly 7,000 volunteered service hours each year
- Birthing Unit Renovation Project
  - Opening ceremonies held for Hale O Hanau or "House of Birth." The goal is to provide a family-centered environment.
  - 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 emergency room waiting area, admitting and first floor entrance paid by Kona Hospital Foundation donation.
- Nearly 5,000 Healthwise Handbooks were distributed in West Hawaii. The project was funded through a grant by The Queen's Medical Center and the Queen Emma Foundation.
- Ira Byock, M.D., was the keynote speaker to hospital doctors, staff and the public on "Care Beyond Cure: Pain and Symptom Management, Functional Assessment and Quality of Life."
- A \$50,000 donation was received from the Pace family. "I just wanted to give something back to the community," Pace said of the donation, which the hospital will use to refurbish the 33-bed Medical Surgical Unit.

- \$14,000 in grant funding, \$46,000 from the Kona Hospital Foundation, and \$21,000 for in-kind services donated to create a landscaped Healing Garden for the hospital.

## ■ **Kohala Hospital**

- 26 active volunteers
  - Nearly 3,633 volunteered service hours each year
- Replacement of patient care equipment with financial support (\$5,000) from hospital Auxiliary and other donations:
  - Patient lift and slings
  - 9-drawer organizers for each resident's room
  - Alternating air-pressure mattresses
  - Bed Extenders
  - Bed alarm system
  - Geri chairs
  - Shower gurney
  - Non-invasive blood pressure machine
- Funds donated by community physicians, residents (\$634) to support various patient activities throughout the year i.e., birthday and other holiday activities, activity supplies, etc.
- Annual Hospital Auxiliary Fund Raising
  - Community spaghetti dinner - \$3143
- Initiation of Professional and Volunteer Education (PAVE) program for high school students who wish to explore the health careers.

## **KAUAI REGION**

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

- 31 active volunteers
  - Nearly 2,500 volunteered service hours each year
  - Auxiliary raised more than \$10,000
  - Hosted a membership drive generating approximately \$500 from membership fees.

- Held a Christmas Craft Fair and Bake Sale. Produced approximately \$5,000.
- KVMH Foundation
  - Applied and received Tax Exempt status from the United States Internal Revenue Service.
  - Since receiving Tax Exempt status, established an account for the KVMH Charitable Foundation
  - Held successful Millenium Celebration at the Waimea Plantation Cottages on December 31, 2000. (This would mark the first fundraising event for the Foundation.) Generated approximately \$5,500 from the Millenium event.
  - Applied and was successfully awarded a sum of \$22,645 from the Antone and Edene Vidinha Trust Fund.

■ **Samuel Mahelona Memorial Medical Center**

- 43 active volunteers
  - Nearly 9158 volunteered service hours each year
  - Auxiliary raised more than \$15,000.
  - \$10,000 donated from Hawaii Hotel Industry Association
  - 4 wooden benches constructed and donated by an Eagle Scout.
  - Held Slack key concert September 2000. Raised \$1908.00
- SMMH Foundation
  - Applied and received Tax Exempt status from the United States Internal Revenue Service.
  - Since receiving Tax Exempt status, established an account for the SMMH Charitable Foundation
  - Applied and was successfully awarded a sum of \$22,645 from the Antone and Edene Vidinha Trust Fund.

## MAUI REGION

### ■ Maui Memorial Medical Center

- 72 active volunteers
  - Nearly 17,700 volunteered service hours each year
  - Auxiliary raises more than \$50,000 annually
  - Equipment donated:
    - 8 Sleeper Chairs
    - 1 Infant Ventilator
    - Training for Biomedical staff on new ventilator
    - 1 big Boy Wheelchair
    - 1 Vollman Prone Positioner to turn patient
    - 6 Wheelchairs
    - VCR combo for patient education in the Emergency Dept.
    - VCR/Nintendo for patient use.

Scholarship grants to MMMC Employees:

- 2 \$1200 RN Program at MCC
- 1 \$800 Masters degree in Nursing
- 1 4800 BS in Nutrition

Continuing Education Funding for MMMC Employees:

- 2 \$400 Operating Room Technical Training
- 2 \$200 Advanced Cardiac Life Support Training
- 1 \$386 Fetal Monitoring Training

Christmas stockings to newborns.

### ● MMMC Charitable Foundation

- Nominated The Maui Soda and Ice Works for the Small Business Philanthropist Award for the State based on their volunteer and giving. They won the award.
- The video, Honoring our Heroes in Healthcare Through the Ages won first prize in the state for videos. This video was produced through a grant made by Stephanie Evans who is a donor and volunteer.
- \$10,000 grant from the Hawaii Community Foundation for the multipurpose recreational area for Molokini I.
- Introduced the Founder's Program and honored those individuals on December.

- Launched the Create a Living Legacy Program and received a proclamation from the Mayor and endorsement from the County Council

## ■ **Kula Hospital**

- 82 active volunteers
  - Nearly 6,700 volunteered service hours each year
  - Auxiliary purchases totaled more than \$21,400
    - ECG machine for the clinic
    - Computer/projector
    - Three difibrillators
    - Wheelchair beam chair
    - Sewing machine and table
    - Linen carts
    - Shampoo basins and tray
    - Shower/commode chair
    - Men's electric shaver
  - Landscaping project of hospital grounds into a park for residents, staff, and guests (includes gazebo, rock wall, and indigenous plants) total more than \$21,000
  - Auxiliary disbursements totaled more than \$3,000
    - Subsidize three staff members to attend off-island conferences
    - Subsidize Hale Makemai expenses and excursions
    - Resident excursions
  - Clothing donations for residents totaled more than \$3,000

## ■ **Lanai Community Hospital**

- 105 active volunteers
  - Nearly 1,600 volunteered service hours each year
  - \$500 student scholarship from the Auxiliary
  - VCR equipment donated - \$150 value



## **OAHU REGION**

### **■ Leahi Hospital**

- 76 active volunteers
  - Nearly 11,560 volunteered service hours each year
  - Thrift Shop raised a net of more than \$12,000
  - In kind donations totaled \$4,908
  - Monetary donations totaled \$3,915

### **■ Maluhia**

- 55 active volunteers
  - Nearly 8,000 volunteered service hours each year
  - Gift Shop raises more than \$12,000 per year



December 15, 2000

East Hawaii Region Management Advisory Report  
HHSC Annual Report

This past fiscal year has been one full of change for the East Hawaii Region with the vacancy of the Regional Chief Executive Officer position early in the year. Hilo Medical Center and the East Hawaii Region operated half the year with an acting CEO. Gerald Nagata, Regional Chief Financial Officer, stepped into the role of Acting CEO while the MAC, along with physician and community representatives, began the selection process with HHSC. Selected members of the MAC screened, interviewed, and recommended a candidate for selection, and in April, Ronald Schurra was hired as Regional CEO.

The region also saw a turnover in the Director of Nursing position at two facilities, and fortunately, both positions were filled quickly.

The MAC asked the East Hawaii Independent Physicians Association and the Hawaii County Medical Society for a physician nominee to the MAC. Dr. Ed Montell was appointed to the MAC to fill a physician seat.

Ka'u Hospital continues to be an integral part of the community. The hospital is partnering with Ka'u High School's special education program to be a job training center site for its students. Students assist in the Dietary, Housekeeping, and Maintenance departments, and receive valuable job training and personal development experiences. A Request for Proposal (RFP) was made and a contract to provide 24-hour/7 day Emergency Room service to its community was finalized. The Critical Access Hospital (CAH) initiative remains alive and a serious consideration for Ka'u Hospital and the community.

Hale Ho'ola Hamakua (HHH) operated at almost full capacity for most of the fiscal year. A senior housing unit adjacent to HHH is being considered, as well as an alzheimers unit for HHH. Several community projects and collaborative opportunities exist in the Hamakua community and Hale Ho'ola Hamakua continues to work with the neighboring North Hawaii Community Hospital for possible partnerships which would benefit the Hamakua community and both facilities.

Hilo Medical Center continued to push forward with several initiatives. The Same Day Surgery Center refurbishing project was started, which provides a more home-like environment for patients and their families and lives up to the objective of "having your surgery close to home near the support of family and friends". A plan to partner with

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Hawaii Health Systems Corporation

the University of Hawaii at Hilo with the assistance of the Department of Health to provide an internship-type program for graduate nurses has begun. The project's objective is to provide new graduates with clinical skills necessary for employment and provide the hospital with a pool of qualified and interested candidates.

The medical center is also exploring the possibility of managing a 30-bed hospital should a new prison be built in East Hawaii.

The Hawaii Pacific Oncology Center, a service of Hilo Medical Center, was dedicated in August, and provides radiation oncology services for the entire Island of Hawaii.

The East Hawaii MAC bld a fond Aloha to several MAC members whose terms expired – William Derasin, Carol Kalaau, and chairperson, Robert (Bobby) Cooper.

  
Albert Nishimura, Chairman

**PUBLIC HEALTH FACILITY  
MANAGEMENT ADVISORY COMMITTEE  
KAUAI ANNUAL LEGISLATIVE REPORT**

The Kauai Public Health Facility Management Advisory Committee (PHFMAC) would like to thank you for your support in providing legislatively mandated services to our rural hospitals. Accomplishments in my report were ensured under the leadership of Thomas Driskill, Jr. and the Hawaii Health Systems Corporation (HHSC) Board of Directors, our Regional CEO, Ms. Orianna Skomoroch, and her staff at Kauai Veterans Memorial Hospital (KVMH) and Samuel Mahelona Memorial Hospital (SMMH).

Kauai has successfully completed regionalization planning with our two hospitals under one senior management team. At the present time, KVMH is in its final phase of applying for Critical Access Hospital (CAH) status which would bring to the facility \$1.4 million and ensure stabilization of services. As a CAH-licensed facility, the KVMH would be entitled to cost-based reimbursement to assist in improving its services, lowering deficits, and bring in physicians so services can be provided which will help to increase revenues.

A Rehab joint venture has also been established at KVMH. The vision of recapturing services in the OB ward at KVMH is being met at this time. The West Kauai Community Development Corporation (CDC) is selling their property and going after a grant in order to meet the \$1.2 million loan payment they took on to bring more physicians to this westside facility.

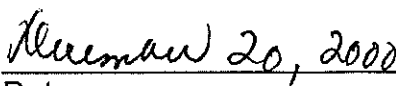
The MAC is supporting the recruitment of a second internist for KVMH which will help to generate \$1.2 million as well as bring in a new family practitioner to east Kauai. We also support the closing of laundry services at SMMH due to the present age and condition of the equipment, and also because it is not a direct patient care service.

Because of the legislatively mandated services, we look forward to the insight of the Legislature in recognizing Kauai's healthcare situation and funding the needs and safety net of Kauai's communities.

Respectfully submitted by:



M. JEAN ODO  
Chair



Date

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

**December, 2000**

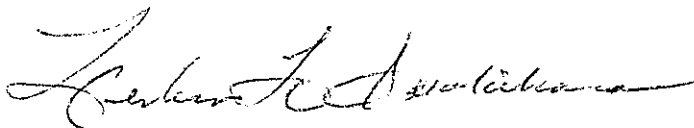
Thank you for the opportunity to provide this report. On behalf of the Maui Region Public Health Facility Management Advisory Committee, I would like to report that we continue to be supported under the leadership of Thomas Driskill, Jr., and the Hawaii Health Systems Corporation (HHSC) Board of Directors.

Maui Memorial Medical Center is the only facility out of the twelve facilities showing a profit thanks to the management skill of William "Boyd" Kleefisch. Hopefully Kona and Hilo will be showing profit within the next year. The Maui Region includes Kula Hospital and Lanai Community Hospital and because of the services we are mandated to provide, there is a shortfall of \$855,880 for Kula Hospital and \$977,290 for Lanai Community Hospital. Kula has applied to State Health Planning and Development Agency (SHPDA) and been approved for the addition of eight (8) SNF/ICF (long term care) beds and two (2) acute beds for a total of ten (10) new beds. The increased bed capacity is needed in Maui County and will improve Kula's financial shortfall. Lanai has applied to the State Office on Rural Health (SORH) for Critical Access Hospital (CAH) status. As a CAH they will be entitled to cost based reimbursement that should help them improve their financial situation. Both hospitals are also in the process of regionalizing several areas that will help reduce overhead expenses. However, even with these measures implemented, Kula and Lanai will never be able to break even without General Funds.

Thank you 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.

As mentioned in my report submitted to you last year, there will always be a need for legislative support to ensure the continuation of our safety net hospital system. Thank you for your support and commitment to healthcare in Hawaii.

Respectfully submitted,



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HERBERT H. SAKAKIHARA  
Maui Region Management Advisory Committee

## MAUI REGION FY00 RESULTS

	MMMC	KULA	LANAI	TOTAL REGION
Net Revenue	90,534,382	8,610,435	1,072,091	100,216,908
Other Revenue	509,167	555,874	3,967	1,069,008
Expenses	85,190,186	10,022,190	2,053,348	97,265,724
Profit/Loss	5,853,363	(855,880)	(977,290)	4,020,193

**Ulukou (Oahu) Region  
Public Health Facility Management Advisory Committee  
Hawaii Health Systems Corporation**

**Annual Report  
December 2000**

This has been a year of challenges and accomplishments for the Ulukou (Oahu) Region. The accomplishments for the last year include:

1. Diane Plotts was reappointed the Oahu Region Board member
2. Both Leahi Hospital and Maluhia were under their financial targets
3. Both Leahi Hospital and Maluhia maintained State licensure and Medicare/Medicaid certification
4. Senior Nursing management personnel at both facilities retired and new Directors of Nursing were brought on board
5. PACE (Program of All-Inclusive Care for the Elderly) program continues to expand
6. Leahi Hospital facilitates the Department of Health Child & Adolescent Mental Health and Tuberculosis Branch needs
7. Annual Family Meeting was very successful with a huge turnout, displaying active support and participation
8. Jay Duquette, Administrator of Maluhia, was awarded the Gerontology award
9. Continued strong support by both Auxiliaries and volunteers at both facilities
10. Regionalization of Leahi Hospital and Maluhia continues

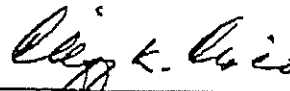
Challenges for Oahu Region include:

1. Reduce State subsidy

2. Expansion of the PACE program (Leahi)
3. Expand the Adult Day Health program
4. Need to continue the level of services that both Leahi Hospital and Maluhia provide (inpatient SNF/ICF services)
5. Both Oahu facilities continue to serve as the placement of last resort for the most serious and costly health care of long term care patients
6. Implementation of regionalization of Oahu facilities to achieve greater efficiency
7. the need to expand Home and Community Based services for the elderly
8. Reduce Medicare and Medicaid reimbursement

The accomplishments and challenges for the Ulukou (Oahu) Region follow the Hawaiian ways of Ho'omau (persevere) and Nalu (flexibility) in achieving HHSC mission.

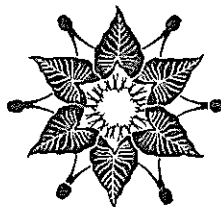
Respectfully submitted,



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CLIFF GISCO, Chair  
Oahu Region Public Health Facilities  
Management Advisory Committee





**Maui Memorial**  
**MEDICAL CENTER**

Hawaii Health Systems Corporation — Maui Region

Hawaii Health Systems Corporation  
Physician's Advisory Group  
Annual Report to Hawaii State Legislature  
2000 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 2000.

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. Medical Staff Bylaws revision.
6. Development of a Standardized Credentials Verification System.
7. Transition to Critical Access Hospitals for selected Regional Facilities.
8. Development and implementation of a Corporate wide Physician Satisfaction Survey.
9. Development phase for a Virtual Center for Excellence for the Management of Patients with Diabetes Mellitus.
10. Development of Programs to empower our Physicians through Leadership Training.

These successes have been achieved and at the same time, HHSC has reduced our audited losses over the past four 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.

Sincerely,

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

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

Attachment 4

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**HAWAII HEALTH SYSTEMS CORPORATION (HHSC)  
JULY 1, 1999 – JUNE 30, 2000 ACCOMPLISHMENTS**

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**QUALITY:**

- Achieved annual DOH/HCFR certification for all HHSC facilities.
- Achieved JCAHO full three-year accreditation for KVMH.
- Opened Walk-In Clinic at SMMH.
- Obtained CON for MRI at Kona.
- Opened Neuro-Surgery service at Hilo.
- Opened new Cancer Center/Women's Health Center at Hilo.
- Obtained HCFR Approval for Rehab Bed Host Hospital status at KVMH.
- Completed construction on Psych wing at Kona.
- Completed RFP for HHSC facility power plant upgrades.
- Implemented Corporate Compliance Program.
- Opened eight observation beds at MMMC.
- Reopened 2 Acute level beds at Kona.
- Expanded PACE from 70 to 90 patients at Maluhia.
- Obtained CON for Nuclear Medicine at Kona.
- Obtained CON for CAH at KVMH.
- Implemented LTC customer satisfaction survey – continued with acute customer satisfaction and employee satisfaction surveys plus follow-up action.

**FINANCE:**

- Worked with Administration on line of credit that covered collective bargaining increases/Y2K implementation until legislative relief can be obtained.
- Achieved \$18.5M accrual loss target for FY2000 excluding Y2K cost and retirement fund rebate.
- Exceeded a cash collection target of \$230M by collecting \$233.7M.
- Expanded Pacific Island contracts to include more nations and an alliance program.
- Stood up and operationalized the HHSF and obtained \$600K in grant money.
- Established JV with Clinical Labs at KVMH.
- Negotiated Physicians Coverage Contract with DOH for Psych at SMMH.
- Consolidated Administrative support for Leahi with Maluhia.
- Increased revenue per bed day by \$35 from FY99 to FY00 while cost per bed day only increased by \$28 from FY99 to FY00 (based upon FY00 annualized results).
- Obtained fee simple ownership of 9 HHSC facilities.

**INFORMATION MANAGEMENT:**

- Completed Y2K Compliance.
- Completed HIPAA Information Security Assessment.
- Completed RFPs and implement LTC System Phase I, Personnel System, Pharmacy System, OR Scheduling System, Electronic Billing, and other accounting systems.
- Expanded Video Teleconference capability to include clinical applications.
- Expanded use of Teleconference/Telemedicine capability in the Pacific Rim.

**PERSONNEL:**

- Implemented HHSC Annual Employee, Team, and Manager of the Year Recognition Program
- Began to implement employee customer satisfaction training and middle management training.
- Worked with union partners to achieve efficiency through completion of more MOAs.
- Achieved Public Employer status.
- Implemented Employee Assistance Program as an enhanced employee benefit.

**STRATEGIC PLANNING:**

- Conducted a three-day facilitated HHSC offsite in Hilo with HHSC stakeholders to update Strategic Plan and to finalize FY2000 Legislative package.
- Developed FY2000 Legislative package that obtained an emergency appropriation to offset the cost of collective bargaining increases/Y2K implementation and set levels of service and collective bargaining relationships in concert with civil service reform that will launch HHSC on a four-year plan to achieve a HHSC/Neighbor Island safety net posture to be determined by the Legislature.
- Closer alignment of HHSC facilities with medical staff.
- Worked closely with MACs/PAG/Union Partners/Employees/Legislature/Administration/ and the communities we serve to implement the HHSC Strategic Plan.

**Deloitte  
& Touche**

***Hawaii Health Systems  
Corporation***

*Financial Statements for the Years Ended  
June 30, 2000 and 1999, Supplemental  
Information for the Year Ended June 30, 2000  
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 years ended June 30, 2000 and 1999 and the independent auditors' report thereon.

### SCOPE OF THE AUDITS

The audits were required to be performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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. 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.

### 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 years ended June 30, 2000 and 1999 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 statements of financial position of Hawaii Health Systems Corporation (HHSC), a component unit of the State of Hawaii, as of June 30, 2000 and 1999, and the related statements of operations - unrestricted funds, changes in fund balances, and cash flows - unrestricted funds for the years 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 audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of HHSC at June 30, 2000 and 1999 and the results of its operations and the cash flows of its unrestricted funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2000, 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 statements of financial position at June 30, 2000 and 1999 may be significantly different from those eventually included in the final settlement.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 19 and 20 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 21 through 23 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 audits 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 3, 2000 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.

*Deloitte & Touche LLP*

November 3, 2000



# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENTS OF FINANCIAL POSITION JUNE 30, 2000 AND 1999

ASSETS	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents:		
On deposit with the State of Hawaii	\$ 978,270	
On deposit with banks and on hand	<u>8,449,512</u>	<u>\$ 6,867,557</u>
Total cash and cash equivalents	9,427,782	6,867,557
Patient accounts receivable - less allowances of \$91,825,787 and \$91,704,411 for contractual adjustments and doubtful accounts	45,117,748	49,943,260
Supplies and other current assets	<u>5,766,655</u>	<u>5,971,655</u>
Total current assets	60,312,185	62,782,472
PROPERTY, PLANT AND EQUIPMENT - Net (Notes 3 and 4)	150,802,526	149,038,648
RECEIVABLE FROM THE STATE OF HAWAII - Pension funding (Note 7)	6,206,461	
ASSETS LIMITED AS TO USE (Note 9)	1,892,669	5,218,000
NOTE RECEIVABLE	<u>111,266</u>	
TOTAL	<u>\$219,325,107</u>	<u>\$217,039,120</u>

# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENTS OF FINANCIAL POSITION (Continued) JUNE 30, 2000 AND 1999

LIABILITIES AND FUND BALANCES	2000	1999
<b>CURRENT LIABILITIES:</b>		
Cash shortfall with the State of Hawaii		\$ 6,521,588
Accounts payable and accrued expenses	\$ 24,113,165	16,686,075
Accrued vacation	17,403,816	16,720,432
Accrued workers' compensation liability (Note 8)	17,000,000	18,500,000
Estimated third-party payor settlements	4,600,716	5,151,351
Patients' safekeeping deposits	349,228	428,225
Capital lease obligations - current portion (Note 4)	1,567,982	1,883,591
Other current liabilities	1,038,087	1,399,143
Accrued retroactive compensation (Note 6)		13,279,298
<b>Total current liabilities</b>	<b>66,072,994</b>	<b>80,569,703</b>
<b>CAPITAL LEASE OBLIGATIONS - Less current portion (Note 4)</b>	<b>4,404,168</b>	<b>2,876,503</b>
<b>DUE TO THE STATE OF HAWAII</b>	<b>20,122,507</b>	<b>20,115,465</b>
<b>Total liabilities</b>	<b>90,599,669</b>	<b>103,561,671</b>
<b>FUND BALANCES:</b>		
Unrestricted:		
Board-designated (Note 9)	5,500	3,000,000
Other	127,181,997	108,687,674
<b>Total unrestricted</b>	<b>127,187,497</b>	<b>111,687,674</b>
<b>Restricted</b>	<b>1,537,941</b>	<b>1,789,775</b>
<b>Total fund balances</b>	<b>128,725,438</b>	<b>113,477,449</b>
<b>TOTAL</b>	<b>\$219,325,107</b>	<b>\$217,039,120</b>

See notes to financial statements.

# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENTS OF OPERATIONS - UNRESTRICTED FUNDS YEARS ENDED JUNE 30, 2000 AND 1999

	2000	1999
OPERATING REVENUES:		
Net patient service revenues (Note 5)	\$ 235,426,411	\$ 222,583,456
Other (Note 5)	<u>2,301,204</u>	<u>1,833,644</u>
Total operating revenues	237,727,615	224,417,100
OPERATING EXPENSES:		
Salaries and benefits	138,351,309	132,732,351
Medical supplies and drugs	26,059,658	22,761,255
Professional fees (Note 5)	20,876,597	17,133,910
Purchased services (Note 5)	18,217,465	16,500,599
Provision for doubtful accounts	12,653,146	15,466,509
Depreciation and amortization	12,378,048	10,415,935
Other supplies	9,569,332	7,726,018
Year 2000 compliance (Note 8)	581,222	1,207,690
Interest	485,050	419,479
Retroactive compensation (Note 6)		13,279,298
Other	<u>17,979,179</u>	<u>14,687,395</u>
Total operating expenses	<u>257,151,006</u>	<u>252,330,439</u>
LOSS FROM OPERATIONS	(19,423,391)	(27,913,339)
NONOPERATING REVENUES - Net:		
Appropriations from the State of Hawaii	28,252,267	8,000,000
Other - net	<u>2,194,013</u>	<u>1,992,689</u>
Nonoperating revenues - net	<u>30,446,280</u>	<u>9,992,689</u>
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	<u>\$ 11,022,889</u>	<u>\$ (17,920,650)</u>

See notes to financial statements.

# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENTS OF CHANGES IN FUND BALANCES YEARS ENDED JUNE 30, 2000 AND 1999

	2000	1999
UNRESTRICTED FUNDS:		
Balance, beginning of year	\$ 111,687,674	\$ 123,912,722
Excess of revenues over expenses (expenses over revenues)	11,022,889	(17,920,650)
Amounts released from restrictions	541,694	1,626,335
Property, plant and equipment contributed by the State of Hawaii (Note 3)	<u>3,935,240</u>	<u>4,069,267</u>
Balance, end of year	<u>\$ 127,187,497</u>	<u>\$ 111,687,674</u>
RESTRICTED FUNDS:		
Balance, beginning of year	\$ 1,789,775	\$ 1,370,537
Restricted contributions	289,860	2,085,713
Amounts released from restrictions	(541,694)	(1,626,335)
Reclassification of patients' safekeeping deposits	<u></u>	<u>(40,140)</u>
Balance, end of year	<u>\$ 1,537,941</u>	<u>\$ 1,789,775</u>

See notes to financial statements.

# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENTS OF CASH FLOWS - UNRESTRICTED FUNDS YEARS ENDED JUNE 30, 2000 AND 1999

	2000	1999
<b>OPERATING ACTIVITIES:</b>		
Loss from operations	\$(19,423,391)	\$(28,027,357)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Provision for doubtful accounts	12,653,146	15,466,509
Depreciation and amortization	12,378,048	10,415,935
Amounts released from Board designations	2,994,500	
Amounts released from restrictions	541,694	1,626,335
Change in operating assets and liabilities:		
Receivables	(7,827,634)	(26,164,452)
Supplies and other current assets	205,000	622,121
Accounts payable, accrued expenses, and other liabilities	6,166,328	(614,652)
Accrued vacation	683,384	(74,144)
Accrued workers' compensation liability	(1,500,000)	(1,500,000)
Estimated third-party payor settlements	(550,635)	(2,399,999)
Accrued retroactive compensation	(13,279,298)	13,279,298
Net cash used in operating activities	(6,958,858)	(17,370,406)
<b>INVESTING ACTIVITIES:</b>		
Pension funding paid in advance	(6,206,461)	
Issuance of notes receivable	(111,266)	(225,000)
Advances to employees - net		(10,976)
Net cash used in investing activities	(6,317,727)	(235,976)
<b>NONCAPITAL FINANCING ACTIVITIES:</b>		
Appropriations from the State of Hawaii	28,252,267	8,000,000
Other nonoperating revenues - net	1,711,845	1,840,343
Loss on sale of property, plant and equipment	149,426	321,205
Receipts from the State of Hawaii	7,042	
Net cash provided by noncapital financing activities	30,120,580	10,161,548
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital expenditures	(5,657,564)	(9,054,691)
Repayments on capital lease obligations	(2,124,868)	(1,935,244)
Proceeds from sale of property, plant and equipment	20,250	7,716
Net cash used in capital and related financing activities	(7,762,182)	(10,982,219)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Forward)</b>	<b>9,081,813</b>	<b>(18,427,053)</b>

# HAWAII HEALTH SYSTEMS CORPORATION

## STATEMENTS OF CASH FLOWS - UNRESTRICTED FUNDS (Continued) YEARS ENDED JUNE 30, 2000 AND 1999

	2000	1999
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Forward)	\$ 9,081,813	\$(18,427,053)
CASH AND CASH EQUIVALENTS (NET OF CASH SHORT- FALL WITH THE STATE OF HAWAII), BEGINNING OF YEAR	<u>345,969</u>	<u>18,773,022</u>
CASH AND CASH EQUIVALENTS (NET OF CASH SHORT- FALL WITH THE STATE OF HAWAII), END OF YEAR	<u>\$ 9,427,782</u>	<u>\$ 345,969</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, primarily on capital lease obligations	\$ 425,607	\$ 415,651
Non-cash financing and investing activities:		
• Property, plant and equipment contributed by the State of Hawaii	3,935,240	4,069,267
• Interest capitalized on construction projects	362,162	266,362
• Equipment acquired under capital leases	3,336,924	2,321,709
• Equipment purchases included in accounts payable	899,712	
• Property, plant and equipment contributed by third parties	120,000	

See notes to financial statements.

# HAWAII HEALTH SYSTEMS CORPORATION

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2000 AND 1999

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### 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 a 13-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, 2000. Accordingly, the assets, liabilities and fund balances of HHSC reflected in the accompanying statements 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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, 2000 and 1999 is indicated in the accompanying statements of financial position as "Cash on deposit with State of Hawaii" (the cash shortfall at June 30, 1999 has been reflected as a liability). 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 are 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 years ended June 30, 2000 and 1999.

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 \$4,600,716 and \$5,151,351 as of June 30, 2000 and 1999, respectively, is based on estimates, because 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 1998.
- **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.
- **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 8.

**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, 2000 and 1999 was as follows:

	2000	1999
Medicare	20%	18%
Medicaid	18	19
HMSA	18	13
Other third-party payors	29	23
Patients and other	<u>15</u>	<u>27</u>
	<u>100%</u>	<u>100%</u>

**Reclassifications** - Certain amounts in the 1999 financial statements have been reclassified to conform with the 2000 presentation.

### 3. PROPERTY, PLANT AND EQUIPMENT

At June 30, 2000 and 1999, property, plant and equipment consisted of the following:

	2000	1999
Land and land improvements	\$ 3,357,465	\$ 3,174,945
Buildings and improvements	175,344,737	173,055,278
Major moveable equipment	57,446,739	56,874,657
Fixed equipment	23,083,353	22,524,600
Construction in progress	<u>15,306,022</u>	<u>9,269,455</u>
	274,538,316	264,898,935
Less accumulated depreciation and amortization	<u>(123,735,790)</u>	<u>(115,860,287)</u>
Property, plant and equipment - net	<u>\$ 150,802,526</u>	<u>\$ 149,038,648</u>

In 2000 and 1999, the State Department of Accounting and General Services transferred property, plant and equipment, including construction in progress, aggregating \$3,935,240 and \$4,069,267, respectively, to HHSC as a contribution of capital.

### 4. CAPITAL LEASE OBLIGATIONS

HHSC-Corporate (Corporate) has an arrangement with Academic Capital LLC (Academic Capital) whereby Corporate enters into capital leases with Academic Capital on behalf of the facilities. The capital lease obligation is recorded on Corporate's financial statements; however, the asset is recorded on the respective facility's financial statements. Corporate makes the capital lease payments, while the facility will record depreciation using the straight-line method over the estimated useful life of the asset. The facilities reimburse Corporate through the due from affiliates account.

The facilities lease equipment under capital leases which expire on various dates through fiscal 2022. Future lease payments as of June 30, 2000 were as follows:

Year ended June 30:	
2001	\$ 2,002,739
2002	1,647,411
2003	1,481,561
2004	1,227,884
2005	449,047
Thereafter	<u>33,237</u>
Total future minimum payments	6,841,879
Less amount representing interest	<u>(869,729)</u>
Total capital lease obligations	5,972,150
Current portion	<u>(1,567,982)</u>
Noncurrent portion	<u>\$ 4,404,168</u>

The cost of the leased equipment as of June 30, 2000 and 1999 approximated \$7,902,000 and \$9,258,000, and the related accumulated depreciation was approximately \$4,681,000 and \$5,861,000, respectively.

## **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 charges. Amounts charged by the contractors are included in operating expenses in purchased services and professional fees, and aggregated approximately \$21 million and \$20 million during fiscal 2000 and 1999, respectively.

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 \$2,008,000 and \$1,998,000 during fiscal 2000 and 1999, respectively.

## **6. RETROACTIVE COMPENSATION INCREASE**

On May 25, 1999, the Legislature of the State of Hawaii approved a compensation increase for certain collective bargaining employees (including those employed or previously employed by HHSC), as defined in Act 60, H.B. 1038 of the Twentieth Legislature, retroactive to various dates starting from July 1, 1995. HHSC accrued the retroactive increase and recorded it as an expense in fiscal year 1999 because the increase was authorized by the Legislature in such fiscal year.

On July 23, 1999, the State of Hawaii advanced HHSC \$6,984,000 to fund a portion of the pay increase. In fiscal year 2000, HHSC paid its portion of the retroactive compensation increase.

## **7. 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.

During the year ended June 30, 2000, HHSC's contribution to the ERS was \$6,206,461. In July 2000, the State of Hawaii Department of Budget and Finance notified HHSC that, due to the late approval of fringe benefit rates for fiscal year 2000, assessments of fringe benefits for all State entities during fiscal year 2000 were based on the fiscal year 1999 rates. However, as the approved fiscal year 2000 ERS contribution rate was zero, the contributions made by HHSC entities during fiscal year 2000 resulted in an overcollection of such amounts. Accordingly, HHSC has recorded a receivable for the amount it contributed to the ERS during the year ended June 30, 2000 (shown as receivable from the State of Hawaii - pension funding in the statement of financial position). As of November 3, 2000, the State had not determined whether the receivable would be settled through a cash refund or through a reduction of future contributions to the ERS.

HHSC's contributions to the ERS for the years ended June 30, 1999 and 1998 approximated \$6,655,000 and \$14,897,000, 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 \$6,570,000 and \$6,308,000 for the years ended June 30, 2000 and 1999, respectively.

#### **Sick Leave**

Accumulated sick leave as of June 30, 2000 was approximately \$31 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.

### **8. 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. The estimated liability is based on actuarial projections of costs using historical claims-paid data. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. HHSC has accrued a liability of \$17,000,000 and \$18,500,000 for unpaid claims as of June 30, 2000 and 1999, respectively.

### **Ceded Lands**

The Office of Hawaiian Affairs (OHA) and the State of Hawaii are presently in litigation involving the State's alleged failure to properly account for 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. As of June 30, 2000, the outcome of the lawsuit had not been decided.

At the present time, HHSC 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 required to 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 Medical Center 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.

### **Year 2000 Costs**

HHSC estimated that the cost of the year 2000 project would approximate \$5,300,000. Such costs include hardware, software, consultants, and material and supplies. Approximately \$2,350,000 had been incurred as of June 30, 2000, of which approximately \$581,000 and \$1,208,000 was expensed during the years ended June 30, 2000 and 1999, respectively.

### **Cancer Treatment Center**

HHSC is a party to an agreement with Hilo Residency Training Program, Inc. (H RTP) relating to the development and management of Hilo Medical Center's Cancer Treatment Center (CTC) and its radiation and medical oncology service. The agreement expires in 2022. For services rendered, H RTP

is to be paid a management fee based on a specified percentage of CTC's revenues over expenses. For the year ended June 30, 2000, such fees totaled approximately \$97,000. There were no management fees paid during the year ended June 30, 1999.

## 9. BOARD-DESIGNATED FUNDS

As of June 30, 2000 and 1999, HHSC's Board of Directors had designated cash reserves as follows:

	2000	1999
For capital equipment acquisitions and/or equity investments for growth initiatives	\$5,000	\$2,500,000
For settlement and extinguishment of residual workers' compensation claims	<u>500</u>	<u>500,000</u>
Total	<u>\$ 5,500</u>	<u>\$3,000,000</u>

During the year ended June 30, 2000, HHSC's Board of Directors released \$2,994,500 of the designated cash reserves for use in operations.

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

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# HAWAI HEALTH SYSTEMS CORPORATION

## SUPPLEMENTAL SCHEDULE OF RECONCILIATION OF CASH ON DEPOSIT WITH THE STATE OF HAWAII JUNE 30, 2000

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	Appropriation Symbol	
<b>CASH ON DEPOSIT WITH THE STATE OF HAWAII:</b>		
SPECIAL FUNDS:		
	S-85-364-M	\$ 1,597
	S-92-312-H	485
	S-93-312-H	543
	S-93-353-H	6,563
	S-93-359-H	5,681
	S-94-359-M	46,305
	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-97-359-H	5,878
	S-97-396-H	182
	S-98-396-H	1,687
	S-99-355-H	2,615
	S-99-371-H	15,828
	S-00-303-H	11,972
	S-00-312-H	19,690
	S-00-350-H	48,591
	S-00-351-H	5,107
	S-00-352-H	11,031
	S-00-353-H	6,146
	S-00-354-H	54,976
	S-00-355-H	29,126
	S-00-358-H	7,434
	S-00-359-H	9,095
	S-99-365-H	556,756
	S-00-373-H	24,812
TRUST FUNDS:		
	T-00-909-H	28,163
	T-00-914-H	23,220
	T-00-918-H	<u>1,273</u>
TOTAL PER STATE		985,593
RECONCILING ITEMS - Other		<u>(7,323)</u>
TOTAL PER HHSC		<u>\$ 978,270</u>



# HAWAI HEALTH SYSTEMS CORPORATION

## SUPPLEMENTAL SCHEDULE OF RECONCILIATION OF CASH ON DEPOSIT WITH THE STATE OF HAWAII (Continued) JUNE 30, 2000

	Appropriation Symbol	
ASSETS LIMITED AS TO USE:		
GIFT FUNDS:		
	T-99-911-H	\$ 22,912
	T-00-910-H	63,106
	T-00-915-H	14,857
	T-00-919-H	1,045
PATIENT TRUST FUNDS:		
	T-99-925-H	101,069
	T-99-926-H	11,674
	T-00-920-H	4,292
	T-00-921-H	6,679
	T-00-997-H	<u>42,451</u>
TOTAL PER STATE		268,085
RECONCILING ITEMS:		
Board-designated funds		5,500
Restricted funds		1,451,870
Cash held by financial institutions		145,398
Other		<u>21,816</u>
TOTAL PER HHSC		<u>\$1,892,669</u>

# HAWAII HEALTH SYSTEMS CORPORATION

## SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION INFORMATION JUNE 30, 2000

ASSETS	Facilities											Reclassifi- cations and Elimi- nations				
	Hilo Medical Center	Hale Ho'ola Hanakua	Ka'u Hospital	Kohala Hospital	Kona Community Hospital	Maul Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Leahi Hospital		Mauihala Hospital	Total Facilities	Corporate	Total HHSC
CURRENT ASSETS:																
Cash and cash equivalents:																
	\$ 67,760	\$ 15,089	\$ 11,031	\$ 12,709	\$ 54,976	\$ 31,740	\$ 15,828	\$ 7,434	\$ 56,578	\$ 24,077	\$ 75,638	\$ 556,756	\$ 939,616	\$ 48,654	\$	\$ 978,270
On deposit with the State of Hawaii	36,463	500	10,190	179,763	318,415	230,907	14,650	13,606	28,313	38,036	644,278	(68,526)	1,446,595	7,002,917		8,449,512
Total cash and cash equivalents	104,223	15,589	21,221	192,472	373,391	262,647	30,478	21,040	84,891	62,113	719,916	488,230	2,376,211	7,051,571		9,427,782
Patient accounts receivable - less allowances for contractual adjustments and doubtful accounts																
Supplies and other current assets	9,934,896	691,096	267,363	401,570	5,853,986	18,809,716	1,700,887	207,252	2,235,142	1,032,043	2,639,629	1,344,168	45,117,748			45,117,748
	1,480,441	102,600	51,895	17,975	1,382,369	1,658,242	125,569	71,506	374,016	46,445	216,156	129,390	5,656,604	110,051		5,766,655
Total current assets	11,519,560	809,285	340,479	612,017	7,609,746	20,730,605	1,856,934	299,798	2,604,049	1,140,601	3,575,701	1,961,788	53,150,563	7,161,622		60,312,185
DUE FROM AFFILIATES - Net	1,033,514					4,585,789							5,619,303	52,314,626	\$ (57,933,929)	
PROPERTY, PLANT AND EQUIPMENT - Net																
	23,317,527	15,640,797	961,092	712,395	25,453,023	43,212,612	5,376,087	623,532	9,903,146	4,430,114	9,038,146	4,344,304	143,012,775	7,789,751		150,802,526
RECEIVABLE FROM THE STATE OF HAWAII - Pension funding																
	1,620,000	135,000	79,000	90,000	686,000	1,521,000	296,000	68,632	302,147	248,000	570,000	410,052	6,025,831	180,630		6,206,461
ASSETS LIMITED AS TO USE																
	32,844	9,110	9,841	4,486	84,596	45,258	50,263	2,338	8,043	26,238	156,699	65,363	495,079	1,397,590		1,892,669
NOTE RECEIVABLE																
														111,266		111,266
TOTAL	\$ 37,523,445	\$ 16,594,192	\$ 1,390,412	\$ 1,418,898	\$ 33,833,365	\$ 70,095,264	\$ 7,579,284	\$ 994,300	\$ 12,907,385	\$ 5,844,953	\$ 13,340,546	\$ 6,781,507	\$ 208,303,555	\$ 68,955,485	\$ (57,933,929)	\$ 219,325,107

# HAWAII HEALTH SYSTEMS CORPORATION

SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION INFORMATION (Continued)  
JUNE 30, 2000

	Facilities												Reclassifi- cations and Elim- inations	Total HHSC	
	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Kohala Hospital	Kona Community Hospital	Maul Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Leahi Hospital	Maluhia			Total Facilities
CURRENT LIABILITIES:															
Accounts payable and accrued expenses	\$ 4,370,603	\$ 317,554	\$ 139,321	\$ 224,151	\$ 2,611,924	\$ 9,246,174	\$ 521,562	\$ 158,285	\$ 879,790	\$ 380,061	\$ 1,211,727	\$ 1,193,673	\$ 21,254,825	\$ 2,858,340	\$ 24,113,165
Accrued vacation	3,662,150	397,166	157,537	286,930	1,878,595	4,677,804	1,036,443	243,214	946,867	996,507	1,334,739	1,390,440	17,008,392	395,424	17,403,816
Accrued workers' compensation liability	4,304,000	710,000	100,000	173,000	1,562,000	4,223,000	2,207,000	164,000	609,000	454,000	1,464,000	829,000	16,799,000	201,000	17,000,000
Estimated third-party payor settlements	1,705,201	(22,668)	117,597	142,334	106,399	916,639	344,412	159,654	244,107	150,137	576,889	260,125	4,600,716		4,600,716
Patients' self-keeping deposits	32,844	9,110	9,841	4,486	9,959		50,263	2,338	8,043	23,194	156,699	42,451	349,228		349,228
Capital lease obligations - current portion	173,415				121,187	169,092	4,861		93,649	29,533		8,436	600,173	967,809	1,567,982
Other current liabilities	748,345				92,704				197,038				1,038,087		1,038,087
Total current liabilities	14,996,558	1,411,162	524,296	830,901	6,382,668	19,232,699	4,064,541	727,491	2,978,494	2,033,432	4,744,054	3,724,125	61,650,421	4,422,573	66,072,994
DUE TO AFFILIATES - Net		338,228	3,410,534	2,518,365	4,066,697		4,989,816	3,831,493	17,467,238	6,746,007	5,102,838	9,462,713	57,933,929		\$ (57,933,929)
CAPITAL LEASE OBLIGATIONS -															
Less current portion	314,733				81,817	48,596	11,191		68,938	71,666			596,941	3,807,227	4,404,168
DUE TO THE STATE OF HAWAII		506,153		528,149	7,605,205		1,114,264		1,043,345	2,417,150	6,416,791	491,450	20,122,507		20,122,507
Total liabilities	15,311,291	2,255,543	3,934,830	3,877,415	18,136,387	19,281,295	10,179,812	4,558,984	21,558,015	11,268,255	16,263,683	13,678,288	140,303,798	8,229,800	90,599,669
FUND BALANCES:															
Unrestricted	22,212,154	14,338,649	(2,544,418)	(2,458,517)	15,622,341	50,768,711	(2,600,528)	(3,564,684)	(8,650,630)	(5,426,346)	(2,923,137)	(6,919,693)	67,853,902	59,338,095	5,500
Board-designated															127,181,997
Other															
Total unrestricted	22,212,154	14,338,649	(2,544,418)	(2,458,517)	15,622,341	50,768,711	(2,600,528)	(3,564,684)	(8,650,630)	(5,426,346)	(2,923,137)	(6,919,693)	67,853,902	59,333,595	127,187,497
Restricted					74,637	45,258				3,044		22,912	145,851	1,392,090	1,537,941
Total fund balances	22,212,154	14,338,649	(2,544,418)	(2,458,517)	15,696,978	50,813,969	(2,600,528)	(3,564,684)	(8,650,630)	(5,423,303)	(2,923,137)	(6,896,781)	67,999,753	60,725,685	128,725,438
TOTAL	\$ 37,523,445	\$ 16,504,192	\$ 1,390,412	\$ 1,418,898	\$ 33,833,365	\$ 70,095,264	\$ 7,579,284	\$ 994,300	\$ 12,907,385	\$ 5,844,953	\$ 13,340,546	\$ 6,781,597	\$ 208,303,551	\$ 68,955,485	\$ (57,933,929) \$ 219,325,107

**SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS - UNRESTRICTED FUNDS INFORMATION**  
**YEAR ENDED JUNE 30, 2000**

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## **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 years ended June 30, 2000 and 1999, and have issued our report thereon dated November 3, 2000. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **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 audits, 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation 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. The reportable condition is described in a separate letter to management of HHSC dated November 3, 2000 and is summarized as follows:

- Reconciliations of certain accounts, including accounts receivable and capital lease obligations, are not performed on a timely basis.

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 do not believe the reportable condition 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 and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

November 3, 2000

