HAWAII HEALTH SYSTEMS
CORPORATION
Quality Healthcare For All

CEO-17-003

Report to the Legislature
Hawaii Health Systems Corporation Annual Audit and Report for FY2016;
Pursuant to HRS Section 323F-22(a) and (b)

Hawaii Health Systems Corporation (HHSC) is pleased to submit this report to the Legislature in accordance with section 323F-22, Hawaii Revised Statutes (HRS) relating to HHSC's Annual Audit and Report. This report includes (a) projected revenues for each health care facility for FY2017 and a list of capital improvement projects planned for implementation in FY2017; and (b) regional system board reports.

The HHSC network of hospitals and clinics provide high quality healthcare services to residents and visitors in the State of Hawaii regardless of the ability to pay. In this regard, HHSC continues to serve as a vital component of the State healthcare "safety net." This is accomplished through the continued dedication and hard work of our employees, medical staff, community advisors, boards of directors, labor union partners, and many other stakeholders, with support from the Legislature and the state administration.

HHSC facilities include: Hilo Medical Center, Yukio Okutsu State Veterans Home, Hale Ho'ola Hamakua, and Ka'u Hospital (East Hawaii Region); Kona Community Hospital and Kohala Hospital (West Hawaii Region); Maui Memorial Medical Center, Lanai Community Hospital and Kula Hospital (Maui Region); Leahi Hospital and Maluhia (Oahu Region); Kauai Veterans Memorial Hospital and Samuel Mahelona Memorial Hospital (Kauai Region), in addition to three non-profit affiliate providers: Ali'i Community Care, Inc: Roselani Place – Maui; Ali'i Health Center – West Hawaii, and Kahuku Medical Center – Oahu. HHSC also owns and operates several physician clinics throughout the State.

In Fiscal Year 2016, HHSC hospitals provided a total of the following: 21,912 acute care admissions and 590 long-term admissions; 117,041 acute care patient days and 206,265 long-term care patient days; and 119,225 emergency room visits. A total of 1,209 licensed beds are operated in HHSC's twelve facilities, of which 700 are designated long-term care. The system employed a total of 3,826 FTE (full time equivalent) personnel.

Additionally, HHSC's breakdown of service delivery included the following:

- HHSC's facilities provided the care for almost 21% of all acute care discharges and 27% of all emergency room visits statewide;

- HHSC facilities provide 75% of the emergency room care and account for 65% of total acute discharges for the counties of Hawaii, Maui, and Kauai;

- For Hawaii county residents, HHSC facilities provided the care for approximately 68% of all acute care discharges and approximately 85% of all emergency room visits;

- For Maui county residents, HHSC facilities provided the care for approximately 80% of all acute care discharges and approximately 85% of all emergency room visits; and

- For Kauai county residents, HHSC facilities provided the care for approximately 20% of all acute care discharges and 35% of all emergency room visits.

HHSC provides accessible and affordable high quality healthcare in all communities we serve. We have continued to develop and improve our clinical and non-clinical quality programs consistently putting into practice our mantra that "Quality is Job One." HHSC quality initiativesthat have provided the system with measurable solutions for improving quality of care, were successfully accomplished through the dedicated efforts and cooperation of our staff, community physicians, and other healthcare professionals. All HHSC facilities are fully certified and licensed by both State and national standards. All HHSC facilities are Medicare/Medicaid certified and all have successfully passed recent surveys. HHSC completed its sixth hospital accreditation survey by the Joint Commission of Healthcare Organization in 2014, and was designated a full 3-year accreditation for the 4 hospitals that participate. HHSC also continues its long-standing participation with Hawaii Medical Services Association (HMSA) Hospital Quality and Service Recognition program that offers financial incentives for meeting performance indicators related to patient care quality.

At the same time, HHSC and its facilities continue to make advances in their use of the electronic medical records system (EHR). EHR brings state-of-the-art technology to HHSC in a manner that drives excellence in our operations and improves patient safety and the quality of care for our patients. For example, the Centers for Medicare and Medicaid Services (CMS) has incentive programs for using EHR technology to improve quality, safety, and efficiency of care, improve care coordination, maintain privacy and health information security, and improve patient outcomes. We will continue to keep the administration and legislature updated on the progress of the implementation of the EHR system.

Fiscal Year 2016 was a very difficult year for HHSC. HHSC started the fiscal year anticipating having to pay for increased costs of $16.2 million in collective bargaining raises and $34.7 million in projected fringe benefit rate increases assessed by the State of Hawaii due to a 10% increase in the fringe benefit rate, with only $1.9 million in funding provided to cover those costs. As a result, HHSC management and governance developed contingency plans to deal with the deficit caused by these

projected cost increases. These plans were implemented at the start of fiscal year 2016 and included the following actions:

EAST HAWAII REGION:

- Closed Home Care Services
- Closed operations of one wing of adult inpatient psychiatry care at Hilo Medical Center
- Reduced the number of long-term care beds in service at Hilo Medical Center, Hale Ho'ola Hamakua, and Ka'u Hospital
- Reduced 87 FTE's through a combination of Reduction-in-Force (RIF), attrition, and elimination of traveler contracts.

WEST HAWAII REGION:

- Closed operations of the 18-bed skilled nursing facility at Kona Community Hospital.
- Reduced 24 FTE's through a RIF.

KAUAI REGION:

- Reduced physician costs
- Reduced 23 FTE's through a RIF.

OAHU REGION:

- Closed operations of 38 beds (25% of capacity) at Leahi Hospital
- Closed operations of 38 beds (25% of capacity) at Maluhia
- Reduced 42 FTE's through a RIF.

The fringe benefit rate did not actually increase until March 2016, when it increased from 42.99% to 49.54%. As a result, HHSC was forced to absorb approximately $14.2 million of the expected $34.7 million increase in the fringe benefit rate assessment. That, in conjunction with nearly $7 million in increased revenue from a strategic pricing initiative and clinical documentation improvement and the savings from the contingency plans implemented by the regions allowed HHSC to cover its originally-projected cash flow deficit.

HHSC annually has a detailed independent financial audit conducted for the entire system. Additionally, HHSC has a myriad of internal reporting/performance measures that are utilized by the board of directors and management to insure compliance, quality, and financial efficiency in all system work. We have continued to focus on improving our financial management and accounting systems throughout the year. HHSC has received its thirteenth consecutive "clean" unqualified consolidated audit for every fiscal year from FY 1998 through FY2016. The FY2016 audit will be submitted under separate cover in January, 2017.

The following information is attached in accordance with section 323F-22, HRS: (1) projected revenues for each facility for FY2016, (2) proposed capital improvement

projects during FY2017; and (3) Hawaii Health Systems Corporation, Regional System Board Reports.

Foundations

As a public hospital system, HHSC depends heavily upon input and support from our local communities. Over this past year, HHSC facilities have benefited from outstanding and dedicated service of community-based hospital auxiliaries that included donations of time and money to our facilities, statewide. HHSC management has also worked with respective hospital foundations to obtain donations and grants to both enhance services provided and to offset the cost of operating our system in predominantly rural areas. In this regard, HHSC has promoted the development of foundations at our hospitals and incorporated the Hawaii Health Systems Foundation (HHSF) as a wholly owned subsidiary 501(c) (3). Seventeen years ago, there were three foundations supporting HHSC facilities of which only two were active. Today there are nine separate foundations, in addition to multiple hospital auxiliaries supporting one or more HHSC hospitals.

Respectfully submitted,

Linda Rosen, M.D., M.P.H.
Chief Executive Officer

Edward N. Chu
Chief Financial Officer

Attachments:

1. Projected FY2017 Revenues
2. CIP Expenditures FY2017
3. HHSC Financial Report, June 30, 2016
4. Regional Board Reports, FY2016.

HAWAII HEALTH SYSTEMS CORPORATION
PROJECTED REVENUES FOR FISCAL YEAR 2017
AMOUNTS IN $'000'S
NOTE: Amounts represent estimated cash collections, not accrual basis revenues

Hilo	163,058
Hamakua	15,222
Ka'u	7,725
Kona	71,355
Kohala	7,560
Maui	227,527
Kula	19,825
Lanai	3,242
KVMH	31,690
SMMH	15,677
Leahi	13,747
Maluhia	12,968
TOTAL	**589,596**

Capital Improvement Projects

Project Title	FY 17 Biennium	FY 17 Supplemental
Kula Hospital Energy Efficiency	500,000	
Kula Hospital AC Improvements	400,000	
Lanai Community Hospital Plumbing and Facility Improvements	1,000,000	
Kula Hospital Exterior and Ward Room Repairs	2,000,000	
KVMH - Radiology Equipment Replacement	300,000	
KVMH - Bed Replacement	500,000	
SMMH - Bed Replacement	200,000	
KVMH - Electrical Upgrades	1,100,000	
SMMH - Dental Office Equipment Replacement	32,000	
SMMH - Resurfacing Parking Lot	250,000	
KVMH - Irrigation System Upgrade	250,000	
Kona Community Hospital -Hospital renovations	2,592,000	
Hilo Medical Center - Hospital and Clinic repair, maintenance and renovations	798,298	
Kona Communiyt Hospital - Mechanical and Electrical Upgrades	374,668	
Maluhia - Spalling Repairs and Repainting of Hospital	600,000	
Maluhia - Repair CMU Wall and Reroute Gas Line	100,000	
Maluhia - Upgrade Patient Rooms	532,034	
Leahi Hospital - Upgrade Patient Rooms	471,000	
Kona Community Hospital, Ceiling Mitigation Phase III and Chilled Water HVAC Units Replacement		3,000,000
Kona Community Hospital, Wastewater Treatment Expansion, Phase 11		3,500,000
TOTAL	12,000,000	6,500,000

Hawaii Health Systems Corporation

Financial Report
with Supplemental Information
June 30, 2016

Hawaii Health Systems Corporation

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Independent Auditor's Report

To the Board of Directors
Hawaii Health Systems Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Health Systems Corporation (HHSC), a component unit of the State of Hawaii, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise HHSC's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of HHSC as of June 30, 2016 and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Hawaii Health Systems Corporation

Emphasis of Matter

As discussed in Note 1, the financial statements present only HHSC (a component unit of the State of Hawaii) and do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2016 or the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hawaii Health Systems Corporation's financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the proportionate share of the net pension liability, and schedule of contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors
Hawaii Health Systems Corporation

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016 on our consideration of HHSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HHSC's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 28, 2016

This discussion and analysis of Hawaii Health Systems Corporation's (HHSC or the "Corporation") financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Corporation's financial statements, which begin on page 13.

Using this Annual Report

The Corporation's financial statements consist of three statements: (a) a statement of net position, (b) a statement of revenue, expenses, and changes in net position, and (c) a statement of cash flows. These financial statements and related notes provide information about the activities of the Corporation, including resources held by the Corporation but restricted for specific purposes. It is important to note that as of July 1, 2014, the Corporation implemented a new accounting standard, GASB 68, which is reflected in the amounts shown below for 2016 and 2015.

The Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position

The analysis of the Corporation's finances begins on page 5. One of the most important questions asked about the Corporation's finances is, "Is the Corporation as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses, and changes in net position report information about the Corporation's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Corporation's net position and changes thereof. You can think of the Corporation's net position - the difference between assets and deferred outflows compared to liabilities and deferred inflows - as one way to measure the Corporation's financial health or financial position. Over time, increases or decreases in the Corporation's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Corporation's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Corporation.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as, "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

The Corporation's Net Position

The Corporation's net position is the difference between its assets plus deferred outflows and liabilities plus deferred inflows reported in the statement of net position. The Corporation's net position increased by $9,297,597 (2 percent) in 2016 and increased by $22,109,899 after restatement in 2015, as you can see from the following table.

Assets and Deferred Outflows, Liabilities and Deferred Inflows, and Net Position

Summarized financial information of HHSC's statement of net position as of June 30, 2016 and 2015 is as follows:

	2016	2015
Assets		
Current assets	$ 305,966,031	$ 292,659,374
Capital assets - Net	358,553,697	363,310,339
Other assets	4,851,311	7,150,602
Deferred Outflows	81,615,629	68,293,235
Total assets and deferred outflows	**$ 750,986,668**	**$ 731,413,550**
Liabilities		
Current liabilities	$ 115,648,733	$ 128,278,636
Other postemployment liability	369,314,030	338,248,725
Due to the State of Hawaii	20,122,507	34,122,507
Accrued postretirement benefit obligations	623,325,235	583,997,239
Other liabilities	79,744,740	88,630,726
Deferred Inflows	42,551,713	67,153,604
Total liabilities and deferred inflows	1,250,706,958	1,240,431,437
Net Position		
Invested in capital assets - Net of related debt	310,465,416	304,552,720
Restricted	1,512,025	4,132,930
Unrestricted	(811,697,731)	(817,703,537)
Total net position	(499,720,290)	(509,017,887)
Total liabilities and net position	**$ 750,986,668**	**$ 731,413,550**

At June 30, 2016 and 2015, HHSC's current assets approximated 46 and 44 percent, respectively, of total assets. Current assets increased approximately $13.3 million in 2016 due to an increase in cash of $16.3 million and a decrease in due from the State of Hawaii CIP funds of $6 million. These changes are offset by an increase in third-party payor settlements of approximately $12.2 million. Current assets increased approximately $36.8 million in 2015 due to increases in cash of $30.8 million and due from State of Hawaii CIP funds of $16.1 million. These increases are offset by a decrease in third-party payor settlements of $13.4 million. The increases in cash for both 2016 and 2015 are primarily due to various factors, as reflected in the statement of cash flows. The decrease in due from the State of Hawaii CIP funds for 2016 is due to the timing of when payments were made from the state to HHSC. The increase in due from State of Hawaii CIP funds for 2015 is due to additional unexpended appropriations from the State of Hawaii for capital improvements. The increase in estimated third-party payor settlements in 2016 and the 2015 decrease is primarily attributable to the timely payment of uncompensated care revenue and significant settlements of prior year cost report filings, primarily for the three acute facilities in HHSC. The reasons for this change are discussed in the operating results and changes in net position section below.

At June 30, 2016 and 2015, HHSC's current liabilities were approximately 9 and 10 percent of total liabilities, respectively. The primary reason for the decrease in current liabilities in 2016 is due to the timing of payments coupled with the completion of significant capital projects during 2016. The primary reason for the decrease in current liabilities in 2015 of $29.2 million is due to a $16.7 million decrease in accounts payable and accrued expenses and a decrease in the current portion of long-term debt of $12.6 million. The decrease in accounts payable and accrued expenses is primarily due to the savings realized from HHSC's contingency plans, increases in cash collections, and cost reporting and other settlements from third-party payors, which allowed HHSC to pay down previously extended accounts payable. The decrease in current portion of long-term debt is due to the refinancing in January 2015 of Maui Memorial Medical Center's (MMMC) series 2013 bond issuance through the issuance of Revenue Bond Number 3, which extended the payment term of the series 2013 bond issuance.

At June 30, 2016 and 2015, HHSC's net position is reflected as its investment in capital assets, net of related debt, of approximately $310 million and $305 million, respectively. Total net position was approximately $(500 million) in 2016 and $(509 million) in 2015.

Capital Assets

At June 30, 2016 and 2015, HHSC's capital assets, net of accumulated depreciation, comprised approximately 54 and 55 percent of its total assets, respectively. These assets consist mainly of land, hospital buildings, and equipment that are used in HHSC's operations. The decrease of approximately $4.8 million in 2016 is due to depreciation taken on previously placed-in-service assets and the completion of significant portions of the EMR project and the increase of approximately $8.9 million in 2015 is due primarily to ongoing construction projects, particularly the EMR project.

A summary of HHSC's capital assets as of June 30, 2016 and 2015 is as follows:

	2016	2015
Land and land improvements	$ 7,814,855	$ 7,770,788
Building and improvements	479,469,411	458,859,742
Equipment	256,948,507	238,381,691
Construction in progress	28,612,313	32,120,301
Total capital assets	772,845,086	737,132,522
Less accumulated depreciation and amortization	(414,291,389)	(373,822,183)
Capital assets - Net	**$ 358,553,697**	**$ 363,310,339**

Long-term Debt and Capital Lease Obligations

At June 30, 2016 and 2015, HHSC had long-term debt and capital lease obligations totaling approximately $55.8 million and $66.6 million, respectively. The decrease of $10.8 million in 2016 and $10.4 million in 2015 was due to continuing payments on existing obligations with very little new issuances of capital lease obligations. More detailed information about HHSC's long-term debt and capital lease obligations is presented in the notes to the financial statements.

Operating Results and Changes in Net Position

Summarized financial information of HHSC's statement of revenue, expenses, and changes in net position for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Operating revenue	$ 642,883,682	$ 620,537,502
Operating expenses:		
Salaries and wages	310,868,241	311,684,721
Employee benefits	166,477,967	168,013,909
Purchased services and professional fees	114,539,125	100,463,590
Medical supplies and drugs	80,916,401	76,988,122
Depreciation	40,935,072	37,180,988
Insurance	5,304,148	5,558,652
Other	63,237,754	65,688,088
Total operating expenses	782,278,708	765,578,070
Operating loss	(139,395,026)	(145,040,568)
Nonoperating revenue:		
General appropriations from the State of Hawaii	121,440,000	106,440,001
Other nonoperating revenue - Net	4,770,025	12,547,965
Total nonoperating revenue	126,210,025	118,987,966
Excess of expenses over revenue before capital contributions and transfer from affiliate	(13,185,001)	(26,052,602)
Capital contributions	25,040,520	48,162,501
Asset impairment	(3,521,882)	-
Change in reporting entity	963,960	-
Increase in net position	**$ 9,297,597**	**$ 22,109,899**

For the years ended June 30, 2016 and 2015, HHSC's operating expenses exceeded its operating revenue by $139.4 million and $145.0 million, respectively. General appropriations from the State of Hawaii totaled $121.4 million and $106.4 million in 2016 and 2015, respectively. In addition, the appropriations from the State of Hawaii for capital contributions totaled $25.0 million and $48.1 million in 2016 and 2015, respectively. These items, along with the other nonoperating revenue, contributed to an increase in net position of $9.3 million in 2016 and $22.1 million in 2015.

Operating expenses for the fiscal year ended June 30, 2016 were approximately 2.2 percent higher than 2015. Operating expenses for the fiscal year ended June 30, 2016 increased $16.7 million from fiscal year 2015, which was primarily due to increases in purchased services of approximately $14.1 million, with the remainder due to normal inflationary cost increases. The increase in purchased services and professional fees is primarily due to the use of consultants to assist in the implementation of the Siemens Soarian electronic medical records system and to perform helpdesk functions for the product, as well as consultants used to assist in the preparation of HHSC's facilities for the conversion to the ICD-10 coding standard.

Operating revenue for the fiscal year ended June 30, 2016 was approximately 3.6 percent higher than 2015. The increase in operating revenue is primarily due to an increase in acute patient days from fiscal year 2015, coupled with an increase in payments from various health plans related to uncompensated care programs. Additional increases in revenue is driven by third-party payor contract negotiations, clinical documentation improvement initiatives, and strategic pricing initiatives.

Operating expenses for the fiscal year ended June 30, 2015 were approximately 3.9 percent higher than 2014. Operating expenses for the fiscal year ended June 30, 2015 increased $28.5 million from fiscal year 2014, which was primarily due to increases in payroll expenses of $16.1 million and nonpayroll expenses of $12.4 million. The increase in payroll expenses is primarily due to collective bargaining pay increases as stipulated under bargaining unit contracts negotiated by the State of Hawaii, which were offset by contingency plan payroll savings of approximately $11.7 million, primarily through attrition and retirement savings. The increase in nonpayroll expenses is primarily due to $3.2 million in purchased services and professional fees and $5.2 million, with the remainder due to normal inflationary cost increases. The increase in purchased services and professional fees is primarily due to the use of consultants to assist in the implementation of the Siemens Soarian electronic medical records system and to perform helpdesk functions for the product, as well as consultants used to assist in the preparation of HHSC's facilities for the conversion to the ICD-10 coding standard. The increase in depreciation expense is due to a full year of depreciation on the electronic medical records system at Maui Memorial Medical Center as opposed to only four months of depreciation in 2014, as well as the depreciation on the electronic medical records system at Kula Hospital and Lanai Community Hospital, which went live on the system in March 2015.

Operating revenue for the fiscal year ended June 30, 2015 was approximately 7.6 percent higher than 2014. The increase in operating revenue is primarily due to a 3.5 percent increase in acute patient days from fiscal year 2014, $10 million in additional revenue as a result of catch-up interim settlements for HHSC's critical access hospitals as a result of the establishment of the State of Hawaii's QUEST Integration program, and additional revenue received from third-party payor contract negotiations, clinical documentation improvement initiatives, and strategic pricing initiatives.

Fiscal year 2016 was a very difficult year for HHSC. HHSC started the fiscal year anticipating having to pay for increased costs of $16.2 million in collective bargaining raises and $34.7 million in projected fringe benefit rate increases assessed by the State of Hawaii due to a 10 percent increase in the fringe benefit rate, with only $1.9 million in funding provided to cover those costs. As a result, HHSC management and governance developed contingency plans to deal with the deficit caused by these projected cost increases. These plans were implemented at the start of fiscal year 2016 and included the following actions:

EAST HAWAII REGION:

- Closed home care services
- Closed operations of one wing of adult inpatient psychiatry care at Hilo Medical Center
- Reduced the number of long-term care beds in service at Hilo Medical Center, Hale Ho'ola Hamakua, and Ka'u Hospital
- Reduced 87 FTEs - Combination of Reduction-in-Force (RIF), attrition, and elimination of traveler contracts

WEST HAWAII REGION:

- Closed operations of the 18-bed skilled nursing facility at Kona Community Hospital
- Reduced 24 FTEs via RIF

KAUAI REGION:

- Reduced physician costs
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OAHU REGION:

- Closed operations of 38 beds (25 percent of capacity) at Leahi Hospital
- Closed operations of 38 beds (25 percent of capacity) at Maluhia
- Reduced 42 FTEs via RIF

The fringe benefit rate did not actually increase until March 2016, when it increased from 42.99 percent to 49.54 percent. As a result, HHSC was forced to absorb approximately $14.2 million of the expected $34.7 million increase in the fringe benefit rate assessment. That, in conjunction with nearly $7 million in increased revenue from a strategic pricing initiative and clinical documentation improvement, allowed HHSC to reduce its projected net cash flow deficit of $15 million to a net cash flow surplus of $16.3 million.

FUTURE OUTLOOK:

As long as the State of Hawaii continues to impose collective bargaining pay and fringe benefit increases upon HHSC without providing funding to fully cover those costs, HHSC management believes continued increasing in General Fund support will be necessary to maintain the basic safety-net services that its facilities currently provide to the communities that they serve. If HHSC's facilities are forced to further reduce services, it will further reduce access to care in communities where there is already a shortage of healthcare services that the communities need and deserve.

Given the likely financial shortfalls that HHSC is likely to face, management believes that the challenges HHSC faces in maintaining and growing health services in a sustainable way cannot be resolved by the system in its current form. The best alternative for communities to receive the health care they deserve at the minimum cost to the State of Hawaii would be to find a private health system which would be interested in assuming operations of our hospitals. HHSC's boards believe a transition would allow HHSC's facilities to:

- Gain access to private capital to build and maintain infrastructure and address physical plant needs
- Optimize clinical practice and expand access to specialty services
- Implement private sector compensation packages to retain qualified medical service personnel
- Reduce waste and obtain efficiencies of scale
- Create a sustainable model of health care delivery that will lower costs and improve quality outcomes
- Reduce dependence on government subsidies

Whether this is a viable solution for all our facilities and desired by the communities they serve is unknown at this time.

Management has worked diligently with the Kaiser Permanente, the State Legislature, the State Administration, and the Hawaii public sector unions to facilitate the transition of HHSC's Maui Region facilities to Kaiser Permanente. However, due to a lawsuit filed by the United Public Workers union, the subsequent injunction, as well as delays incurred while the State Administration negotiated with both public sector unions to settle the lawsuit, the original transition date of July 1, 2016 has now been pushed back to July 1, 2017.

Contacting the Corporation's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Corporation's corporate office at Hawaii Health Systems Corporation, 3675 Kilauea Avenue, Honolulu, HI 96816.

Hawaii Health Systems Corporation

Statement of Net Position
June 30, 2016

Assets and Deferred Outflows of Resources

Current Assets	
Cash and cash equivalents - State of Hawaii (Note 2)	$ 1,138,522
Cash and cash equivalents	101,694,559
Patient accounts receivable - Less allowance for doubtful accounts of $39,094,347 (Note 2)	79,240,985
Investments (Note 3)	7,362,814
Supplies and other current assets	16,215,658
Due from the State of Hawaii (Note 5)	80,678,873
Estimated third-party payor settlements	19,634,620
Total current assets	305,966,031
Capital Assets - Net (Note 4)	358,553,697
Assets Limited as to Use (Note 2)	4,211,441
Other Assets	639,870
Total assets	669,371,039
Deferred Outflows of Resources - Pension (Note 7)	81,615,629
Total assets and deferred outflows of resources	**$ 750,986,668**

Hawaii Health Systems Corporation

Statement of Net Position (Continued)
June 30, 2016

Liabilities and Net Position

Current Liabilities	
Current portion of long-term debt (Note 9)	$ 1,843,484
Current portion of capital lease obligations (Note 9)	6,629,441
Accounts payable and accrued expenses	84,331,813
Current portion of accrued workers' compensation (Note 10)	3,651,000
Current portion of accrued vacation (Note 6)	18,755,699
Other current liabilities	1,771,621
Total current liabilities	116,983,058
Long-term Debt - Less current portion (Note 9)	38,045,921
Capital Lease Obligation - Less current portion (Note 9)	9,276,414
Other Liabilities	
Accrued vacation - Less current portion (Note 6)	20,967,335
Accrued workers' compensation - Less current portion (Note 10)	9,811,000
Other postemployment benefit liability (Note 8)	369,314,030
Due to the State of Hawaii (Note 5)	20,122,507
Pension liability (Note 7)	623,325,235
Patients' safekeeping deposits	252,024
Other liabilities	57,721
Total liabilities	1,208,155,245
Deferred Inflows of Resources - Pension (Note 7)	42,551,713
Total liabilities and deferred inflows of resources	1,250,706,958
Net Position	
Net investment in capital assets	310,465,416
Restricted for capital purchases (Note 2)	1,512,025
Unrestricted	(811,697,731)
Total net position	(499,720,290)
Total liabilities and net position	**$ 750,986,668**

Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2016

Operating Revenue	
Net patient service revenue (net of provision for doubtful accounts of $24,853,414)	$ 631,378,822
Other revenue	11,504,860
Total operating revenue	642,883,682
Operating Expenses	
Salaries	310,868,241
Employee benefits	166,481,006
Medical supplies and drugs	80,916,401
Depreciation and amortization	40,935,072
Utilities	14,397,973
Repairs and maintenance	16,001,540
Other supplies	16,830,667
Purchased services	97,718,744
Professional fees	16,820,381
Insurance	5,304,148
Rent and lease	7,851,528
Other	8,153,007
Total operating expenses	782,278,708
Operating Loss	(139,395,026)
Nonoperating Revenue (Expenses)	
General appropriations from the State of Hawaii	121,440,000
Collective bargaining pay raise appropriation from the State of Hawaii	1,731,942
Loss on disposal of capital assets	(10,302)
Restricted contributions	2,679,725
Interest expense	(3,351,630)
Interest and dividend income	386,181
Other nonoperating revenue - Net	3,334,109
Total nonoperating revenue	126,210,025
Excess of Expenses Over Revenue Before Capital Contributions and Other	(13,185,001)
Capital Contributions	25,040,520
Special Item - Asset impairment (Note 4)	(3,521,882)
Change in Reporting Entity (Note 1)	963,960
Increase in Net Position	9,297,597
Net Position - Beginning of year	(509,017,887)
Net Position - End of year	**$ (499,720,290)**

See Notes to Financial Statements.

Hawaii Health Systems Corporation

Statement of Cash Flows
Year Ended June 30, 2016

Cash Flows from Operating Activities	
Cash received from government, patients, and third-party payors	$ 627,782,092
Cash payments to employees for services	(448,370,790)
Cash payments to suppliers for services and goods	(269,933,549)
Other receipts from operations	11,504,860
Net cash used in operating activities	(79,017,387)
Cash Flows from Noncapital Financing Activities	
Appropriations from the State of Hawaii	107,440,000
Collective bargaining funding from the State of Hawaii	1,731,942
Other nonoperating revenue - Net	6,013,834
Net cash provided by noncapital financing activities	115,185,776
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(5,763,590)
Interest paid	(3,351,630)
Repayments on long-term debt	(2,667,588)
Repayments on capital lease obligations	(10,232,858)
Proceeds from sale of assets	18,000
Net cash used in capital and related financing activities	(21,997,666)
Cash Flows from Investing Activities	
Interest income	386,181
Decrease in short-term investments and assets limited as to use	1,791,566
Net cash provided by investing activities	2,177,747
Net Increase in Cash and Cash Equivalents	16,348,470
Cash and Cash Equivalents - Beginning of year	86,484,611
Cash and Cash Equivalents - End of year	**$ 102,833,081**
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and cash equivalents - State of Hawaii	$ 1,138,522
Cash and cash equivalents	101,694,559
Total cash and cash equivalents	**$ 102,833,081**

See Notes to Financial Statements.

Hawaii Health Systems Corporation

Statement of Cash Flows (Continued)
Year Ended June 30, 2016

A reconciliation of operating loss to net cash used in operating activities is as follows:

Cash Flows from Operating Activities	
Operating loss	$ (139,395,026)
Adjustments to reconcile operating loss to net cash from operating activities:	
Provision for doubtful accounts	24,853,414
Depreciation and amortization	40,935,072
Changes in assets and liabilities:	
Patient accounts receivable	(16,298,737)
Supplies and other assets	1,700,702
Accounts payable, accrued expenses, and other liabilities	(8,400,285)
Accrued workers' compensation liability	(317,000)
Postemployment benefit liability	31,065,305
Pension liability	39,327,996
Deferred outflows and inflows	(37,924,285)
Estimated third-party payor settlements	(12,151,407)
Accrued vacation	(2,413,136)
Net cash used in operating activities	**$ (79,017,387)**
Noncash Financing and Investing Activities	
Asset impairment	$ 3,521,882
Capital assets contributed by the State of Hawaii and others	28,111,724
Loss on disposal of capital assets	10,302
State of Hawaii appropriation to forgive amount payable to State of Hawaii	14,000,000
Capital assets acquired via accounts payable	951,281
Change in reporting entity	963,960
Change in due from the State of Hawaii	5,700,376
Assets acquired via capital lease	2,199,447

Note 1 - Organization

Structure - Hawaii Health Systems Corporation (HHSC or the "Corporation") is a public body corporate and politic and an instrumentality and agency of the State of Hawaii (the "State"). HHSC is managed by a chief executive officer under the control of a 18-member board of directors.

In June 1996, the legislature of the State passed Act 262, S.B. 2522. The act, which became effective in fiscal year 1997, transferred all facilities under the administration of the Department of Health - Division of Community Hospitals to HHSC. HHSC currently operates the following facilities:

East Hawaii Region:
- Hilo Medical Center
- Hale Ho'ola Hamakua
- Ka'u Hospital
- Yukio Okutsu Veterans Care Home
  (Yukio is not included in the East Hawaii Region audited financial statements)

West Hawaii Region:
- Kona Community Hospital
- Kohala Hospital

Maui Region:
- Maui Memorial Medical Center
- Kula Hospital
- Lanai Community Hospital

Kauai Region:
- Kauai Veterans Memorial Hospital
- Samuel Mahelona Memorial Hospital

Oahu Region:
- Leahi Hospital
- Maluhia

Kahuku Medical Center

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 and is a component unit of the State. 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 pursuant to Act 262 had not been finalized as of June 30, 2016. Accordingly, the assets, liabilities, and net assets of HHSC reflected in the accompanying statement of revenue, expenses, and changes in net assets may be significantly different from those eventually included in the final settlement.

Note 1 - Organization (Continued)

The financial statements are being presented for HHSC, Hawaii Health Systems Foundation (HHSF), Alii Community Care, Inc. (Alii), and Kona Ambulatory Surgery Center (KASC). HHSF and Alii are nonprofit organizations of which HHSC is the sole member. The purpose of HHSF is to raise funds and to obtain gifts and grants on behalf of HHSC. The purpose of Alii is to own, manage, and operate assisted-living and other healthcare facilities in the state.

HHSC obtained a controlling interest in the Kona Ambulatory Surgery Center during fiscal year 2016. Accounting standards require this transaction to be recorded as a change in reporting entity, which requires the KASC net assets be recorded on the Regions books at the start of the fiscal year, July 1, 2015. The impact of the change in reporting entity amounted to approximately $1.0 million.

In June 2007, the state legislature passed Act 290, S.B. 1792. This act, which became effective July 1, 2007, required the establishment of a 7- to 15-member regional system board of directors for each of the five regions of the HHSC system. Each regional board was given custodial control and responsibility for management of the facilities and other assets in their respective regions. This act also restructured the 13-member HHSC board of directors to 15 members, comprised of 10 members appointed by the governor from nominees submitted by legislative leadership, two at-large members at the governor's discretion, two physician members selected by the HHSC board, and the State Director of Health.

Act 290 also exempted the regions from the requirements of the State procurement code and other exemptions from State agency laws, such as tax clearance certificate requirements, the concession law, and the sunshine law.

In 2009, the legislature passed Act 182, S.B. 1673, effective July 1, 2009, which allowed the individual facilities or regions of HHSC to transition into a new legal entity in any form recognized under the laws of the State of Hawaii, including but not limited to a nonprofit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The act also amended the requirement for maintenance of services to outline a process that must be followed in order for a facility to substantially reduce or eliminate a direct patient care service. Furthermore, the act reconstituted the HHSC board of directors to a 12-member board of directors which includes the five regional chief executive officers, one representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards, two members appointed by the Maui regional board, and the director of the Department of Health as an ex-officio nonvoting member.

Note 1 - Organization (Continued)

In June 2011, the legislature passed Act 126, S.B. 1300, effective July 1, 2011, which reconstituted the HHSC board of directors to a 13-member board of directors by adding an at-large voting member appointed by the governor of the State of Hawaii and changing the voting status of the director of the Department of Health from a nonvoting to a voting member.

In June 2013, the legislature passed Act 278, H.B. 1130, effective July 2013, which reconstituted the HHSC board of directors by adding five regional members appointed by the governor and making the five regional chief executive officers ex-officio, nonvoting members.

In June 2015, the legislature passed Act 103, H.B. 1075, effective June 10, 2015, which allowed for the transition of the management of the Maui Region facilities to a new entity. Following the State of Hawaii Legislature passing Act 103 H.B. 1075, the HHSC - Maui Region accounced it had entered into a letter of intent to affiliate of Kaiser Permanente in September 2015. In January 2016, a transition agreement was signed with an expected effective date of July 1, 2016. Due to legal challenges and other delays, the expected transition date has been pushed back to July 1, 2017.

Kahuku Medical Center - In June 2007, the state legislature passed Act 113, H.B. 843. This act amended Hawaii Revised Statutes 323F to allow for the assimilation of Kahuku Hospital into HHSC in a manner and to an extent that was to be negotiated between Kahuku Hospital and HHSC. The act also specified that none of the liabilities of Kahuku Hospital were to become the liabilities of HHSC, that HHSC could adjust the levels of services provided by Kahuku Hospital, and that the employees of Kahuku Hospital were not to be considered employees of the State. This act appropriated $3,900,000, which was disbursed through the Department of Health of the State, to pay for the cost of acquiring the assets of Kahuku Hospital and to operate the facility. On March 14, 2008, the asset purchase was completed for a purchase price of approximately $2,652,000 in cash, including transaction costs of $197,000 in cash, and the facility is now operating as Kahuku Medical Center. The purchase price was allocated to assets based on their respective estimated fair values at the acquisition date.

Note 1 - Organization (Continued)

Liquidity - During the year ended June 30, 2016, HHSC incurred losses from operations of approximately $139 million and had negative cash flows from operations of $79 million. Overall, days in accounts payable have decreased 5.5 days as compared to June 30, 2015 due to contingency plans prepared by management to decrease costs (primarily through attrition savings) as well as increases in reimbursement from negotiations with third-party payors and one-time settlements from the State Medicaid QUEST Integration program which allowed facilities to pay previously extended vendor payables. Days in accounts receivable have decreased as compared to June 30, 2015 due primarily to more efficient billings now that the organizations have been using the Soarian electronic medical records system and have seen improvements since implementation. Downward pressure on reimbursements was due to federal healthcare reform and federal deficit legislation. Although improvements continue to be seen by HHSC, management believes maintaining the current levels of service provided by HHSC will require continued funding by the State of Hawaii.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - HHSC prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 revenue 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 monies paid into the State Treasury (cash pool). HHSC's portion of this cash pool at June 30, 2016 is indicated in the accompanying statement of net position as "cash and cash equivalents - 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

HHSC has cash in financial institutions that is in excess of available depository insurance coverage. The amount of uninsured and uncollateralized deposits totaled approximately $98,970,000 at June 30, 2016. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a financial institution failure, HHSC's deposits might not be returned to it. HHSC believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, HHSC evaluates each financial institution with which it deposits funds; only those institutions with an acceptable estimated risk level are used as depositories.

Accounts Receivable - Patient accounts receivable are stated at net realizable value amounts. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting HHSC's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments is based on expected payment rates from payors based on current reimbursement methodologies.

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

Capital Assets - Capital assets assumed from the State at inception are recorded at cost less accumulated depreciation. Other capital assets are recorded at cost or estimated fair market value at the date of donation. Donated buildings, equipment, and land are recognized as revenue when all eligibility requirements have been met, generally at the date of donation. Equipment under capital leases is recorded at the present value of future payments. Buildings, equipment, and improvements are depreciated by the straight-line method using these asset lives:

Building and improvements	5-40 years
Equipment	3-20 years

Gains or losses on the sale of capital assets are reflected in other nonoperating revenue. Normal repairs and maintenance expenses are charged to operations as incurred.

Certain of HHSC's capital improvement projects are managed by the State Department of Accounting and General Services. The related costs for these projects are transferred to HHSC's capital asset accounts and are reflected as revenue below the nonoperating revenue category in the statement of revenue, expenses, and changes in net position.

Note 2 - Summary of Significant Accounting Policies (Continued)

Assets Limited as to Use - Assets limited as to use are restricted net position, patients' safekeeping deposits, restricted deferred contributions, restricted cash, and cash in escrow accounts related to future lease draws. Such restrictions have been externally imposed by contributors or by collateral agreements. Restricted resources are applied before unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Patients' safekeeping deposits represent funds received or property belonging to the 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.

At June 30, 2016, assets limited as to use consisted of restricted cash of $4,211,441.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. HHSC has only one item that qualifies for reporting in this category. It is the deferred outflow of resources related to the cost-sharing defined benefit pension plan (see Note 7).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. HHSC has only one item that qualifies for reporting in this category. It is the deferred inflow of resources related to the cost-sharing defined benefit pension plan (see Note 7).

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 a rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of 90 days.

Postemployment Benefits - HHSC records an expense for postemployment benefits expense, such as retiree medical and dental costs, over the years of service on an accrual basis based on an allocation from the State of Hawaii primarily based on full-time equivalents.

Note 2 - Summary of Significant Accounting Policies (Continued)

Pension - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

Net Position - Net position is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Corporation. Unrestricted net position is the remaining net assets that do not meet the definition of invested in capital assets - net of related debt or restricted.

Operating Revenue and Expenses - HHSC has defined its operating revenue and expenses as those relating to the provision of healthcare services. The revenue and expenses relating to capital and related financing activities, noncapital financing activities, and investing activities are excluded from that definition.

Net Patient Service Revenue - Net patient service revenue is recorded on an accrual basis in the period in which the related services are provided at established rates, less contractual adjustments and provision for doubtful accounts. HHSC, as a safety net provider, provides charity care to certain patients; the specific cost of such care for the year ended June 30, 2016 was approximately $5,450,000.

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 revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The adjustments to the final settlements did not have a significant impact on the fiscal year 2016 financial statements.

The estimated third-party payor settlements are 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 effort, judgment, and certain methodologies to estimate the anticipated final outcome.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

- *Medicare* - Inpatient acute services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge referred to as the inpatient prospective payment system (IPPS). Under the IPPS, each case is categorized into a diagnosis-related group (DRG). Each DRG has a payment weight assigned to it based on the average resources used to treat Medicare patients in that DRG.

  Outpatient services rendered to Medicare beneficiaries are paid under a prospective payment system called ambulatory payment classifications (APC). Services in each APC are similar clinically and in terms of the resources they require. A payment rate is established for each APC and, depending on the services provided, hospitals may be paid for more than one APC for an encounter.

  Skilled nursing services provided to Medicare beneficiaries are paid on a per-diem prospective payment system covering all costs (routine, ancillary, and capital) related to the services furnished. The per-diem payments for each admission are case-mix adjusted using a resident classification system (resource utilization groups) based on data from resident assessments and relative weights developed from staff time data.

  All Medicare-certified hospitals and skilled nursing facilities are required to file annual Medicare cost reports. HHSC facilities required to file Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2012.

- *Medicaid* - Inpatient acute services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined rate per day and per discharge with a cost settlement for capital costs. Medicaid long-term care services are reimbursed based on a price-based case mix reimbursement system. The case-mix reimbursement system uses the resource utilization groups classification system calculated from the minimum data set assessment. The case-mix reimbursement payment method takes into account a patient's clinical condition and the resources needed to provide care for the patient. Medicaid outpatient services are reimbursed based on a fee schedule using current procedure terminology (CPT) codes established for the State.

Note 2 - Summary of Significant Accounting Policies (Continued)

- *Critical Access Hospital (CAH)* - HHSC has eight facilities (Hale Ho'ola Hamakua, Kauai Veterans Memorial Hospital, Kahuku Medical Center, Ka'u Hospital, Kohala Hospital, Kula Hospital, Lanai Community Hospital, and Samuel Mahelona Memorial Hospital) that are designated as critical access hospitals (CAHs) by the Centers for Medicare and Medicaid Services (CMS). CAHs are limited-service hospitals located in rural areas that receive cost-based reimbursement. To be designated a CAH, a facility must, among other requirements: (1) be located in a county or equivalent unit of a local government in a rural area, (2) be located more than a 35-mile drive from a hospital or another healthcare facility, or (3) be certified by the State as being a necessary provider of healthcare services to residents in the area. These facilities are paid an interim reimbursement rate throughout the year based on each facility's expected costs per inpatient day or the allowable outpatient cost-to-charge. After the close of each fiscal year, the facility would receive retrospective settlements for the difference between interim payments received and the total allowable cost as documented in the Medicare cost reports.

- *Sole Community Hospital* - HHSC has three facilities (Hilo Medical Center, Kona Community Hospital, and Maui Memorial Medical Center) that are designated as sole community hospitals by the CMS. Inpatient case rates for services rendered to Medicare beneficiaries are finally determined upon the filing of the annual Medicare cost reports.

- *Hawaii Medical Service Association (HMSA)* - Inpatient services rendered to HMSA subscribers are reimbursed at prospectively determined case rates. The prospectively determined case rates are not subject to retroactive adjustment. In addition, outpatient surgical procedures and emergency room visits are reimbursed at a negotiated case rate. All other outpatient services are reimbursed based on a fee schedule using standard CPT codes.

- *Other Commercial* - 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.

State Appropriations - HHSC recognizes general and capital appropriations at the time allotments are made available to the facility for expenditure.

Note 2 - Summary of Significant Accounting Policies (Continued)

Effective July 1, 2008, HHSC - Corporate (Corporate) permanently allocated general appropriations to each facility. General appropriations are reflected as nonoperating revenue and capital appropriations are included in capital grants and contributions after the nonoperating revenue (expenses) subtotal in the statement of revenue, expenses, and changes in net position. If restrictions are placed on such appropriations, the restrictions are given separate and discrete accounting recognition.

Bond Interest - HHSC is allocated an amount for interest paid by the State of general obligation bonds whose proceeds were used for hospital construction. A corresponding contribution from the State is also allocated to HHSC. The bonds are obligations for the State, to be paid by the State's General Fund, and are not reported as liabilities of HHSC. For the year ended June 30, 2016, interest expense totaled approximately $9,289,000.

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 10.

New Accounting Pronoucement - In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The Corporation adopted this standard as of June 30, 2016.

Note 2 - Summary of Significant Accounting Policies (Continued)

Upcoming Accounting Changes - In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require governments to recognize on the face of the financial statements their proportionate share of the net OPEB liability related to their participation in an OPEB fund. The Corporation already conforms to this presentation and the net liability for the Corporation's participation in the Employer-Union Health Benefits Trust Fund is recognized on the face of the financial statements. The OPEB standard will also enhance accountability and transparency through revised note disclosures and required supplemental information (RSI). The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Corporation's 2018 fiscal year.

Concentration of Credit Risk - Patient accounts receivable consist of amounts due from insurance companies and patients for services rendered by the 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 as of June 30, 2016 was as follows:

	Percentage	
Medicare	35	%
Medicaid	25	
HMSA	10	
Other third-party payors	17	
Patient and other	13	
Total	100	%

Note 3 - Fair Value Measurements

HHSC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

Note 3 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. HHSC's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

HHSC has the following recurring fair value measurements as of June 30, 2016: U.S. Treasury securities of $4,562,464 are valued using quoted market prices (Level 2 inputs), U.S. government agencies of $2,747,176 are valued using a matrix pricing model (Level 2 inputs), and money market funds of $53,174 are valued using a matrix pricing model (Level 2 inputs).

The fair value of U.S. Treasury obligations, U.S. government agencies, and money market funds at June 30, 2016 were determined primarily based on Level 2 inputs. HHSC estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The Corporation also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include property and equipment which are measured at fair value when impairment exists. At June 30, 2016, the Corporation recognized noncash impairment charges of $3,521,882 to adjust these assets to their estimated fair values.

HHSC's investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, HHSC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of HHSC's investments are held by financial institutions registered in HHSC's name.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, HHSC's investment policy generally limits maturities on investments to not more than five years from the date of investment. All of HHSC's investments at June 30, 2016 have an original maturity date within five years from the date of investment.

Note 3 - Fair Value Measurements (Continued)

Credit Risk

HHSC's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating. As of June 30, 2016, HHSC held investments in U.S. Treasury securities and U.S. government agency obligations.

Concentration of Credit Risk

HHSC's investment policy provides guidelines for portfolio diversification by placing limits on the amount that may be invested in any one issuer, types of investment instruments, and position limits per issue of an investment instrument. There were no investments that individually exceed 5 percent of HHSC's total investments at June 30, 2016.

Note 4 - Capital Assets

Transactions in the capital asset accounts for the year ended June 30, 2016 were as follows:

	Beginning of Year	Additions	Retirements	Transfers and Adjustments	End of Year
Assets not subject to depreciation:					
Land and land improvements	$ 7,770,788	$ -	$ -	$ 44,067	$ 7,814,855
Construction in progress	32,120,301	20,264,393	(797,859)	(22,974,522)	28,612,313
Assets subject to depreciation:					
Buildings and improvements	461,567,963	334,748	-	17,566,700	479,469,411
Equipment	239,882,469	16,426,901	(4,724,618)	5,363,755	256,948,507
Total	741,341,521	37,026,042	(5,522,477)	-	772,845,086
Less accumulated depreciation:					
Buildings and improvements	(208,855,941)	(16,806,688)	-	-	(225,662,629)
Equipment	(166,476,986)	(24,124,067)	1,972,293	-	(188,628,760)
Total	(375,332,927)	(40,930,755)	1,972,293	-	(414,291,389)
Capital assets - Net	$ 366,008,594	$ (3,904,713)	$ (3,550,184)	$ -	$ 358,553,697

The State Department of Accounting and General Services and others transferred capital assets, including construction in progress, aggregating approximately $28,112,000 to HHSC as a contribution of capital for the year ended June 30, 2016.

The addition of Kona Ambulatory Surgery Center assets are reflected in the beginning of year balances, due to the change in reporting entity being effective July 1, 2015.

Note 4 - Capital Assets (Continued)

In July 2011, HHSC entered into a $28.7 million contract with Siemens Healthcare to implement its Soarian Electronic Medical Records and Health Information Systems. West Hawaii Region and Corporate implemented the system in February 2013. Maui Memorial Medical Center implemented the system in March 2014. The remainder of the Maui region implemented the system in March 2015. Kauai region implemented the system in July 2015. The other HHSC facilities will not be implementing the system.

During 2016, certain components of the EHR system were determined to be unusable, and the assets were impaired.

Note 5 - State of Hawaii Advances and Receivable

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. During 2016, an appropriation was granted from the State to allow HHSC to forego any obligation to pay back this amount. The remaining amount due to the State of $20,122,507 at June 30, 2016 is made up of cash advances to the Department of Health - Division of Community Hospitals, which was assumed by HHSC at the date of its formation.

At June 30, 2016, $80,678,873 was due from the State for allotments made to HHSC before June 30, 2016.

Note 6 - Accrued Vacation

Transactions in this account during the year ended June 30, 2016 were as follows:

	Beginning of Year	Additions	Reductions	End of Year	Current Portion	Noncurrent Portion
Accrued vacation	$ 42,136,170	$ 20,793,039	$ (23,206,175)	$ 39,723,034	$ 18,755,699	$ 20,967,335

Note 7 - Cost-sharing Defined Benefit Pension Plan

Plan Description - 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 issues a publicly available financial report that can be obtained at ERS's website: http://ers.ehawaii.gov/.

Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

Benefits Provided - The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Eligible employees who were in service and members 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 five 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 percent 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 percent 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 age at 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 percent of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching 10 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.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, Session Laws of Hawaii of 2004. Participants prior to July 1, 2006 could choose to participate in this hybrid plan or remain in the existing plans. New employees hired from July 1, 2006 are required to join the hybrid plan. Participants will contribute 6 percent of their salary to this plan. Furthermore, members in the hybrid plan are eligible for retirement at age 62 with five years of credited service or at age 55 and 30 years of credited service. Members will receive a multiplier of 2 percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan.

Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

Contributions - Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2016 was 17 percent. Contributions to the pension plan from the Corporation were $47.2 million for the fiscal year ended June 30, 2016.

The employer is required to make all contributions for members in the ERS. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8 percent of their salary. Hybrid plan members hired prior to July 1, 2012 are required to contribute 6.0 percent of their salary. Hybrid plan members hired after June 30, 2012 are required to contribute 8.0 percent of their salary.

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2016, the Corporation reported a liability of $623 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Corporation's proportion of the net pension liability was based on the Corporation's actuarially required contribution for the year ended June 30, 2016, relative to all other contributing employers. At June 30, 2015, the Corporation's proportion was 7.14 percent, which was an decrease of 0.14 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Corporation recognized pension expense of $48,690,000. At June 30, 2016, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 5,942,191	$ (16,636,481)
Net difference between projected and actual earnings on plan investments	-	(22,214,434)
Changes in assumptions	14,111,255	-
Changes in proportion	829,117	(3,700,798)
Employer contributions to the plan subsequent to the measurement date	60,733,066	-
Total	$ 81,615,629	$ (42,551,713)

Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

The $60,733,066 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2017	$ (9,496,376)
2018	(9,496,376)
2019	(9,496,375)
2020	7,537,435
2021	(717,458)

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 %	
Salary increases	3.5 %	Average, including inflation
Investment rate of return	7.7 %	Per year, compounded annually, including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits, including COLA.

Postretirement mortality rates were based on Client Specific Tables. Preretirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2010. ERS updates their experience studies every five years.

Discount Rate - The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the ERS will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return
Domestic equity	30 %	8.5 %
International equity	26	9.3
Real estate	7	9.2
Total fixed income	20	3.1
Private equity	7	11.9
Real return	5	6.7
Other	5	7.7

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Corporation, calculated using the discount rate of 7.65 percent, as well as what the Corporation's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Net pension liability	$ 785,039,724	$ 623,325,235	$ 461,610,746

Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in a separately issued ERS financial report, which is available at http://www.ers.ehawaii.gov. The plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenue is recorded in the accounting period in which it is earned and becomes measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

Note 8 - Employee Benefits

Postemployment Health Care and Life Insurance Benefits - In addition to providing pension benefits, the State provides certain postretirement healthcare benefits (medical, prescription drug, vision, and dental) to all qualified employees and their dependents. Pursuant to Act 88 SLH of 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund, an agent multiple-employer defined benefit plan. This plan is sponsored by and administered by the State of Hawaii.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50 percent of the monthly premium for employees retiring with fewer than 10 years of credited service. Retirees in this category can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Only single-plan coverage is provided for retirees in this category. Retirees in this category can elect a family plan to cover dependents.

Note 8 - Employee Benefits (Continued)

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50 percent of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Only single-plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference in plan costs.

Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium.

The State of Hawaii receives an annual actuarial valuation to compute the annual required contribution (ARC) necessary to fund the postretirement obligation for all state employees, including those employed by HHSC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the current normal cost of benefits provided this year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. Currently, the State contributes to the plan on a "pay-as-you-go" basis, only contributing the amounts necessary to pay for current year benefits.

For cost allocation purposes, the State allocates the full accrual ARC expense among its component units, including HHSC, based on respective percentages of full-time equivalents. The State requires HHSC to contribute to the plan at a rate of covered payroll necessary to fund its share of the annual "pay-as-you-go" contributions, which is significantly less than the actuarially determined contribution rate. HHSC then allocates its full accrual ARC expense among its various regions based on their respective percentages of full-time equivalents. The cumulative difference between the amounts the State requires HHSC to contribute and HHSC's allocation of the total plan ARC expense is recorded as other postretirement benefit liability on the balance sheet of each region. HHSC's actual cash contributions for postretirement benefits approximated $26.5 million and $29.3 million for the years ended June 30, 2016 and 2015, respectively.

Beginning of year	$ 338,248,725
Required contributions	57,589,884
Actual contributions	(26,524,579)
End of year	$ 369,314,030

Note 8 - Employee Benefits (Continued)

Sick Leave - Accumulated sick leave as of June 30, 2016 was approximately $81,454,000. 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.

Note 9 - Long-term Liabilities

Long-term liability activity for the year ended June 30, 2016 was as follows:

	2015	Current Year Additions	Current Year Reductions	2016	Amounts Due Within One Year
Long-term debt	$ 44,622,525	$ -	$ (4,733,120)	$ 39,889,405	$ 1,843,484
Capital lease obligations	$ 23,939,266	$ 2,199,447	$ (10,232,858)	$ 15,905,855	$ 6,629,441

The addition of Kona Ambulatory Surgery Center long-term debt of $1,961,172 is reflected in the beginning of year balances, due to the change in reporting entity being effective July 1, 2015.

The long-term debt obligations are summarized as follows:

Roselani Place - In September 2007, Alii exercised its option to purchase its 113-unit assisted-living and Alzheimer facility and personal property from the developer/landlord for $16 million. In connection with the purchase, Alii also assumed the land lease on which the facility is situated, and a parking license covering real property adjacent to the facility.

In connection with the purchase agreement, Alii also reached an agreement with the developer/landlord concerning an arbitration award that was rendered in favor of the developer/landlord in January 2006 for $1.9 million. The arbitration decision was on appeal to the Intermediate Court of Appeals of the State of Hawaii. Alii and the developer/landlord agreed to settle the $1.9 million judgment for $500,000. This settlement payment is in addition to the $16 million purchase price.

The note payable requires monthly payments of $126,433 including interest at 5.9 percent, through October 2027. The note is collateralized by certain property and equipment. At June 30, 2016, the balance payable was $12,538,134.

Note 9 - Long-term Liabilities (Continued)

Maui Bonds

In 2012, Maui Memorial Medical Center (MMMC) issued general obligation bonds. These bonds were executed in two parts, series 2012A and series 2012B. The series 2012A bonds were issued to refinance MMMC's existing $8 million loan which had been held with Bank of Montreal. Total borrowing under the first agreement was $8,100,000. These bonds carry an interest rate of 4.05 percent. The series 2012A bonds are secured by a loan note guarantee issued by the United States Department of Agriculture (USDA) through its Rural Development division. The series 2012B bonds provided initial funding for the purposes of construction of a physician clinic adjacent to the hospital, partially funding a building renovation, and equipment associated with imaging services. Total borrowing costs under the second agreement were $901,000. These bonds carry a variable interest rate that starts at 5 percent until September 1, 2017, at which point the rate shall reset on each September 1, occurring every five years thereafter at a rate equal to 3.75 percent over the prevailing five-year FHLB bulled rate (Seattle). In the event that such rate is no longer available or practicable, a similar index, as mutually agreed upon by the issuer and holders of the bonds, will be used. The series 2012B bonds are unsecured. The bonds are payable in annual installments ranging from $158,000 to $978,000. In connection with the series 2012A and series 2012B bond issuance, MMMC is subject to certain financial covenants. The total amount outstanding at June 30, 2016 on the series 2012A and 2012B revenue bonds is $8,565,000.

In January 2015, MMMC issued Revenue Bond Number 3, the proceeds of which were used to refinance the previously issued Series 2013 bonds. These bonds were issued under the existing master trust indenture dated April 1, 2008. Monthly payments are due in the amount of $46,433, including principal and interest, through January 2045 when all remaining principal and accrued interest are payable. Revenue Bond Number 3 carries an interest rate of 3.50 percent. In connection with Revenue Bond Number 3, MMMC is subject to certain financial covenants.

Hilo Residency Training Program - In June 2001, HHSC acquired land, building, and medical equipment of $11,893,162 from Hilo Residency Training Program, Inc. (HRTP) to ensure the uninterrupted operation of the Hilo Medical Center Cancer Treatment Center and its radiation and medical oncology services. As part of the acquisition, HHSC assumed HRTP's outstanding balances on the loans and notes payable of $11,893,162 from Central Pacific Bank and the United States Department of Agriculture (USDA). The assets and related liabilities have been recorded in the facility's accounting records. The loans and notes payable are collateralized by a security interest in the capital assets acquired from HRTP, as well as any rights, interest, and other tangible assets relating to such property. In October 2007, the loans and notes payable to Central Pacific Bank and the USDA were refinanced into a single note payable to Academic Capital.

Note 9 - Long-term Liabilities (Continued)

The note payable requires monthly payments, including interest, totaling $64,069 through September 2032. The note payable is secured by certain assets of Hilo Medical Center (HMC). At June 30, 2016, the balance payable was $8,023,621.

Yukio Okutsu Veterans' Home - In May 2008, the Yukio Okutsu Veterans' Home entered into a line of credit for $1.8 million, which calls for monthly interest-only payments at an interest rate of 5 percent. In November 2014, the Yukio Okutsu Veterans' Home signed an extension, which extended the balloon principal payment due from December 2015 to December 2016. The line of credit had a $0 balance at June 30, 2016.

KVMH's Port Allen Clinic - In April 2008, HHSC - Corporate entered into a promissory note with a bank to finance the leasehold improvements for KVMH's Port Allen Clinic. The note requires monthly principal and interest payments of $16,207 through maturity at November 23, 2017. The note is secured by a security interest in the leasehold improvements of the clinic. At June 30, 2016, the balance payable was $199,665.

Kahuku Medical Center - In July 2012, Kahuku Medical Center entered into a purchase and maintenance services agreement with Holden Hospital Supply, Inc. to finance the purchase and maintenance of an oxygen generator. The note requires monthly payments of $4,188 through maturity on June 30, 2019. The agreement also includes the financing of electrical and additional charges related to the oxygen generator. Interest is not a component of the agreement. At June 30, 2016, the balance of the loan was $96,335.

In April 2014, Kahuku Medical Center entered into a loan, secured by a mortgage, to finance the purchase of land. The agreement required monthly principal and interest payments of $12,481 through maturity at April 2019. At June 30, 2016, the balance of the loan was $413,656.

HHSC has entered into various capital leases, including a lease with Siemens for the financing of an electronic medical records system. The capital leases require monthly payments aggregating to approximately $750,000, including interest, per month. The capital leases expire at various times through 2027.

Note 9 - Long-term Liabilities (Continued)

The following is a schedule by year of principal and interest as of June 30, 2016:

Years Ending June 30	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2017	$ 1,843,484	$ 1,909,874	$ 6,629,441	$ 461,973
2018	1,757,704	1,812,754	5,140,793	271,174
2019	1,781,290	2,020,037	1,427,616	163,295
2020	1,732,147	1,627,729	693,196	131,181
2021	1,826,468	1,530,441	421,037	106,197
2022-2026	10,788,850	6,010,342	1,426,971	257,268
2027-2031	7,980,975	3,270,890	166,801	3,353
2032-2036	4,507,851	1,848,745	-	-
Thereafter	7,670,636	1,250,712	-	-
Total payments	$ 39,889,405	$ 21,281,524	$ 15,905,855	$ 1,394,441

Note 10 - Commitments and Contingencies

Professional Liability - HHSC maintains professional and general liability insurance with a private insurance carrier with a $35 million limit per claim and a $39 million aggregate. HHSC has also purchased additional excess insurance with a $10 million per claim and aggregate limit. HHSC's general counsel advises that, in the unlikely event any judgments rendered against HHSC exceed HHSC's professional liability coverage, such amounts would likely be paid from an appropriation from the State's General Fund. Settled claims have not exceeded the coverage provided by the insurance carrier in any of the past three fiscal years.

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 also directly provides 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 $13,462,000 for unpaid claims as of June 30, 2016.

Estimated liability - Beginning of year	$ 13,779,000
Estimated claims incurred - Including changes in estimates	3,351,000
Claim payments	(3,668,000)
Estimated liability - End of year	$ 13,462,000

Note 10 - Commitments and Contingencies (Continued)

Operating Leases - HMC, MMMC, and Alii entered into various operating leases and related sublease agreements. Future minimum lease payments and sublease receipts at June 30, 2016 are as follows:

Years Ending June 30	Lease Payments	Sublease Receipts
2017	$ 1,912,135	$ 106,294
2018	1,169,499	-
2019	1,204,670	-
2020	1,240,802	-
2021	1,277,905	-
Thereafter	2,136,172	-
Total	$ 8,941,183	$ 106,294

Ceded Lands - The Office of Hawaiian Affairs (OHA) and the State 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.

During the 2006 Legislative Session, the State of Hawaii Legislature enacted Act 178, which provided interim measures to ensure that a certain amount of proceeds was made available to OHA from the prorated portion of the public land trust for the betterment of the conditions of native Hawaiians. The act provided that the state agencies that collect receipts from the use of lands within the public land trust transfer a total of $3,775,000 to OHA within 30 days of the close of each fiscal quarter (or $15,100,000 per fiscal year), beginning with the 2006 fiscal year. In addition, the act appropriated $17,500,000 out of the State's general revenue to pay OHA for underpayments of the State's use of lands in the public land trust for the period from July 1, 2001 to June 30, 2005.

Note 10 - Commitments and Contingencies (Continued)

On September 20, 2006, the governor of the state of Hawaii issued Executive Order No. 06-06, which established procedures for the state agencies to follow in order to carry out the requirements of Act 178. Each state agency that collects receipts from the use of ceded or public land trust land is to determine OHA's share of such receipts by calculating the ceded/nonceded fraction of the parcel that generated the receipt, multiplying the receipt by the ceded/nonceded fraction, and multiplying that result by 20 percent. The resulting amounts are to be deposited into a trust holding account established for such purpose and within 10 days of the close of each fiscal quarter, the amounts are to be transferred to OHA. Within a specified period after the close of each quarter, the director of finance is to reconcile the actual amounts transferred to OHA with the required amount of $3,775,000 and adjust each specific agency's payments accordingly.

For the year ended June 30, 2016, there were no payments made to OHA.

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.

Supplemental Information

Hawaii Health Systems Corporation

Supplemental Schedule of Reconciliation of Cash on Deposit and Assets Limited as to Use with the State of Hawaii
June 30, 2016

	Appropriation Symbol		
Cash and cash equivalents - State of Hawaii			
Special funds:			
	S-14-303-H	$	540,582
	S-12-350-H		1
	S-12-351-H		1,273
	S-12-352-H		1
	S-12-353-H		72,947
	S-11-354-H		153,603
	S-10-355-H		111,744
	S-10-371-H		37,665
	S-10-358-H		2
	S-14-365-H		100,955
	S-14-312-H		69,721
	S-16-359-H		39,060
	S-16-373-H		3,013
Trust funds:			
	T-04-918-H		1,273
	T-04-921-H		6,682
Total per State		**$**	**1,138,522**
Assets limited as to use - Patient trust funds:			
	T-04-923-H	$	4,129
	T-04-919-H		1,044
	T-04-911-H		22,912
	T-09-909-H		9,334
	T-09-925-H		70,440
Total per State			107,859
Reconciling items:			
Patients' safekeeping deposits held by financial institutions			557,763
Restricted assets held by financial institutions			3,545,819
Total per HHSC		**$**	**4,211,441**

Hawaii Health Systems Corporation

Statement of Net Position of Facilities
June 30, 2016

	Facilities																										
	Hilo Medical Center	Hale Ho'ola Hamakua	Kau Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lana'i Community Hospital	Leahi Hospital	Molokai	Kahuku Medical Center	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Total Facilities	Corporate	Reclassifications and Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Ali Community Care - Maui	Ali Community Care - Kona	Kona Ambulatory Surgery Center	Reclassifications and Eliminations	HHSC Consolidated
Assets																											
Current Assets																											
Cash and cash equivalents - State of Hawaii	$ 2	$ 2,546	$ 6,682	$ -	$ 153,603	$ 72,947	$ 111,744	$ 37,665	$ 2	$ 69,721	$ 100,955	$ -	$ 39,060	$ 3,013	$ 597,940	$ 540,582	$ -	$ 1,138,522	$ -	$ -	$ -	$ -	$ -	$ 1,138,522
Cash and cash equivalents	15,388,565	44,189	16,880	518,128	12,910,415	3,518,325	36,872,484	8,313,051	57,124	1,507,966	2,967,925	562,675	6,548,847	3,220,170	92,444,724	11,011,646	-	103,456,370	40,037	66,376	81,457	50,319	-	103,694,559
Patient accounts receivable - Less allowances for doubtful accounts	22,145,537	1,729,410	717,022	1,260,631	10,237,451	1,900,534	28,034,953	3,922,428	459,464	1,492,257	1,404,326	2,456,078	2,183,624	1,711,998	78,697,726	-	-	78,697,726	-	22,466	235,421	285,362	-	79,240,985
Investments	7,362,814	-	-	-	-	-	-	-	-	-	-	-	-	-	7,362,814	-	-	7,362,814	-	-	-	-	-	7,362,814
Supplies and other current assets	3,995,067	231,487	135,162	10,467	2,361,230	59,365	6,164,458	258,443	127,678	723,163	1,273,343	591,545	493,409	110,989	15,936,003	24,565	-	15,960,570	-	27,105	56,899	(71,084)	-	16,215,458
Due from the State of Hawaii	22,187,406	-	-	-	7,082,342	703,240	19,642,000	3,249,000	2,292,000	8,170,000	5,095,000	1,626,000	3,875,037	-	80,319,873	359,000	-	80,678,873	-	-	-	-	-	80,678,873
Due from affiliates - Net	-	9,013,264	1,948,464	-	3,297,550	-	4,928,821	-	-	-	-	-	-	1,311,513	19,899,612	6,783,465	(26,270,255)	412,822	-	-	-	-	(412,822)	-
Estimated third-party payor settlements	5,133,435	252,508	27,916	9,792	2,781,968	257,257	5,908,626	263,092	64,629	1,857,872	1,197,605	472,580	1,443,508	564,942	19,634,630	-	-	19,634,630	-	-	-	-	-	19,634,630
Total current assets	74,213,006	11,253,444	2,850,526	1,798,998	38,824,561	5,611,498	100,463,126	16,040,679	2,984,497	13,190,979	12,039,354	5,708,798	14,583,484	13,530,474	312,893,924	18,719,258	(26,270,255)	305,342,927	40,037	115,947	373,777	264,597	(412,822)	305,944,031
Due from Affiliates - Net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Assets - Net	46,034,876	16,785,642	5,367,876	22,338,424	33,341,219	3,258,262	148,207,311	15,400,338	4,779,004	9,341,515	7,922,044	8,542,334	16,713,488	9,852,922	345,085,255	1,544,315	-	346,629,570	-	9,300,920	105,853	2,517,354	-	358,553,697
Assets Limited as to Use	450,015	13,878	3,399	-	292,224	-	2,181,486	62,079	9,216	92,410	57,710	3,037	10,395	15,678	3,145,527	1,065,914	-	4,211,441	-	-	-	-	-	4,211,441
Other Assets	100,451	-	-	-	472,436	-	281,937	3,455	-	-	-	-	-	-	1,064,137	-	-	1,064,137	-	-	41,047	-	(465,434)	639,870
Total assets	121,098,348	28,052,964	8,421,801	24,137,422	72,735,338	8,869,760	251,054,860	31,506,531	7,766,917	22,624,904	20,018,808	14,254,169	31,307,367	23,399,074	662,188,843	21,329,487	(26,270,255)	657,247,595	40,037	9,416,867	520,677	3,024,119	(878,256)	669,371,039
Deferred Outflows of Resources - Pension	20,734,366	1,659,308	1,065,791	-	8,477,083	1,037,148	27,534,974	3,535,646	538,245	3,572,966	2,958,904	-	5,653,098	2,261,221	79,029,750	2,585,879	-	81,615,629	-	-	-	-	-	81,615,629
Total assets and deferred outflows of resources	$ 141,772,714	$ 29,712,272	$ 9,487,592	$ 24,137,422	$ 81,212,421	$ 9,906,908	$ 278,591,834	$ 35,042,177	$ 8,305,162	$ 26,197,870	$ 22,977,712	$ 14,254,169	$ 36,960,465	$ 25,660,295	$ 741,218,593	$ 23,915,366	$ (26,270,255)	$ 738,863,224	$ 40,037	$ 9,416,867	$ 520,677	$ 3,024,119	$ (878,256)	$ 750,986,668
Liabilities and Net Position																											
Current Liabilities																											
Current portion of long-term debt	$ 103,562	$ -	$ -	$ -	$ -	$ -	$ 366,652	$ -	$ -	$ -	$ -	$ 194,118	$ 194,529	$ -	$ 1,058,860	$ -	$ -	$ 1,058,860	$ -	$ 804,924	$ -	$ -	$ -	$ 1,863,484
Current portion of capital lease obligations	1,685,427	-	-	-	101,269	-	1,271,632	-	-	-	126,118	518,082	260,941	-	3,963,469	2,629,681	-	6,593,150	-	-	36,291	-	-	6,629,441
Accounts payable and accrued expenses	26,579,749	978,517	824,073	618,595	8,830,601	519,506	29,874,101	1,931,835	1,215,901	1,434,243	1,502,914	1,020,948	4,766,710	1,367,108	81,087,702	2,437,000	-	83,524,702	-	252,720	936,337	30,786	(412,822)	84,331,813
Current portion of accrued workers' compensation liability	906,000	167,000	10,000	-	325,000	36,000	882,000	298,000	31,000	491,000	197,000	-	130,000	92,000	3,631,000	-	-	3,631,000	-	-	-	-	-	3,631,000
Current portion of accrued vacation	4,978,967	321,793	308,135	34,346	1,990,772	324,444	4,097,259	636,902	81,378	1,318,053	870,511	209,055	2,252,932	631,683	18,128,230	627,469	-	18,755,699	-	-	-	-	-	18,755,699
Estimated third-party payor settlements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from affiliates - Net	12,246,882	-	-	540,951	-	1,626,962	-	6,161,487	1,853,693	76,506	102,448	568,260	1,576,234	586,630	25,340,033	-	(25,340,033)	-	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-	1,194,239	20,000	10,000	-	-	-	176,387	30,000	1,430,626	17,000	-	1,447,626	-	323,995	-	-	-	1,771,621
Total current liabilities	46,787,578	1,467,310	1,134,208	1,193,892	11,365,642	2,507,912	37,685,883	9,948,224	3,191,972	3,489,802	2,798,991	2,560,463	9,947,312	2,685,421	134,640,010	5,711,150	(25,340,033)	115,011,127	-	1,381,639	972,628	30,786	(412,822)	116,983,058
Long-term Debt - Less current portion	7,720,059	-	-	-	-	-	18,251,342	-	-	-	-	325,873	15,137	-	26,312,411	-	-	26,312,411	-	11,733,510	-	-	-	38,045,921
Capital Lease Obligations - Less current portion	2,342,395	-	-	-	378,596	-	3,838,821	-	-	-	65,904	-	112,134	-	6,737,850	2,538,153	-	9,276,003	-	-	20,411	-	-	9,276,414
Other Liabilities																											
Accrued vacation - Less current portion	5,480,985	398,125	231,343	-	1,780,528	290,182	6,997,636	1,087,753	138,993	1,142,852	1,147,080	-	348,433	943,429	19,985,327	895,720	-	20,881,047	-	-	96,288	-	-	20,967,335
Accrued workers' compensation - Less current portion	2,610,000	171,000	136,500	-	1,220,900	151,000	3,414,000	524,000	52,000	141,000	316,000	-	629,000	194,000	9,518,000	293,000	-	9,811,000	-	-	-	-	-	9,811,000
Other postemployment benefit liability	45,564,159	7,653,366	5,194,499	-	37,427,152	4,987,331	129,485,898	15,187,742	2,759,206	14,543,510	12,304,898	-	23,485,681	9,279,613	357,847,055	11,466,975	-	369,314,030	-	-	-	-	-	369,314,030
Due to affiliates - Net	-	-	-	-	-	-	-	-	-	-	-	930,222	-	-	930,222	-	(930,222)	-	-	-	-	-	-	-
Due to the State of Hawaii - Less current portion	-	506,153	-	-	7,605,205	528,149	-	1,114,264	-	6,416,791	492,458	-	1,043,345	2,417,150	20,122,507	-	-	20,122,507	-	-	-	-	-	20,122,507
Pension liability	150,733,289	13,930,335	9,373,964	-	66,545,666	7,466,852	206,951,849	28,451,953	4,148,448	30,628,747	25,194,361	-	47,930,683	18,699,947	609,015,164	14,310,071	-	623,325,235	-	-	-	-	-	623,325,235
Patients' safekeeping deposits	30,767	13,878	3,399	-	-	-	-	62,079	9,216	88,076	31,294	3,037	8,644	14,634	252,024	-	-	252,024	-	-	-	-	-	252,024
Other liabilities	19,663	1,500	-	-	3,833	-	-	-	-	-	-	-	21,985	9,748	57,731	-	-	57,731	-	-	-	-	-	57,731
Total liabilities	311,288,895	24,139,857	15,073,413	1,193,892	126,206,622	15,886,424	406,625,429	55,525,915	10,267,835	56,445,778	42,349,958	3,819,595	82,550,754	34,243,934	1,185,418,291	35,195,069	(26,270,255)	1,194,343,105	-	13,114,849	1,089,327	30,786	(412,822)	1,208,155,245
Deferred Inflows of Resources - Pension	10,612,111	975,984	532,012	-	4,423,941	521,229	14,247,743	1,850,790	259,005	1,947,330	1,574,059	-	3,096,487	1,310,732	41,201,443	1,350,270	-	42,551,713	-	-	-	-	-	42,551,713
Total liabilities and deferred inflows of resources	321,901,006	25,015,841	15,605,425	1,193,892	130,630,563	16,407,653	420,923,172	57,376,705	10,526,840	58,393,108	43,924,017	3,819,595	85,647,241	35,454,666	1,226,619,734	36,545,339	(26,270,255)	1,236,894,818	-	13,114,849	1,089,327	30,786	(412,822)	1,250,706,958
Net Position																											
Invested in capital assets - Net of related debt	33,983,433	16,785,642	5,367,876	22,338,424	32,861,454	3,258,262	132,185,843	15,400,338	4,779,004	9,341,515	7,730,022	7,514,261	16,140,748	6,852,922	314,739,644	976,047	-	315,715,711	-	(9,237,214)	49,151	2,517,354	(4,579,586)	310,465,416
Restricted for capital purchases	-	-	-	-	292,224	-	1,190,093	-	-	-	24,535	-	4,129	1,044	1,512,025	-	-	1,512,025	-	-	-	-	-	1,512,025
Unrestricted	(214,112,725)	(12,089,211)	(11,445,729)	695,106	(82,571,620)	(9,759,007)	(275,707,256)	(37,539,926)	(7,000,672)	(41,536,753)	(28,720,862)	2,920,313	(64,815,453)	(19,648,337)	(651,457,290)	(13,602,020)	-	(815,259,310)	40,037	(660,768)	(607,801)	475,979	4,114,152	(811,697,711)
Total net position	(180,129,292)	4,696,431	(6,077,853)	23,033,530	(49,417,942)	(6,500,745)	(142,331,320)	(22,139,588)	(2,221,668)	(32,195,238)	(20,966,305)	10,434,574	(48,670,576)	(12,794,471)	(335,206,621)	(12,625,973)	-	(498,031,594)	40,037	(9,897,982)	(558,650)	2,993,333	(465,434)	(496,720,290)
Total liabilities and net position	$ 141,772,714	$ 29,712,272	$ 9,487,592	$ 24,137,422	$ 81,212,421	$ 9,906,908	$ 278,591,834	$ 35,042,177	$ 8,305,162	$ 26,197,870	$ 22,977,712	$ 14,254,169	$ 36,960,465	$ 23,660,195	$ 741,214,113	$ 23,919,366	$ (26,270,255)	$ 738,863,224	$ 40,037	$ 9,416,867	$ 520,677	$ 3,024,119	$ (878,256)	$ 750,986,668

Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position of Facilities
Year Ended June 30, 2016

	Facilities																						
	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lana'i Community Hospital	Leahi Hospital	Maluhia	Kahuku Medical Center	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Total Facilities	Corporate	Reclassifications and Eliminations	HHSC Combined	Hawai'i Health Systems Foundation	Ala Kahakai Community Care - Maui	Ala Kahakai Community Care - Kona	Kona Ambulatory Surgery Center	Reclassifications and Eliminations	HHSC Consolidated
Operating Revenue																							
Net patient service revenue - Net of provision for doubtful accounts	$ 165,375,558	$ 14,726,403	$ 8,009,049	$ 12,415,966	$ 73,813,426	$ 7,521,300	$ 230,992,734	$ 21,004,700	$ 3,043,760	$ 14,831,013	$ 14,518,759	$ 12,872,261	$ 31,805,583	$ 15,746,321	$ 626,676,833	$ -	$ -	$ 626,676,833	$ -	$ -	$ 3,286,288	$ 1,415,701	$ -	$ 631,378,822
Other revenue	2,799,383	134,069	19,308	-	784,179	6,036	1,959,746	73,283	9,161	215,990	20,617	555,372	271,956	17,590	6,866,690	-	(474,587)	6,392,103	-	3,870,907	1,241,850	-	-	11,504,860
Total operating revenue	168,174,941	14,860,472	8,028,357	12,415,966	74,597,605	7,527,336	232,952,480	21,077,983	3,052,921	15,047,003	14,539,376	13,427,633	32,077,539	15,763,911	633,543,523	-	(474,587)	633,068,936	-	3,870,907	4,528,138	1,415,701	-	642,883,682
Operating Expenses																							
Salaries	75,406,264	6,716,991	4,488,022	4,918,299	30,852,003	4,177,004	101,989,308	12,039,741	2,405,385	11,488,752	11,023,297	5,418,064	18,645,010	8,126,147	297,894,287	8,501,808	-	306,396,095	-	-	3,755,830	716,316	-	310,868,241
Employee benefits	46,618,467	3,704,961	2,789,221	426,304	16,296,870	2,534,969	56,855,193	7,115,457	1,659,170	5,342,881	4,876,683	2,049,198	6,612,623	3,452,267	160,334,264	4,597,646	-	164,931,910	-	-	1,535,464	13,632	-	166,481,006
Purchased services	24,869,073	2,280,463	1,027,266	1,547,825	16,997,818	1,451,820	34,597,441	2,507,354	1,398,410	378,151	539,541	1,471,975	4,524,858	1,790,295	95,382,290	2,694,697	(474,587)	97,602,400	-	43,636	72,708	-	-	97,718,744
Medical supplies and drugs	23,209,355	765,173	202,540	540,126	7,431,580	32,405	42,417,539	774,195	328,690	426,134	278,977	1,122,691	2,353,752	331,500	80,214,657	-	-	80,214,657	-	-	316,746	384,998	-	80,916,401
Depreciation and amortization	6,956,583	925,601	709,570	746,578	5,403,412	335,706	16,403,378	1,860,095	306,240	563,595	472,316	1,056,583	2,508,235	949,927	39,197,821	524,241	-	39,722,062	-	891,002	47,775	274,233	-	40,935,072
Utilities	2,665,946	560,255	237,592	931,644	1,399,997	156,217	4,247,298	268,566	150,891	855,713	590,305	402,584	817,911	438,430	13,723,349	309,100	-	14,032,449	-	365,501	23	-	-	14,397,973
Repairs and maintenance	3,796,307	531,571	227,192	124,033	3,073,673	208,936	4,859,597	75,424	125,381	408,153	363,551	661,979	661,494	246,968	15,364,259	(21,665)	-	15,342,594	-	60,166	133,565	465,215	-	16,001,540
Other supplies	3,928,299	573,053	246,176	543,857	1,197,204	355,541	5,059,006	789,822	182,258	600,691	780,821	448,049	1,154,505	494,440	16,353,722	59,888	-	16,413,610	-	393,781	23,276	-	-	16,830,667
Professional fees	8,620,744	246,805	34,344	93,812	224,774	199,733	2,158,417	154,466	18,476	69,416	30,577	1,127,890	648,650	395,810	14,023,914	252,176	-	14,276,090	-	2,482,139	(470,982)	533,134	-	16,820,381
Insurance	760,483	65,235	115,132	1,203,565	232,293	19,283	1,929,297	105,181	15,581	134,175	96,157	76,602	325,231	51,395	5,129,610	16,440	-	5,146,050	-	95,656	62,442	-	-	5,304,148
Rent and lease	2,428,708	47,466	40,470	89,033	619,558	82,525	2,934,378	98,881	10,207	20,923	924	174,865	248,716	56,065	6,852,719	218,115	-	7,070,834	-	157,528	623,166	-	-	7,851,528
Other	1,899,866	127,177	147,291	744,500	625,652	86,550	1,746,470	109,542	108,025	42,337	64,644	707,540	353,105	167,750	6,930,449	399,856	-	7,330,305	198	173,383	649,121	-	-	8,153,007
Total operating expenses	201,160,095	16,544,751	10,264,816	11,909,576	84,354,834	9,640,689	275,197,322	25,898,724	6,708,716	20,330,921	19,117,793	14,718,020	39,054,090	16,500,994	751,401,341	17,552,302	(474,587)	768,479,056	198	4,662,792	6,749,134	2,387,528	-	782,278,708
Operating (Loss) Income	(32,985,154)	(1,684,279)	(2,236,459)	506,390	(9,757,229)	(2,113,353)	(42,244,842)	(4,820,741)	(3,655,795)	(5,283,918)	(4,578,417)	(1,290,387)	(6,976,551)	(737,083)	(117,857,818)	(17,552,302)	-	(135,410,120)	(198)	(791,885)	(2,220,996)	(971,827)	-	(139,395,026)
Nonoperating Revenue (Expenses)																							
General appropriations from the State of Hawai'i	26,214,000	2,393,000	1,776,000	-	14,012,000	1,257,000	31,287,000	4,051,000	1,458,000	7,960,000	4,194,000	1,500,000	8,395,000	2,943,000	107,440,000	14,000,000	-	121,440,000	-	-	-	-	-	121,440,000
Collective bargaining pay raise appropriations	489,040	24,347	22,290	-	209,705	17,624	612,071	40,291	14,571	56,108	37,479	-	152,732	38,381	1,714,639	17,303	-	1,731,942	-	-	-	-	-	1,731,942
Loss on disposal of capital assets	(12,664)	-	-	-	(6,486)	-	(77)	-	-	-	-	8,925	-	-	(10,302)	-	-	(10,302)	-	-	-	-	-	(10,302)
Restricted contributions	330,704	-	47,918	-	350,500	45,783	1,874,820	-	-	-	-	-	-	-	2,649,725	-	-	2,649,725	-	-	30,000	-	-	2,679,725
Interest expense	(482,617)	-	(26)	(29,379)	(109,958)	(3,373)	(1,124,889)	(4,566)	(37)	(2,942)	(250)	(82,257)	(59,758)	-	(1,900,053)	(684,069)	-	(2,584,121)	-	(763,634)	(3,875)	-	-	(3,351,630)
Interest and dividend income	88,306	7,556	4,862	-	29,465	13,552	136,868	30,842	2,399	8,462	7,540	-	17,948	21,953	369,753	15,816	-	385,569	-	612	-	-	-	386,181
Corporate allocation expense	(3,142,535)	(256,890)	(148,236)	-	(2,191,178)	(244,603)	(7,016,943)	(664,583)	(164,265)	(582,551)	(532,046)	-	(1,086,171)	(440,998)	(16,470,999)	16,470,999	-	-	-	-	-	-	-	-
Other nonoperating revenue (expenses) - Net	1,046,239	228,317	(5,244)	2,121	(2,275,799)	(15,299)	719,879	157,208	36,557	49,951	-	-	558,782	248,219	750,931	20,267	-	771,198	-	-	1,988,317	-	574,594	3,334,109
Total nonoperating revenue (expenses)	24,530,473	2,396,330	1,697,564	(27,258)	10,018,249	1,070,684	26,488,729	3,610,192	1,347,225	7,489,028	3,706,723	1,426,668	7,978,533	2,810,555	94,543,695	29,840,316	-	124,384,011	-	(763,022)	2,014,442	-	574,594	126,210,025
Excess of Revenue (Under) Over Expenses	(8,454,681)	712,051	(538,895)	479,132	261,020	(1,042,669)	(15,756,113)	(1,210,549)	(2,308,570)	2,205,110	(871,694)	136,281	1,001,982	2,073,472	(23,314,123)	12,288,014	-	(11,026,109)	(198)	(1,554,907)	(206,554)	(971,827)	574,594	(13,185,001)
Capital Contributions	2,342,537	-	(4,000)	-	6,376,775	188,781	6,677,638	(631,759)	(29,185)	976,116	193,880	-	3,456,965	3,531,851	23,079,599	(251)	-	23,079,348	-	-	-	2,355,547	(394,375)	25,040,520
Change in Reporting Entity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,609,613	(645,653)	963,960
Asset Impairment	-	-	-	-	-	-	-	-	-	(1,288,820)	(1,138,683)	(1,094,379)	-	-	(3,521,882)	-	-	(3,521,882)	-	-	-	-	-	(3,521,882)
Transfer from (to) Affiliate	72,899,516	1,842,918	8,336,416	-	41,776,586	9,034,504	(14,211,256)	22,807,386	15,266,517	17,913,732	28,411,825	-	60,499,723	13,215,806	277,793,673	(297,386,998)	-	(19,593,325)	-	19,593,325	-	-	-	-
Increase (Decrease) in Net Position	**$ 66,787,372**	**$ 2,554,969**	**$ 7,793,521**	**$ 479,132**	**$ 48,414,381**	**$ 8,180,616**	**$ (23,289,731)**	**$ 20,965,078**	**$ 12,928,762**	**$ 19,806,138**	**$ 26,595,328**	**$ (958,098)**	**$ 64,958,670**	**$ 18,821,129**	**$ 274,037,267**	**$ (285,099,235)**	**$ -**	**$ (11,061,968)**	**$ (198)**	**$ 18,038,418**	**$ (206,554)**	**$ 2,993,333**	**$ (465,434)**	**$ 9,297,597**

Required Supplemental Information

Hawaii Health Systems Corporation

Required Supplemental Information
Schedule of Contributions
Employees' Retirement System of the State of Hawaii
Year Ended June 30

	2016	2015	2014
Contractually required contribution	$ 51,584,604	$ 49,213,969	$ 53,279,576
Contributions in relation to the contractually required contribution	51,584,604	50,272,620	47,500,308
Contribution (Excess) Deficiency	**$ -**	**$ (1,058,651)**	**$ 5,779,268**
Corporation's Covered Employee Payroll	$ 288,121,862	$ 285,988,382	$ 268,597,949
Contributions as a Percentage of Covered Employee Payroll	17.9 %	17.6 %	17.7 %

Hawaii Health Systems Corporation

Required Supplemental Information
Schedule of the Proportionate Share of the Net Pension Liability
Employees' Retirement System of the State of Hawaii
Year Ended June 30

	2016	2015	2014
Corporation's proportion of the net pension liability (asset)	7.1 %	7.3 %	7.2 %
Corporation's proportionate share of the net pension liability (asset)	$ 623,325,233	$ 583,997,239	$ 638,368,793
Corporation's covered employee payroll	288,121,862	285,988,382	268,597,949
Corporation's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	216.3 %	204.2 %	237.7 %
Plan Fiduciary Net Position as a Percent of Total Pension Liability	62.4	63.9	58.0

Hawaii Health Systems Corporation

Note to Pension Required Supplemental Information Schedules
Year Ended June 30

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The schedule of contributions is presented to show the responsibility of the Corporation in meeting the actuarial requirements to maintain the system on a sound financial basis.

The schedule of the proportionate share of the net pension liability and schedule of contributions are schedules that are required in implementing GASB Statement No. 68. The schedule of the proportionate share of the net pension liability represents, in actuarial terms, the accrued liability less the market value of assets. The schedule of contributions is a comparison of the Corporation's contributions to the actuarially determined contributions.

The information presented in the schedule of contributions was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the pension plan follows.

Valuation methods and assumptions used to determine contribution for fiscal year 2015:

Actuarial cost method	Entry age, normal
Amortization method	Level percent, closed
Remaining amortization period	28 years
Asset valuation method	Market
Inflation	3.0 percent
Salary increases	3.5 percent wage inflation
Investment rate of return	7.0 percent per year, compounded annually including inflation

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Hawaii Health Systems Corporation

We have audited, 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, the financial statements of Hawaii Health Systems Corporation (HHSC or the "Corporation"), which comprise the basic statement of net position as of June 30, 2016 and the related basic statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hawaii Health Systems Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HHSC's internal control. Accordingly, we do not express an opinion on the effectiveness of HHSC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as Findings 2016-1 and 2016-2 to be material weaknesses.

To Management and the Board of Directors
Hawaii Health Systems Corporation

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as Findings 2016-3 through 2016-8 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hawaii Health Systems Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards.*

Hawaii Health Systems Corporation's Responses to Findings

Hawaii Health Systems Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings. Hawaii Health Systems Corporation's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HHSC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HHSC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

Grand Rapids, Michigan
December 28, 2016

Hawaii Health Systems Corporation

Schedule of Findings
Year Ended June 30, 2016

Finding - 2016-1

Organization - Alii Community Care, Inc.

Finding Type - Material weakness

Criteria - Property and equipment lapse schedules for Roselani should be reviewed by a second individual to ensure proper depreciation calculations are being prepared. Reconciliation of the detailed lapse schedule to the general ledger is essential to ensure amounts presented in the financial statements are accurate.

Condition - A property and equipment lapse schedule is not being updated properly at Roselani. Also, depreciation expense had not been recorded correctly in fiscal year 2016.

Context - Property and equipment amounts recorded in the general ledger did not have adequate supporting documentation.

Cause - An adjustment to depreciation expense of $15,128 needed to be recorded in fiscal year 2016.

Effect - The statement of net position and statement of operations were misstated throughout the year. An adjusting journal entry was posted to correct this misstatement.

Recommendation - We recommend management at Roselani perform formal review of property and equipment accounts to ensure what is being reported is properly supported by lapse schedules or other detailed records. Additionally, management should document their review of a reconciliation between the detailed lapse schedule and the general ledger to ensure all asset activity is captured properly.

Views of Responsible Officials and Planned Corrective Action Plan - The ACC Board Management Liaison will work directly with the Roselani accountant to review property and equipment accounts to ensure what is being reported is properly supported by lapse schedules or other detailed reports. This review process will occur monthly and will include proper documentation of reconciliation activity between the lapse schedules and the general ledger to ensure accurate capturing of asset activity.

Finding - 2016-2

Organization - Alii Community Care, Inc.

Finding Type - Material weakness

Criteria - Financial statements should be reported on an accrual basis throughout the year at Alii - Kona.

Condition - Alii Community Care, Inc. reported financial results on a cash basis throughout 2016.

Context - Generally accepted accounting principles require the accrual basis of accounting.

Cause - Decision by management to report financial results on cash basis

Effect - The statement of operations was misstated throughout the year. Adjusting journal entries were posted to correct this misstatement.

Recommendation - We recommend that management review the decision to report financial results in accordance with generally accepted accounting principles on an interim basis.

Views of Responsible Officials and Planned Corrective Action Plan - The ACC Board will review and evaluate Alii Health Center's cash accounting methodology based on concerns raised by Plante & Moran, PLLC.

Finding - 2016-3

Organization - East Hawaii Region

Finding Type - Significant deficiency

Criteria - Account balances should be reconciled monthly and reviewed in a timely manner to ensure the balance in the general ledger is accurate.

Condition - Ka'u account balances were not appropriately stated on the trial balance received.

Context - The accounts payable, accounts receivable and related allowances, fixed assets, and cash balances had to be adjusted during the audit as a result of balances not being appropriately reconciled at June 30, 2016. These adjustments resulted in decreased expenses of approximately $374,000, increased assets of $138,000, and decreased liabilities of $236,000.

Cause - Appropriate review and monitoring at Ka'u was not fully in place at year end.

Effect - Multiple account adjustments were identified as a result of audit procedures.

Recommendation - We recommend the East Hawaii Region put appropriate review controls in place to ensure balances are appropriately stated at the end of each period.

Views of Responsible Officials and Planned Corrective Action Plan - Management has corrected the account balances and put procedures in place to properly review Ka'u account balances.

Finding - 2016-4

Organization - East Hawaii Region

Finding Type - Significant deficiency

Criteria - Accounts payable should be reviewed at year end and subsequent to year end to ensure all liabilities and expenses related to the year are appropriately recorded.

Condition - Accounts payable was not appropriately reviewed for cut-off at year end.

Context - Multiple items were improperly excluded from accounts payable at year end or were improperly duplicated in the accrual process.

Cause - Accounts payable was not appropriately reviewed throughout the year-end close process.

Effect - Accounts payable and related expense amounts were understated by approximately $150,000 at year end.

Recommendation - We recommend the East Hawaii Region closely monitor all invoices received at and subsequent to year end to ensure the appropriate liabilities and related expenses are recorded.

Views of Responsible Officials and Planned Corrective Action Plan - Management has corrected the error and put procedures in place to properly review accounts payable cutoff in the future.

Finding - 2016-5

Organization - Kahuku Medical Center

Finding Type - Significant deficiency

Criteria - Account balances should be reconciled and reviewed periodically to ensure the balance in the general ledger is accurate.

Condition - Account balances were not appropriately stated on the trial balance received.

Context - Lack of review led to multiple balances not being appropriately trued up at year end. Adjustments were made to following balances:

1) Unapplied cash balance
2) Depreciation expense
3) Expense classification for an invoice selected for testing as part of the A/P cycle
4) IBNR accrual for self-insurance claims

These adjustments resulted in increased expenses and decreased assets of approximately $205,000, in addition to a passed adjustment.

Cause - Appropriate review and monitoring was not fully in place at year end.

Effect - Multiple account adjustments were identified as a result of audit procedures.

Recommendation - We recommend that Kahuku Medical Center put appropriate review controls in place to ensure balances are appropriately stated at the end of each period.

Views of Responsible Officials and Planned Corrective Action Plan - Considering the mid-year transition of CFOs, existing and new personnel have dedicated abundant time and resources streamlining practices to improve the efficiency and effectiveness of the accounting function for KMC. As a result of the executed plan, management has corrected the account balances.

Finding - 2016-6

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - Policies and procedures should be maintained to ensure all significant balance sheet accounts are reconciled monthly on a timely basis.

Condition - The patient accounts receivable account for MMMC was not reconciled in a timely manner for interim periods through the fiscal year.

Context - Gross accounts receivable and revenue was understated by approximately $900,000 as of April 30, 2016; the estimated net impact to accounts receivable and net patient service revenue was approximately $341,000.

Cause - Due to staff turnover, the completion and review of the reconciliation for the MMMC main patient accounts receivable account was not prepared and reviewed in a timely manner.

Effect - As a result of this deficiency, gross accounts receivable and revenue was understated as of April 30, 2016.

Recommendation - We recommend that all balance sheet accounts be reconciled monthly in a timely manner.

Views of Responsible Officials and Planned Corrective Action Plan - Management has corrected the issue.

Finding - 2016-7

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - Policies and procedures should be maintained to ensure regular reviews of capital assets are performed so that all completed asset purchases are placed into service and depreciated on a timely basis.

Condition - Three assets at Kula which began being used in previous fiscal years were not placed into service as of June 30, 2016.

Context - Capital assets was overstated and depreciation expense understated by approximately $166,000 as of June 30, 2016.

Cause - Reviews of CIP were not performed throughout the year to ensure all assets were placed into service timely.

Effect - As a result of this deficiency, the capital asset and depreciation expense account balances were misstated as of June 30, 2016.

Recommendation - We recommend that regular reviews of CIP be performed to ensure all assets are placed into service timely.

Views of Responsible Officials and Planned Corrective Action Plan - Management has corrected the issue.

Finding - 2016-8

Organization - East Hawaii Region, Kahuku Medical Center, Kauai Region, Oahu Region, and West Hawaii Region

Finding Type - Significant deficiency

Criteria - Bank account signature authorities should be limited to current management members.

Condition - Former employees were still listed with signature authority on bank accounts held by the East Hawaii Region, Kahuku Medical Center, Kauai Region, Oahu Region, and West Hawaii Region.

Context - We identified that inappropriate signatory authorities existed on bank signature cards.

Cause - Lack of timely removal of signatory authorities on bank accounts

Effect - No financial statement effect was identified; however, internal controls are considered to be negatively impacted.

Recommendation - We recommend that management request that former employees be removed timely from bank accounts upon termination.

Views of Responsible Officials and Planned Corrective Action Plan - Management is actively correcting this issue and will regularly review listed signatory authorities for necessity of access to cash.

HAWAII HEALTH SYSTEMS
CORPORATION
Quality Healthcare For All

REGIONAL BOARD REPORTS TO THE TWENTY-NINTH HAWAII STATE LEGISLATURE FOR FISCAL YEAR 2016

POC: Dr. Linda Rosen, Corporate Chief Executive Officer
January 19, 2017

INDEX

OAHU REGION

Leahi Hospital, located in the heart of Kaimuki in Honolulu, Hawaii was first established in 1901. Today, Leahi Hospital is licensed for 166 beds: 155 nursing home beds, dual certified as a Skilled Nursing Facility and an Intermediate Care Facility, in addition, 9 acute/tuberculosis (TB) designated beds. Individuals requiring long term care or short term restorative care are admitted to our nursing facility beds. Care is provided by an interdisciplinary team of healthcare professionals. Leahi Hospital employs approximately 250 people. Patients with or suspected of having active Tuberculosis are admitted to the only acute long term care Tuberculosis unit on the Island of Oahu. Leahi Hospital provides the following services:

Leahi Long-Term Care Inpatient Services Include:

- 117 Dual Certified Skilled Nursing and Intermediate Care Beds

Support:

- Recreational Therapy
- Dietary Services
- Social Services
- Speech Therapy
- Occupational Therapy
- Physical Therapy
- 9 Acute TB Inpatient Beds - Outpatient Services (TB patients are discharged to the Lanakila TB Clinic for follow-up).

Outpatient Services:

- Adult Day Health Center

Patient Census:

	Long Term Care	Acute
Admissions	106	2
Patient Days	42,585	101

Community-Based Foundation Support ff HHSC Facilities:

Total Private Donations	$ 9,581
Total Fundraising	N/A
Total Federal/State/Private Grants	$ 1,292
Total	**$ 10,873**

Volunteer Services:

- Number of Active Volunteers: 165
- Number of Total Volunteer Hours: 10,285
- Volunteer Auxiliary Contributions: $9,000

Maluhia, located in lower Alewa Heights, Honolulu, Hawaii is licensed to operate 158 skilled nursing and intermediate care facility beds and employs approximately 205 employees. Maluhia was established in 1923, and continues to evolve in order to meet the changing needs of the community. Maluhia provides the following services:

Maluhia Long-Term Care Inpatient Services Include:

- 120 Dual Certified Skilled Nursing and Intermediate Care Beds

Support:

- Dietary
- Social Services
- Speech Therapy
- Occupational Therapy
- Physical Therapy
- Recreational Therapy

Outpatient Services:

- Primary Care Geriatric Outpatient Clinic
- Adult Day Health Center
- Collaboration with Meals on Wheels to provide 50 meals per day (Monday through Friday) to residents in Kalihi / Liliha area

Programs and Services:

- Admissions 90
- Patient Days 44,533

Volunteer Services:

- Number of Active Volunteers: 41
- Number of Total Volunteer Hours: 4,896
- Volunteer Auxiliary Contributions: approx. $8610

Oahu Region Foundation Supporting HHSC Hospitals
Background / Contact Information

Leahi Hospital and Maluhia Foundation

The foundation was established in 2003.

Mission: To support the work of Leahi and Maluhia Hospitals, also known as Leahi Hospital and Maluhia Long Term care Center in their mission, development, and the provision of quality health and long term care.

Vision: The Leahi – Maluhia Foundation provides gap funding to boost and expand the quality of life for patients. The Foundation supports Leahi and Maluhia the same way that Parent Teacher Associations support public schools. It proactively identifies and funds ongoing improvements to ensure that patients and their families experience unparalleled excellence throughout their healthcare journey

Board of Director Members for FY 2016
Michelle Kato, President
Jane Schramko, Vice President
Jerilyn Yamashiro, Secretary
Sheri Shinsato, Treasurer
Sean Sanada, Director
Miles Takaaze, Director
Ken Takeuchi, Director
Jerry Tsuda, Director
Joan Watanabe, Director
Neal Yanagihara, Director

FY 2016 Highlights:
1. Establishment of the following: subcommittees to facilitate Board business and direction:
    a. Funding Priorities
    b. Public Awareness
    c. Alliance with Leahi and Maluhia Auxiliaries
2. Established a fundraising subcommittee to raise additional funds to support the mission of the Foundation.
3. Current development of plans to construct a walking path utilizing stones from the rock foundation for residents and families on Leahi Hospital grounds.
4. Continued approval to participate in the Aloha United Way's Donor Choice program. This area continues to be a challenge since the Foundation has not been able to meet the $25,000 fund raising limit and has been grandfathered into the program in the past.
5. Supported Leahi Hospital with the purchase of over bed tables, mattresses, thermometers, shower chairs and shower gurneys.

Contact Information:
Leahi –Maluhia Foundation
c/o Maluhia
1027 Hala Drive
Honolulu, HI 96817
Tel: (808) 832-1927

Hawaii Health Systems Corporation, Oahu Region
Fiscal Year 2016 Regional Highlights

The Hawaii Health Systems Corporation (HHSC) Oahu Region provides essential services to our community's most vulnerable populations through its operation of two long-term care facilities, Maluhia and Leahi Hospital. Located respectively in lower Alewa Heights and Kaimuki, Maluhia and Leahi provide in-patient skilled nursing and intermediate care services to the elderly, disabled and otherwise incapacitated population – most of who are covered under Medicare and Medicaid programs. Maluhia and Leahi also provide access to much needed Adult Day Health Centers and a Geriatric Outpatient Clinic. For many of our clinic patients, nursing home residents and day health participants – especially those receiving Medicaid benefits due to a lack of personal assets (approximately 90% of our in-patients) – the Oahu Region's facilities are often the only options for quality post-acute and community-based health care services.

In fiscal year 2016, the Oahu Region's ability to effectively provide the long term care needs for our aged, blind and disabled community continued to struggle financially. Over the years, delayed payments and insufficient reimbursement levels from insurance providers (especially Medicaid) have had an adverse impact on our revenue stream. Additionally, having to fund the collective bargaining increases negotiated by the State of Hawaii has significantly increased our expenditures.

As a result, the Oahu Region's budget deficit increased to an unsustainable level such that, in 2015, we were forced to implement a number of emergency measures to ensure that the existing residents, patients and participants continued to receive the highest quality of care. We implemented a devastating reduction in work force, temporarily disallowed new admissions, and reduced our in-patient operations by 25%. This equated to an elimination of 38 beds at Leahi Hospital and 38 beds at Maluhia for a total reduction of 76 nursing home beds no longer available for many of our community's elderly.

Due to the general fund and capital improvement project subsidies granted by the Legislature and the Oahu Region's implementation of new operational efficiencies and other cost saving measures, we have been able to continue providing long-term care services and support for the existing 237 (estimated) people who reside in our buildings and hundreds of others in the community that are provided care through the Adult Day Health Programs and Geriatric Physician Clinic. It should be noted that we are now making additional efforts to develop and improve programs to support our seniors with community-based services. Our programs provide support for caregivers which, in turn, enable them to continue caring for their family members in the comfort of their own homes.

Additionally, priorities were set on the use of cash to meet payroll and make payments to critically necessary vendors. The Oahu Region also reduced overtime that was not directed toward immediately essential matters and interchanged staff between our

facilities to maximize efficiency. All told, the subsidy and net savings realized through efficient operations played a crucial role in our financial survival during the 2016 fiscal year.

With respect to operations, the Centers for Medicare and Medicaid Services (CMS) surveyed both Oahu Region facilities under the Quality Indicator Survey guidelines. The survey guidelines involve a more in-depth review of a facility's operations and include resident, family and staff interviews. Both facilities were determined to be in substantial compliance with the survey guidelines. In November 2016, the CMS began implementation of comprehensive requirements of participation mandate for long-term care facilities. This is the first substantial revision of rules since 1991, despite significant changes in the delivery of services for this sector in health care. The Oahu Region is currently developing a procedural plan to ensure that its facilities will be in full compliance with the new requirements.

The Oahu Region received Capital Improvement Project funding for the development of a Leahi Master Plan. The Master Plan is a work-in-progress strategic planning effort developed to include community services and possible partnerships with private entities. The Oahu Region's vision of a partnership would include active solicitation of public funds and private investment to design and construct new buildings to house operations for increased services and support for the aged, blind and disabled population. We believe that this approach would increase our outreach to the community and ensure that ancillary services and facilities are more accessible and sustainable. The Oahu Region intends to play an active role in the development and control of the new operations.

The Oahu Region's vision also includes partnering with the Kapiolani Community College (KCC) and its health, institutional foods and other trade programs. We believe this partnership would enable us to collectively increase learning opportunities for both KCC students and employed staff and create a corridor for additional collaborative ventures. Additional improved coordinated service efforts for the community continue to be developed with other state agencies including the University of Hawaii, Department of Health (specifically the Executive Office of Aging and Hawaii State Hospital), and Department of Defense.

In order to successfully develop its Master Plan, it is imperative that the Oahu Region be granted primary control over the Leahi property. We believe that this can be accomplished through a transfer of control from the University of Hawaii, through an Executive Order issued by the Governor or a long-term lease extension without the imposition of complex land use restrictions.

Capital Improvement Projects:

During the past fiscal year the following CIP projects were completed:

Leahi Hospital	Cost ($)
Repair Spalling and Repaint Admin and Atherton Bldgs.	559,588
Reroof Young Building	731,345

Renovate 2nd and 3rd floor Atherton restrooms		176,000
Replace hot water storage tank		46,000
Lighting Upgrades		38,057
	Total	**$ 1,550,990**

Ongoing Projects Estimated costs:

Leahi Hospital	Cost ($)
Fire Alarm System	1,148,172
Renovate Trotter for Memory Care Center	384,000
Install photovoltaic panels	906,253
Repaint Trotter, Sinclair, and Maintenance Buildings	981,000
Reroof Administration Building	463,058
Reroof Sinclair Building	580,799
Resurface driveways and parking lots	111,900
Replace windows	800,577
Replace sewer lines	16,000
Re-floor Solariums	22,980
Re-floor patient rooms	213,000
Reroof Trotter Building	667,800
Renovation for Tray Line	192,387
Replace Walk-In Freezer and refrigerator	67,672
Replace water shut-off valves	196,000
Total	**$6,751,598**

During The Past Fiscal Year The Following CIP Projects Were Completed:

Maluhia	Cost ($)
Parking Lot Resurfacing	90,000
Upgrade Emergency Generator	533,937
Upgrade Dietary plumbing and flooring	1,004,135
Replace windows	1,193,410
Replace rock wall along Keola Road	294,365
Replace Dietary compressors for walk-ins	24,077
Total	**$3,139,924**

Ongoing Projects Estimated Costs:

Maluhia	Cost ($)
Upgrade air-conditioning on 1st floor	384,310
Replace chill water insulation	445,640
Replace transformer housing	533,937
Photovoltaic panels	695,000
Auxiliary Parking lot and reroute Keola	693,100
Upgrade Lobby and Kitchen Elevators	428,925
Spalling Repairs and repainting	600,000
Upgrade Plumbing	489,268
Re-floor Patient Activity areas	39,395
Repair CMU wall and reroute gas line	100,000
Total	**$4,409,575**

NURSING

With the downsizing of available beds for occupancy at Leahi Hospital and Maluhia, admissions declined and hospital referrals could only be accommodated to a limited extent. As the remaining beds became available, however, referral sources were re-established and we were able to develop a new protocol for accepting new hospital admissions. With respect to skilled nursing beds – which have a much higher reimbursement rate – the number of admissions declined due to an increase in available beds in the private sector. Despite these challenges, the overall census in both facilities remains high (more than 93%) and the complexity of the health conditions of residents have been greater than in previous years including multiple chronic conditions with physical and mental functional impairments. Nevertheless, the staff's dedication to person-centered and quality care has been commendable. Through training and hands-on support, we continuously strive to be recognized as high-performing long-term care facilities.

The Oahu Region's recent achievements include reducing hospital readmissions, nursing staff turnover and use of antipsychotic medications, as well as continually increasing customer satisfaction. It is important to note that one of the key quality goals of CMS is to increase the application of non-pharmacologic approaches and person-centered dementia care practices to reduce the use of unnecessary antipsychotic medications. The antipsychotic medication usage rates at the Oahu Region's facilities continue to be lower than the State and National averages.

Section 6106 of the Affordable Care Act (ACA) requires facilities to electronically submit direct care staffing information (including agency and contract staff) based on payroll and other auditable data. In furtherance of this requirement, CMS has developed a system for facilities to submit their respective data called the Payroll-Based Journal (PBJ). The data in the PBJ, when combined with census information, enables CMS to not only determine the level of staff in each nursing home, but also the rates of employee turnover and tenure, which is a vital element of a nursing home's ability to provide quality care. Staffing information is posted on the CMS Nursing Home Compare website, and is used in the Nursing Home Five-Star Quality Rating System to help consumers understand the level and differences of staffing in nursing homes.

Although mandatory submission of data through the PBJ will not take effect until July 1, 2016, Leahi Hospital and Maluhia have already succeeded in submitting staffing and census data. In fact, Leahi Hospital and Maluhia have been successfully submitting completed PBJ files since October 1, 2015.

The Impact Act (Improving Medicare Post-Acute Transformation Act) of 2014 requires post-acute care providers to report standardized assessment data for Medicare recipients. Effective October 2016, CMS has implemented new nursing requirements regarding the need to monitor and evaluate the admission and discharge status of Medicare patients' self-care and mobility status. The Oahu Region's facilities have already taken significant steps to ensure compliance with the new requirements and are

aware that they will need to be flexible and adhere to mandates that will continue from CMS and other federal regulatory bodies.

The American Association of Colleges in Nursing (AACN) noted that nursing research has effectively established that education does make a difference in clinical practice. These studies demonstrate that nurses who hold a baccalaureate degree have better patient outcomes such as lower mortality and failure-to-rescue rates. The Oahu Region continues to mentor new graduates and serves as a clinical site for the nursing programs at the University of Hawaii, Kapiolani Community College and Chaminade University. Leahi's nurse management team has achieved the Institute of Medicine's goal of having 80% of nurses with Bachelor of Nursing degrees.

Of special note, several Oahu Region nursing staff members recently had their work on evidenced-based practice published in the American Association of Nurse Assessment Coordination (AANAC) journal.

PERSONNEL

Full Time Equivalent (FTE) figures are as follows:

FY **16** – 405.39
FY **15** – 597.97
FY **14** – 612.20
FY **13** – 626.72
FY **12** – 686.94
FY **11** – 582.54
FY **10** – 588.00

FINANCIAL

Approximately 88% of the Oahu Region's patients receive benefits through Hawaii's managed Medicaid program, which is administered by the State of Hawaii Department of Human Services (more commonly known as the Quest Integration program). The Oahu Region's revenues and cash flow are dependent on the reimbursement rates and timeliness of payments provided by the Medicaid programs. Although Medicaid reimbursement rates were recently adjusted in an attempt to account for inflation and the increasing costs to provide health care in Hawaii, such adjustment was unfortunately only for a one-year period and amounted to much less than the actual rate of inflation.

Given the low Medicaid reimbursement rates, inflation and the increased costs of providing quality health care, the Oahu Region remains unable to maintain our provision of services without continued General Fund support from the legislature.

Another issue heavily impacting the Oahu Region's ability to continue serving our community is that, in recent years, the legislature has not appropriated the General

Funds necessary to completely fund the collective bargaining payroll increases that were negotiated and agreed to by the State.

Special funded agencies like HHSC are required to fund a significant portion of payroll and the entire fringe benefit increases through its special fund. With regard to HHSC, the "special fund" is, in actuality, simply the revenues derived from its facilities' operations. In the case of the Oahu Region – which roughly expends $400 per day per resident and only receives $200 per day per resident in Medicaid reimbursements – there are no means by which the Oahu Region can increase the amount of its revenues (in other words, the size of its "special fund") to cover any payroll increases.

ELECTRONIC HEALTH RECORDS

The Oahu Region continues to support the trajectory of implementing Electronic Health Records (EHR) for all HHSC facilities. Adopting an EHR solution will automate existing manual aspects of providing care but, more importantly, will serve as a vehicle to provide better quality of care by Oahu Region staff and enable the Oahu Region to participate in the electronic interchange of information with other health care systems and healthcare providers.

While the acute care facilities in HHSC have been striving to meet the Meaningful Use requirements of the Affordable Care Act to increase receipt of incentives and avoid payment of penalties, such requirements have not yet extended to the Oahu Region's long-term care facilities.

Nevertheless, the CMS recently released the Requirements of Participation revisions, which provide the largest changes for nursing homes and other long-term care facilities since 1991 and will go into effect over the next three years. The CMS revisions emphasize the strengthening and modernizing of the nation's health care system, noting that technology in health care can effectively and efficiently help facilities improve their internal care delivery practices, and can be equally effective in supporting the exchange of information across an individual's continuum of care.

The intent of the CMS revisions, combined with the Oahu Region's continuous efforts to improve our delivery of quality long-term care services to the community, have led the Oahu Region to make its EHR project a top priority for this and upcoming fiscal years.

STRATEGIC PLANNING

This year's strategic planning efforts focused on preparing for the challenges Oahu Region will face in the near future due to changes in local patient demographics and Federal/State regulations.

Our strategic planning efforts are part of a concerted effort by HHSC and its Regions to deliver sustainable health care services to its target communities. Each Region may have a different path from others in order to sustain and thrive. Each Region must explore what is best for them. Our strategic plan is being used to develop our biennium operating and capital funding for fiscal years 2018-19. The Oahu Region Board of Directors participated in the development of our strategic plan and provides continued support for its planned implementation.

Unlike other HHSC Regions, Oahu Region's future lays primarily in long-term care and the provision of community-based and outpatient services. Its future direction is shaped by sustaining and broadening existing services as the aging and chronically ill population continues to grow. This will be done by forming partnerships with other long-term care providers, stakeholders, and related community support services. It will require that our facility and staff increase their competencies to be able to manage this more challenging patient population. The Oahu Region will also look to develop previously uncommitted spaces to enhance services and/or develop potential new partnerships within the community that will help to address emerging needs.

The result is a mix of higher acuity long-term care patients overall with low acuity patients referred to alternative care settings where patients can obtain care better suited to their respective conditions. Initiatives have been implemented to create stronger working relationships with referring providers and others who are able to accept our low acuity referrals. The Oahu Region's success in this area will require better assessment, care and management of admissions and our resident patient population.

Higher acuity will result in higher reimbursements, but is not enough to eliminate our projected budget deficit and fund much-needed capital improvements for our aging facilities. As such, we are working diligently to further decrease operating expenses and seek partnerships and other revenue sources. This effort also includes establishing long-term control over the Leahi Hospital facility site in order to develop a more concrete master plan.

As previously noted, the Oahu Region is in the process of selecting and implementing our electronic medical record system designed specifically for long-term care. We anticipate it will result in a more efficient, effective and higher quality of care.

RISK MANAGEMENT

The Oahu Region's facilities continue to perform well in managing both their clinical and administrative responsibilities. National and local trending indicates that we can anticipate increased auditing and surveys, especially by our government payors. This will result in closer scrutiny of our operations to determine compliance with clinical, financial and privacy-related standards. This includes the three-phased compliance with the new Requirements of Participation recently announced by Medicare and Medicaid as part of the Affordable Care Act that proposes major changes to existing nursing home regulations. It is anticipated that a successful selection and implementation of our new electronic health record system will facilitate and assure compliance with these standards.

One of our biggest challenges is successfully managing the changing demographics of our patient population. Needed facility design renovations and staff competency training will be key factors in sustaining and continually improving our quality of care. There is a growing trend for the elderly to receive care in the community and, as much as possible, "age in place." We are very supportive of this concept and look forward to working with other providers to assure that patients are placed in the most appropriate care setting possible.

We have successfully transitioned from last year's closure of 25% of our beds. We have improved our ability to identify appropriate admissions and discharges to alternate settings. This has resulted in better communication and outcomes when accepting and referring patients.

Both facilities continue to work closely with licensure and regulatory agencies to improve appropriate placement and the quality of care provided to our patients. This includes active dialogue with and training of staff by the regulatory agencies and the referring providers involved.

Amidst all the communicable disease outbreaks occurring globally, our infection control program continues to improve our facilities' ability to effectively contain potential outbreaks through focused training with our staff. Internal spot checks and random facility-wide surveillance have been effective in maintaining and educating staff on consistent use of infection control protocols.

STATE VETERAN'S HOME

The Oahu Region continues to support the State Department of Defense's Veterans' Home project. Current discussions include working on securing a contractor to oversee the site selection and preliminary design phase of the project in anticipation that the State Department of Defense will secure the Federal Grant and matching State funds over the course of the next several calendar year

KAUAI REGION

West Kauai Medical Center (WKMC), also known as Kauai Veterans Memorial Hospital (KVMH), a Joint Commission accredited hospital was completed in October 1957 and dedicated to the Veterans of the Korean War. KVMH was built to meet the healthcare needs of all citizens of the surrounding communities. Accredited as a critical access hospital, WKMC has 45 licensed beds, including 25 acute and 20 long-term care beds. Today, WKMC employs approximately 274 people and provides the following services:

KVMH Patient Services Include:

- 24-Hour Emergency services staffed with Board certified physicians
- Critical Care
- Inpatient / Outpatient General Surgery
- Obstetrics
  - High Risk Fetal Ultrasound consultations with Kapiolani Medical Center for Women and Children
  - Mother / Baby Care
- Medical Surgical Care
- Skilled Nursing Care
- Long-Term Care
- Radiology
  - CT
  - Ultrasound
  - Cardiac Ultrasound
  - Mammography
- Inpatient Pharmacy
- Laboratory (CLIA approved)
- Respiratory Therapy
- Physical Therapy
- Occupational Therapy
- Dietary Counseling
- Social Services
- Outpatient Clinics (4)
  - Waimea Clinic (OB, Surgery, Pediatrics, Primary Care)
  - Port Allen Clinic (Primary Care, Pediatrics)
  - Kalaheo Clinic (Primary Care)
  - The Clinic at Poipu (Primary Care)

Additional services are provided by agencies leasing space in the Kawaiola (KVMH) Medical Office Building and include:

- Physician Specialists
- Liberty Dialysis Services
- Lifeway Retail Pharmacy
- KVMH Auxiliary Gift Shop

- Kauai Community Health Center (Federally Qualified Health Center)
  - Medical
  - Dental

KVMH Patient Volumes:

Inpatient Admissions	1,243
LTC Admissions	8
Births	289
ER Visits	6,817
Outpatient Ancillary Visits	6,410
Outpatient Clinic Visits	25,101
Same Day Surgery	1,058

Average Daily Census:

Acute	4.0
Swing	4.0
LTC	20.0
Total	28.0

At KVMH, volumes decreased in several areas: inpatient admits (8%) emergency room outpatient visits (1%). surgery cases (8%) and clinic visits (17%). The decreases are primarily due to the loss of primary care physicians in prior years.

Samuel Mahelona Memorial Hospital (SMMH) is the oldest operating hospital on Kauai, and is designated a Critical Access Hospital. Founded in 1917 as a tuberculosis hospital, it received its name from a member of the Wilcox family, who died of TB as a young man. In the 1960s, with a cure for TB well established, SMMH gradually transitioned to providing acute care, psychiatric care, skilled nursing care, and ancillary inpatient and outpatient services. Today, SMMH has 80 licensed beds, with 66 long-term care beds, 9 psychiatric beds, and 5 acute care beds). The hospital has approximately 119 employees.

SMMH Patient Services Include:

- 24-Hour Emergency services staffed with Board certified physicians
- In-patient Psychiatric Care (Adult)
- Medical Care
- Skilled Nursing Care
- Long-Term Care
- Radiology
- Inpatient Pharmacy
- Recreational Therapy
- Occupational Therapy
- Physical Therapy
- Dietary Counseling
- Social Services

SMMH Patient Volumes:

Inpatient Admissions	176
LTC Admissions	24
ER Visits	6,398
Outpatient Visits	1,661

Average Daily Census:

Psych	3.0
LTC	54.0
Total	57.0

At SMMH, there were no significant changes in volumes in long-term care and psych; however, emergency room outpatient visits decreased (10%).

Kauai Region Foundation Supporting HHSC Hospitals
Background / Contact Information

Kauai Veterans Memorial Hospital Charitable Foundation, Inc.

The KVMH Foundation was formed in the fall of 1998. The board consists of 10 community members and three employees of the hospital. The foundation's main focus is to support the many services, equipment purchases, and programs that West Kauai Medical Center and KVMH provides for its island communities. Through donations and fundraising the Foundation has been able to purchase equipment utilized for the comfort and safety of our patients.

Foundation President:	Steven Kline
Foundation Secretary / Treasurer:	Michelle Mongiovi-Higgins

Contact Information:
Kauai Veterans Memorial Hospital
PO Box 356
Waimea, HI 96796
TEL: 808-338-9431 FAX: 808-338-9420

Active Foundation Volunteers

- Total active volunteers 10
- Number of Volunteer Hours provided 960

KVMH Auxiliary

The KVMH Auxiliary is led by President, Charlene Dorsey. The Auxiliary operates the KVMH Auxiliary Gift Shop located at KVMH. Funds raised from the gift shop and other fundraising events are used to purchase equipment for the hospital.

Active Auxiliary Volunteers

Number of Active Volunteers: 18
Number of Total Volunteer Hours: 2,918
Volunteer Auxiliary Contributions: $31,894

Hawaii Health Systems Corporation Kauai Region
Fiscal Year 2016 Highlights

On behalf of the Kauai Region of the Hawaii Health Systems Corporation (HHSC), we are pleased to submit our report highlighting the accomplishments in fiscal year 2016.

The Kauai Region includes West Kauai Medical Center / Kauai Veterans Memorial Hospital; Samuel Mahelona Memorial Hospital (SMMH); and West Kauai Clinics – Waimea, Port Allen, Kalaheo and The Clinic at Poipu.

Our Vision – Building a culture of placing Patients First
Mission – Caring for Our Community through Excellence in Healthcare
Values – Service, Teamwork, Attitude, Respect and Stewardship

The report is organized into four areas: People, Quality, Facilities and Finance.

PEOPLE

Mr. Patrick Gegen serves as chair of the Kauai Board which includes Mr. Kurt Akamine; Mrs. Mahina Anguay; Graham Chelius, MD; Mrs. Stephanie Iona; Mrs. Laurel Loo; James McGee, MD; Mr. Rohit Mehta; Travis Parker, MD; and Mr. Tito Villanueva. Mr. Peter Klune has served as the Chief Executive Officer since April of 2015.

The Kauai Region's medical staff totals 44 credentialed physicians and physician extenders of which 11 are employed providers. During 2016 the hospital recruited a total of four (4) providers; one (1) obstetrician, two (2) general practitioners, and one (1) physician extender. These additions to the medical staff were necessary to address prior years attrition, relieve burdensome call schedules, and increase patient access to primary care.

In 2016 management began integrating the two main hospital campuses under a new shared leadership structure, with expectations for continued recruitment efforts that will continue into 2017. Of the six (6) regional positions established in the reorganization, four (4) have been filled as follows: Rachelle Lorenzo, Chief Financial Officer, Cheryl Tennberg, Chief Nurse Executive, Donna Dertz, Regional Organizational Development Officer, and Sherry Lauer, Chief Clinical Quality Officer.

QUALITY

In 2015 and 2016, the Kauai Region participated in a total of 3 regulatory surveys between Medicare / State Office of Healthcare Assurance, Centers for Medicare & Medicaid Federal Licensure. SMMH is currently expecting an onsite follow-up survey from Medicare/State Office of Healthcare Assurance. WKMC was accredited in good standing with the Joint Commission in 2014 and we are looking forward to similar results in 2017.

Recognition and Programs:
KVMH/SMMH participates in the following numerous projects to improve the quality of healthcare and preventative care for Kauai residents:

- Participation with National Healthcare Safety Network (NHSN) for infection prevention initiatives including utilization of central line insertion checklists, and limiting indwelling urinary catheters to prevent UTIs. KVMH is the only CAH in the state to participate, and SMMH began participation with NHSN in 2016.
- KVMH participates in the American Heart Association Get with the Guidelines Stroke initiative.
- KVMH is pursuing a Tele-health collaboration with Shriners Hospital Honolulu
- KVMH is meeting or exceeding the threshold for Evidence-Based care and Safety for 2016. Our Mortality rate is declining.
- KVMH has achieved consistently high Core Measure compliance over the past 2 years as reported to CMS and available at www.HospitalCompare.gov. There were no incidents of ventilator associated pneumonia or central line associated infections.
- KVMH LTC achieved 5 Star ratings on Nursing Home Compare in 2016
- To better assist us in tracking our ongoing performance on specific quality measures, KVMH continues participation in HMSA's advanced hospital care program and successfully meets the statements of work associated with the specific measures.
- SMMH is deeply committed to the health and well-being of their residents. We have a vigorous activities program to ensure that we keep the residents engaged with life and participating in enrichment programs to facilitate their psychological well-being.
- SMMH implemented a Falls Prevention task force to evaluate and ensure patient safety.

KVMH/SMMH installed an Electronic Medical Record (EMR) in July 2015. The implementation has been a success in bringing the Kauai Region into the digital age with respect to patient data storage and compliance with federally mandated regulatory initiatives. EMR has improved clinical documentation, Quality measures/reporting and data analytics. The facility has since successfully attested to CMS/Medicaid for Meaningful Use, Stage 1 and 2 which resulted in receipt of financial incentives for meeting those standards.

FACILITIES

Capital improvements to the facilities of the Kauai Region in 2016 included projects to address patient care needs, quality of life issues for our patients and residents, and the replacement of aging plant infrastructure.

Kauai Region completed $3.5M in capital projects:

- Replacement of KVMH AC chiller towers
- Replacement of KVMH medical air compressor
- KVMH ICU renovation for patient privacy

- KVMH OB unit renovation

Ongoing projects of $6.9M include:

- Replacement of KVMH and SMMH nurse call system
- SMMH LTC resident room and nursing station renovation
- KVMH AC upgrades and LTC resident room renovation
- Replacement of deteriorating SMMH waterlines
- Replacement of SMMH exterior doors
- SMMH multi-purpose room for LTC resident dining and activities

The Kauai Region has also completed and opened The Clinic at Poipu which increases primary care access to the population on the south side of Kauai.

FINANCE

The Kauai Region implemented a contingency plan in FY16 that reduced operating expenses by $4M. This included a reduction in force and renegotiation of select physician contracts. The contingency plan was necessary due to the increasing costs in the State post-employment benefits and no compensating increases in payer reimbursement.

The Kauai Region has focused on improving internal processes to increase efficiency. These focused areas include staffing, purchased goods and services, CIP management and revenue cycle. In 2016, the success of the revenue cycle improvements has dramatically increased collections of Accounts Receivable (AR) and decreased AR days. The improvement in our cash position has allowed the region to pay down past due liabilities to creditors and this improvement is evident in the reduction seen in Accounts Payable days outstanding.

In addition to EMR, the new ICD10 medical code set was implemented on 10/1/15. Both implementations had no adverse impacts to operations and cash flow.

The Kauai Region continues to face financial challenges from numerous factors:

- Yearly increases in labor costs from collective bargaining wage raises and increases to post employee retiree health benefits
- Inability to flex staffing to a variable hospital census due to limitations in collective bargaining agreements.
- Decreased reimbursements from insurers whose payments to HHSC facilities are lower than payments to larger healthcare providers with more negotiating leverage.
- Aging plant and facilities.
- Under-utilization of hospital services at KVMH due to competition from a west side clinic owned by Hawaii Pacific Health (Wilcox Memorial Hospital).

In FY17, the Kauai Region anticipates minimal growth to volume and net revenue. We project our operating expenses to increase primarily due to collective bargaining raises and the proposed increases to the State post-employment benefits.

MAUI REGION

Maui Memorial Medical Center (MMMC) has a long history of serving the Maui community. Originally opened in 1884 by Queen Kapiolani, the County of Maui assumed financial responsibility of the hospital in 1927. In 1952, the hospital relocated to its current location, reopening as the 140-bed Central Maui Memorial Hospital. Today, MMMC is licensed for 214 acute care beds and has close to 1,666 (FTE, FY16) employees and boasts over 200 attending physicians. MMMC is the largest acute facility within HHSC and is also supported through community donations through its non-profit partners: MMMC Foundation and Hospital Auxiliary.

MMMC Patient Services Include:

- Acute Inpatient Dialysis
- Adult Behavioral Health Services
- Anesthesia
- Cardio Thoracic Surgery
- Case Management
- Chaplaincy
- Complementary Care
- Critical Care Unit
- Diabetic Consultation Service
- 24-Hr Emergency Services
- Emergency Department Observation Area
- Endoscopy
- Heart, Brain & Vascular Center
  - Angiography, EP Studies, Cardiac Catherization, Ablations, Pacemakers, Cardiac Stress Testing, Echocardiography, Cardioversion
  - Interventional Radiology Services
  - Percutaneous Coronary Intervention
- Imaging
  - Diagnostic x-ray, CT Scan, MRI, Ultrasound, Nuclear Medicine, Mammography
- IV Therapy
- Laboratory – 24 hour services
- Newborn Nursery and Maternity Services
- Nutrition Services
- Obstetrics/Gynecology – with childbirth education classes
- Oncology – Cancer treatments
- Operating Room
  - Same Day Surgery (Outpatient)
- Outpatient Clinics

  - Cardio-Thoracic Surgery
  - Cardiology
  - Gastroenterology
  - Oncology
  - Orthopedics
  - Psychiatry
- Palliative Care
- Pediatric Medicine
- Pharmacy
- Inpatient and Outpatient Physical, Occupational, and Speech Therapy
- Progressive Care Services
- Recreational Therapy
- Respiratory Therapy
- Social Service
- Telemetry
- Wound/Ostomy Care

Patient Census:

- Admissions 10,971
  - Acute 9,385
  - Births 1,586
- ER Visits 46,267
- Patient Days 58,126

Community-Based Foundation Support of HHSC Facilities:

- Individual/Corporate Donations: $97,006
- Special Event Fundraisers: $291,626
- Private Grants: $60,000

Volunteer Services:

- Number of Active Volunteers: 65
- Number of Total Volunteer Hours:8,412
- Volunteer Auxiliary contributions: $49,852

Kula Hospital began operations in 1909 as a tuberculosis facility. In 1936, it expanded to a 200-bed facility for TB patients. By the 1960's, Kula began offering psychiatric care evolving into a long-term care facility in the early 1970's. Kula has 123 licensed beds (9 acute/SNF swing care, 105 SNF/ICF, and 9 ICF/IID) , and employs 225 (FTE, FY16) employees.

Kula Hospital's Patient Services Include:

- Critical Access Hospital (Acute/Skilled Nursing)
- 24-hour basic emergency services
- Long Term Care (Skilled Nursing/Intermediate Care)
- Developmentally Disabled Inpatient Services (ICF-IID)
- Alzheimer's and Dementia Care
- Primary Care Clinic
- Pharmacy Services
- Rehabilitation (Physical Therapy and Occupational Therapy)
- Laboratory Services
- Radiology Services

Patient Census:

- Admissions 50
  - Acute 2
  - Long term Care 48
- Patient Days 32,841
- ER Visits 2,672

Volunteer Services (as of 2015):

- Number of Active Volunteers: 50+
- Number of Total Volunteer Hours:6,867.85
- Volunteer Auxiliary Contributions: $28,453.53

Lana'i Community Hospital is the only hospital on the island of Lana'i. It was originally build in 1927. The facility's new physical plant was built in 1968 with funding from community donations, Dole Company, State of Hawaii grant, and Hill-Burton Federal funds. The hospital offers acute and long-term care. Lana'i Community Hospital has 4 licensed acute care and 10 long-term care beds (dual certification for SNF/ICF). LCH has 62 (FTE, FY16) employees.

Lanai Community Hospital's Patient Services Include:

- Critical Access Hospital Services (acute and long-term care)
- 24-Hour Emergency Care
- Limited Laboratory and Radiology Services
- Limited Acute Care
- Extended Care (Long-Term Care Services)
- Hemo-Dialysis Services

Patient Census:

- Admissions 12
  - Acute 5
  - Long term Care 6
  - Births 1
- Patient Days 3,565
- ER Visits 861

Volunteer Services (as of 2015):

- Number of Active Volunteers: 16
- Number of Total Volunteer Hours: 520
- Volunteer Auxiliary Contributions: $500

Maui Region Foundations Supporting HHSC Hospitals
Background / Contact Information

Maui Memorial Medical Center (MMMC) Foundation

The MMMC Foundation was formed in 1996 and opened its foundation office in 1999. The foundation supports the master plan for development, scholarship funding and the purchase of state-of-the-art equipment.

Foundation President: Rian DuBach
Foundation Executive Director: Lisa Varde (lvarde@hhsc.org) 808-442-5656

Contact Information:
Maui Memorial Medical Center Foundation (www.Mauihospitalfoundation.org)
285 Mahalani Street, Suite 4
Wailuku, HI 96793
Tel: 808-242-2630 Fax: 808-242-2633

Hawaii Health Systems Maui Region
Fiscal Year 2016 Regional Highlights

FINANCIAL

Unaudited figures show that for the Fiscal Year 2016, ending June 30, 2016, the Maui Region earned net operating revenue of approximately $251.3 million. The net loss from operations was $39.4 million before non-operating revenues, corporate allocation and state appropriations. Net profit after state appropriates and other non-operating expense was $5.5 million. Below is a breakdown, by facility, of the Maui Region.

	FY16 Fiscal Year to Date July 1, 2015 - June 30, 2016 (Unaudited)			
Unaudited - (Millions)	**MMMC**	**Kula**	**Lanai**	**Maui Region**
Net Operating Revenue	227.5	20.8	3.0	251.3
Operating Expense	259.7	25.0	6.0	290.7
Operating Loss	(32.2)	(4.2)	(3.0)	(39.4)
Non-Operating Revenue, Corporate Allocation, State Appropriations	36.7	5.6	2.6	44.9
Net Profit (Loss)	4.6	1.4	(0.4)	5.5

In Fiscal Year 2016, Maui Region had the following key milestones for large construction projects:

- MMMC: Completed phase 2 of the Pharmacy Department renovations
- MMMC: Completed expansion and upgrade of the MR and CT in Imaging Department
- Kula Hospital began infrastructure renovations for elevator improvements

QUALITY

Get With the Guidelines
We have obtained the highest level of award "Target: Heart Failure Honor Roll/Gold Plus" for 2016 as recognized by the American heart Association.

IMPROVEMENTS

CIP Projects – Maui Region
Maui Memorial Medical Center (MMMC)

- AC replacement and renovation L & D, Purchasing and AC 5th floor nurse's station
- Operating Rooms Lighting replacement
- Re-roof Oncology
- Re-roof Elevator Room
- Renovation and installation of Trauma Room X-ray equipment
- Imaging Phase II Renovation
- Renovation and installation of DR Room X-ray equipment

- Renovation and installation of Multi-purpose X-ray equipment
- Oncology Department renovation
- Elevator renovation and complete refurbishing - 1, 2, 5, 6 elevators completed
- Renovation and new Dishwasher installation
- Lighting upgrade Phase I
- Life Safety Phase I Fire Pump installation
- Above Ground Fuel Storage Tank installation and removal of existing 10,000 gallon Underground Fuel Storage Tank
- Human Resources department renovations
- Housekeeping and Laundry storage and staff room renovations

Lana'i Community Hospital
- Lanai Community Hospital Photovoltaic System installation
- Lanai Community Hospital Re-roof
- Lanai Community Hospital ED renovation and X-ray installation
- Lanai Community Hospital kitchen hood and Fire Suppression System improvements

Kula Hospital
- Kula Hospital new Elevator installation
- Kula Hospital Underground Fuel Storage Tank (3 tanks) and piping removal
- Kula Hospital Hale Makamae re-roofing

Maui Lani Outpatient Clinic
The MMMC Outpatient Clinic opened in Maui Lani in November of 2014. The clinic provides outpatient services in the areas of cardiology, gastroenterology, orthopedic and oncology services. New providers joined MMMC in 2016 and are providing specialty emergency on-call services for the hospital as well as to see patients in the clinic.

The new providers were:
- Ted Keyes, MD (Hematology & Medical Oncology)
- Warren (Vic) Ayers, MD (Orthopedics)

They joined MMMC physicians: General Cardiologist Pam Gordon and James Caldwell; Interventional Cardiologists Dr. Joseph Chambers, Dr. Colin Lee and Dr. Margaret Hall; Cardiothoracic Surgeons Dr. Michael Dang and Dr. Tracy Dorheim; and Gastroenterologist Dr. Rory O'Connor.

MMMC Auxiliary
In 2015, the Maui Memorial Medical Center (MMMC) Auxiliary donated 100 new bedside tables to MMMC. The Auxiliary is committed to supporting the hospital's mission of providing the highest-quality medical services, while lending their time and energy as warm and compassionate volunteers to the hospital staff and patients. The 55 active members provide nearly 10,000 hours of service in 14 hospital departments

through a variety of activities, which includes working within the hospital where needed, holding the annual Harvest Sale, managing the hospital Gift Shop and holding vital fundraising initiatives.

EAST HAWAII REGION

The East Hawaii Region, consisting of Hilo Medical Center, Hale Ho`ola Hamakua, Ka`u Hospital and 10 outpatient clinics, is the second largest region in the Hawaii Health Systems Corporation. The Region is the largest employer on Hawaii Island with 1,200 employees.

Hilo Medical Center originated in 1897 as a 10-bed hospital, created by the Hawaiian Government. HMC has grown to the present facility of 276-licensed beds, consisting of 137 acute, including a 20-bed psychiatric unit, a separate 119-bed licensed extended care facility and an accredited home care agency. Built in 1984, the facility sits on roughly 20.5 acres of land, next to the new 95-bed Yukio Okutsu Veterans Home, Hawaii's first State Veterans Home, and the previous site of the "old hospital."

Today, HMC is the largest employer in Hilo, with over 1,000 employees. Also on campus are Hawaii Pacific Oncology Center, Cardiology, Pain Management Clinics and the Veteran's Administration (VA) Community-Based Outpatient Clinic. Other off-campus clinics include Family Medicine, Surgery, Neurology, Orthopedics, Otolaryngology, and Urology.

HMC Patient Services Include:

- 24-Hour CAP-Accredited Pathology Laboratory and Blood Bank Services
- 24-Hour Physician-Staffed Emergency Care
- Acute Inpatient Dialysis
- Adult Psychiatric Care
- Bronchoscopy
- Cardiac Care, Echocardiography, Thallium Stress Treadmills, Pacemakers, Cardiac Telemetry
- EEG
- Endoscopy
- Food and Nutrition Services and Counseling
- Hospitalist Services
- Imaging Services – X-ray, CT, MRI, angiography, interventional radiology, nuclear medicine, ultrasound
- Inpatient and Outpatient Rehabilitation Services – Physical, Occupational, and Speech Therapies
- In-Patient Pharmacy
- Critical and Progressive Care
- Neurology
- Obstetrics/Gynecology Services, Labor and Delivery, Post-Partum, and Childbirth, Breastfeeding and Car Seat Classes
- Oncology Care—Medical and Radiation Oncology
- Outpatient Clinics – Cardiology, Family Medicine, Pediatrics, Oncology, Orthopedics, Neurology, Pain Medicine, ENT, Surgery, and Urology
- Pediatrics

- Respiratory Therapy
- Skilled Nursing and Long Term Care
- Social Services
- Surgical Services—Same Day Surgery, Post-Anesthesia Care, and Special Procedures
- Subspecialty Surgical Services—Vascular Surgical Services (Open and Endo-), Orthopedics, Ophthalmology, Otorhinolaryngology, Urology
- Telemedicine and Teleradiology
- Wound and Ostomy Care

Patient Census:

- Acute 7,727
- LTC 112
- ER Visit 47,897
- Births 1,073
- Clinic Visits 31,673

Community-Based Foundation Support of HHSC Facilities:
Total Private Donations - $118,712
Total Fundraising - $117,796
Total Federal/State/Private Grants - $141,000

TOTAL - $377,508

Volunteer Services:

- Number of Active Volunteers: 125
- Number of Total Volunteer Hours: 11,400
- Volunteer Auxiliary Contributions: $12,000

Hale Ho'ola Hamakua (HHH), originally known as Honoka'a Hospital, has served the healthcare needs of the communities of Hamakua, North Hawaii and South Kohala since 1951. In November 1995, a new fifty-bed (50) facility was opened above the old hospital, to provide long-term-care services. The facility was renamed Hale Ho'ola Hamakua (Haven of Wellness in Hamakua) in 1997 to reflect its new focus. HHH employs 115 (FTE, FY15) employees of which a significant number are residents of the area who were former employees or related to employees of the Hamakua Sugar Company that phased out in 1994. The Hamakua Sugar Company Infirmary, which became the Hamakua Health Center, provides primary care and behavioral health services to the community in a building owned and leased from HHH and adjacent to the hospital.

The greater part of the "old" Honokaa Hospital building is being leased to the University of Hawaii-Hilo for the North Hawaii Education and Research Center (NHERC), a project providing college, vocational, and special interest courses in North Hawaii. It will also function as a base for offsite distance learning for the university to all parts of the State. One of the goals for NHERC is to offer Certified Nurse Aide classes at least twice per

year and incorporate a Licensed Practical Nurse Program with the Hawaii Community College using HHH as one of several clinical sites. The nursing programs will assist with the staffing the health facilities and community health services in the North Hawaii area.

HHH was converted as a Critical Access Hospital on November 2005, which resulted in bed configuration changes and the provision of new Emergency Room (ER) and expanded ancillary services. In 2010, the Maile Wing was added to HHH, bringing the total number of beds to 77 and increasing its capacity. HHH employs 114 dedicated medical professionals who care for the Hamakua Coast community.

HHH Patient Services Include:

- 11 Acute/SNF Swing Beds
- 66 Long Term Care (ICF/SNF) Beds
- Emergency Room Services, 24 hours/7 days per week, on call within 30 minute
- Inpatient Physical Therapy
- Inpatient Occupational Therapy
- Inpatient Speech Therapy
- Inpatient Social Services
- Inpatient and Outpatient Laboratory Services
- Inpatient and Outpatient X-Ray Services
- Inpatient Dietary/Food Services
- Auxiliary and Community Volunteer Services

Patient Census:

- Admissions 211
- LTC 98
- ER Visits 2,334

Community-Based Foundation Support of HHSC Facilities:
Total Private Donations - $1,200
TOTAL - $5,000

Ka`u Hospital, in Pahala, is a 21-bed facility with 16 long-term care beds and 5 acute beds with 60 employees. It also operates a 24-hour/7 day a week Emergency Department. Replacing the last sugar plantation hospital on the island, Ka'u Hospital was built in 1971 to serve the needs of a vast rural area. There are no other hospitals within a 55-mile radius in any direction. As of July 2001, Ka'u Hospital was designated as a CAH (Critical Access Hospital). This is a federal designation given to small hospitals that provide essential emergency and acute services in remote areas to assist them with the financial burdens associated with their size and isolation. Adding to the spectrum of services provided by Ka'u Hospital, a Medicare certified Rural Health Clinic was established on the hospital campus in September of 2003.

The people of Ka'u truly support their hospital. Their partnership of volunteerism and fundraising has enabled Ka'u Hospital to make many improvements in appearance, functionality and medical equipment that the hospital would be unable to fund on its

own. It is a true community hospital where staff work toward being the very best they can be for the people of Ka'u. Demand for services, particularly emergency services and long-term care has been growing steadily. Long-term care beds have been 100 percent occupied for the past two fiscal years with some patients waitlisted in our acute beds.

Ka'u Hospital Patient Services Include:

- 24-hour Emergency Services
- Acute Care
- Intermediate and Skilled level care
- Adult Day Health Services Program
- Radiology - Inpatient and Outpatient
- Laboratory Services
- Rural Health Clinic provides primary care including:
  - Family Medicine
  - Geriatric Medicine
  - Outpatient Laboratory

Patient Census:

- Admissions 79
- LTC 18
- ER Visits 2,700
- Clinic Visits 4,885

Community-Based Foundation Support of HHSC Facilities:

Total Private Donations - $57,825

TOTAL - $57,825

Volunteer Services:

- Total Number of Active Volunteers: 11
- Total Number of Total Volunteer Hours: 500

East Hawaii Region Foundations Supporting HHSC Hospitals
Background / Contact Information

Hilo Medical Center Foundation

Founded in 1995, the Foundation supports the healthcare of the community and its visitors by assisting Hilo Medical Center (HMC) through volunteerism, community education, and financial support. With no private hospitals in the East Hawaii region, HMC is truly a community institution with quality of facilities and services dependent upon both psychological and financial community support. We view our mission as attempting to enhance that support.

Foundation President: Ami Lamson
Foundation Administrator: Lisa Rantz lrantz@hhsc.org

Contact information:
Hilo Medical Center Foundation
www.hilomedicalcenterfoundation.com
1190 Waianuenue Avenue, Box 629
Hilo, HI 96720
Tel: 808-932-3636 Fax: 808-974-4746

Hale Ho`ola Hamakua Foundation

The Hale Ho'ola Hamakua Foundation supports the Hale Ho'ola Hamakua Critical Access Hospital in enhancing the quality of health care by serving as ambassadors and sponsors, through fundraising and securing grants, for special projects and activities that enable the purchase of equipment and funding of programs that benefit the local community. Since its founding in 2010, the HHH Foundation has benefited specific projects and programs in the facility and has had a real impact within the community.

Foundation President/Director: Farrah-Marie Gomes
Foundation Vice President/Director: Wade Lee

Contact information:
Farrah-Marie Gomes
45-547 Plumeria St.
Honokaa, HI 96727
Telephone: (808) 345-4190
Email: info@halehoola.org

Ka`u Hospital Charitable Foundation

Ka'u Hospital Charitable Foundation was created to raise funds for the benefit of Ka'u Hospital and Rural Health Clinic in order to supplement the financial resources available to it through the hospital's own revenue (which comes from income, shared resources from other HHSC facilities, and any monies granted by the State.) Funds raised are used to enhance the quality of care provided by Ka'u Hospital through improvements in the facility, medical equipment, and training of staff.

Foundation President/Director: Bradley Westervelt
Foundation Vice President/Director: Wayne Kawachi

Contact information:
Ka`u Hospital Foundation
P.O. Box 773
Pahala, HI 96777
Tel: 808-928-2959 Fax: 808-928-8980
Email: Ka'uHCF@gmail.com

Hawaii Health Systems Corporation East Hawaii Region
Fiscal Year 2016 Highlights

On behalf of the East Hawaii Region of Hawaii Health Systems Corporation (HHSC), we are pleased to submit our end of year report highlighting the accomplishments of the Region.

Our vision continues to be *"To create a health care system that provides patient centered, culturally competent, cost effective care with exceptional outcomes and superior patient satisfaction. We will achieve success by pursuing a leadership role in partnership with community health care organizations and providers."*

PEOPLE

The East Hawaii Region welcomed approximately 40 new physicians to the community whose specialties include cardiology, emergency medicine, pediatrics, podiatry, nephrology and urology. In addition, the second class of four residents joined the Hawaii Island Family Medicine Residency Program.

At the close of FY 2016, the East Hawaii Regional Board appointed Kimo Lee, Marcella Stroh and Rae Yamanaka. In addition, Julie Tulang was appointed to the Corporate Board At-Large position by the Governor Ige.

QUALITY

The East Hawaii Region was recognized for its focus to improve the quality of care.

- The Center for Medicare and Medicaid Services (CMS) national rankings for Overall Hospital Quality Star Ratings named Hilo Medical Center was one of just four hospitals statewide to achieve the coveted four-star ranking and the only hospital on Hawaii Island to receive the ranking. The ranking also placed HMC among the top 20% of hospitals nationwide.
- HMC was recognized as Hawaii's top-performing hospital for hospital-acquired infections according to the Centers for Medicare and Medicaid Services (CMS). HMC's Total Hospital-Acquired Conditions (HAC) score of 1.5 put it among the top 2% of the 3,308 hospitals involved in the CMS HAC Reduction Program.
- The American Association for Critical-Care Nurses announced HMC's ICU as the recipient of the Beacon Award for Excellence. The unit has been recognized for employing evidence-based practices to improve patient outcomes and patient and staff satisfaction. As a bronze-level awardee, HMC's ICU demonstrated success in developing, deploying and integrating unit-based performance criteria for optimal outcomes.
- HMC received the American Heart Association's Get with the Guidelines Gold Plus Award for treatment of heart failure.
- CMS released the national rankings for Overall Nursing Home Quality Star Ratings and ranked Hale Ho`ola Hamakua in the top 10% of 46 nursing homes statewide to achieve the five-star ranking. HHH is one of over 15,000 Medicare-

and Medicaid-participating nursing homes that are included in the nationwide rating for quality of care and staffing information.

GROWTH

Imaging

Hilo Medical Center's Imaging Department has made great strides its modernization project. State Trauma Program funding purchased a state-of-the-art Toshiba Aquilion One Vision 640-slice CT scanner that produces high quality, timely images to improve trauma care. This equipment also helps with the diagnosis of heart attacks and strokes. HMC also completed construction of a brand new angiography suite to house the new angiography equipment, a Siemens Artis Zee Biplane system, for a variety of uses for cardiology, interventional radiology and vascular surgery.

Residency Training Program

Hawaii Island needs more that 200 doctors, particularly in rural areas. HHSC aims to train and retain primary care providers here at Hilo Medical Center to relieve the severe shortage of physicians and improve access to healthcare in Hawaii. Our Primary Care Training Program, having completed its second year, is building a Family Medicine Residency for the advancement of healthcare on Neighbor Islands and in rural communities throughout Hawaii.

FINANCE

Hilo Medical Center

Total Operating Revenue for FY 2016 was $164M compared to a budget of $161M, a 2% favorable variance. FY 2016 Total Operating Expense was $190M versus a budget of $189M. Operating Income (Loss) for FY 2016 was ($26.4M) compared to a budget of ($28.3M). After Corporate Overhead and other appropriations, the Net Income (Loss) was ($0.4M) for FY 2016 versus a budget of ($4.3M). Data provided is unaudited.

Hale Ho'ola Hamakua

Total Operating Revenue for FY 2016 was $14.8M compared to a budget of $11.3M, a 28% favorable variance. FY 2016 Total Operating Expense was $15.9M versus a budget of $14.7M, a 9% unfavorable variance. Operating Income (Loss) for FY 2016 was ($1.2M) compared to a budget of ($3.4M). After Corporate Overhead and other appropriations, the Net Income was $0.9M for FY 2016 versus a budget of ($0.9M). Data provided is unaudited.

Ka'u Hospital

Total Operating Revenue for FY 2016 was $7.6M compared to a budget of $8.1M, a 6% unfavorable variance. FY 2016 Total Operating Expense was $9.4M versus a budget of $9M, a 4% unfavorable variance. Operating Income (Loss) for FY 2016 was ($1.7M) compared to a budget of ($0.9M). After Corporate Overhead and other appropriations, the Net Income was ($0.1M) for FY 2016 versus a budget of $0.8M.
Data provided is unaudited.

WEST HAWAII REGION

Kona Community Hospital (KCH), the primary health care facility serving West Hawaii, is a 94-bed full service medical center and designated Level III Trauma Center; 67 beds Medical Surgical acute; 7 labor, delivery, postpartum beds in the Obstetrics unit; 11 beds behavioral health unit; and, a 9 bed intensive care unit. It is located in Kealakekua, Kona, and 18 miles south of Kona International Airport. The hospital has expanded considerably from its initial wooden structure with 52 beds built in 1941. It is currently housed in a three-story structure constructed in 1975.

This facility employs 430 (FTE, FY16) employees. There are over 64 active medical staff members representing a wide variety of medical specialties.

KCH Patient Services Include:

- 24-hour Emergency Room
- Level III Trauma Center
- Inpatient & Outpatient Surgery
- Acute Inpatient Care (Obstetrics/Gynecology, Medical/Surgical, Intensive Care, Behavioral Health)
- Outpatient Nursing Services (Chemotherapy)
- Rehabilitation Services (PT, OT, Respiratory Therapy, Speech Therapy)
- Pharmacy
- Laboratory and Pathology Services
- Imaging Center (MRI, 128-slice CT Scan, Ultrasound, Echocardiogram, Nuclear Medicine)
- Radiation Therapy
- Physician Specialties (General Surgery, Internal Medicine, Cardiology, Medical Oncology, Radiation Oncology, Pediatrics, OB/GYN, ENT, Ophthalmology, Plastic Surgery, Orthopedics, Psychiatry, Gastroenterology)

Patient Census:

- Acute Admissions 3,532
- LTC Admissions 0
- Patient Days 16,934
- Births 523
- ER Visits 21,314

Community-Based Foundation Support of HHSC Facilities:

- Total Private Donations - $73,653
- Total Fundraising - $43,911
- Total Federal/State/Private Grants - $100,000
  TOTAL - $217,564

Volunteer Services:

- Number of Active Volunteers: 37
- Number of Total Volunteer Hours: 3,221
- Volunteer Auxiliary Contributions: $6,490

Kohala Hospital, located in the rural town of Kapaau (North Kohala), opened its doors to patients on April 1, 1917. At that time, it was a 14-bed facility. Miss Mina Robinson, a medical, surgical and maternity nurse, arrived from Australia to "take charge" of the hospital. The cost of hospitalization at that time was $1.50 per day. In 1962, Kohala Hospital was relocated into a new lava rock and hollow tile structure consisting of 26 inpatient beds providing both long-term and short-term acute care. Today, Kohala Hospital employs 58 (FTE, FY16) employees, has 26 licensed acute and long-term care beds, and as a critical access hospital.

Kohala Hospital Patient Services Include:

- 24-Hour Emergency Care
- Inpatient and Outpatient Clinical Laboratory and X-Ray Services
- Medical Acute and Skilled Nursing Inpatient Care
- Long-Term Care (Skilled Nursing and Intermediate Care)

Patient Census:

- Number of Acute Admissions: 47
- LTC Admissions 7
- Patient Days: 8,971
- Emergency Visits: 1,775

Community-Based Foundation Support of HHSC Facilities:

- Total Private Donations - $72,929.27
- Total Fundraising - $0
- Total Federal/State/Private Grants - $9000
  TOTAL - $81,929.27

Volunteer Services:

- Number of Active Volunteers: 5
- Number of Total Volunteer Hours: 978
- Volunteer Auxiliary Contributions: $1,750

West Hawaii Region Foundations Supporting HHSC Hospitals
Background / Contact Information

Kona Community Hospital Foundation

This foundation was established in 1984 for the purpose of providing means, equipment and facilities for the use by and benefit of Kona Community Hospital. Since its inception it has provided over a million dollars in equipment and facilities to the hospital. It is managed by a five-member board that is completely separate from the management of the hospital.

Well into the second decade of operation we are very proud of our participation in the modernization and future of Kona Community Hospital. Kona Hospital is a tremendous asset to our community and we enjoy providing support to its reinvention and growth. Your participation is most appreciated and does make a significant difference.

Foundation President: John P. Bunnell, DDS
Foundation Vice Chair: Judith Ann Nakamaru

Contact information:
Kona Hospital Foundation (www. khfhawaii.org)
79-1019 Haukapila Street
Kealakekua, HI 96750
Tel: 808-322-9311 Fax: 808-322-6963
Email: info@khf.org

Kohala Hospital Charitable Foundation

This foundation was established in 2003, to provide assistance to Kohala Hospital, its programs, facilities, staff and patients. It supports the hospital by purchasing equipment, renovating facilities, assisting in education and outreach programs, and aiding other hospital programs or activities.

Foundation President: Giovanna Gherardi
Foundation Vice President: Rhoady Lee

Contact information:
Kohala Hospital Charitable Foundation
P.O. Box 430
Kapaau, HI 96755
Tel: 808-987-6762 Fax: 808-889-1341

Hawaii Health Systems Corporation West Hawaii Region
Fiscal Year 2016 Highlights

On behalf of the employees, physicians, volunteers, management and board of the HHSC West Hawaii Region (Kona Community Hospital and Kohala Hospital) we are pleased to submit this brief report highlighting our accomplishments of the last fiscal year.

Kona Community Hospital

Kona Community Hospital (KCH) is a 94-bed full-service acute care, safety-net hospital with 24-hour emergency services, proudly serving the West Hawaii community. Founded in 1914, we are a public benefit health care facility accredited by the Joint Commission on Accreditation of Health Care Organizations.

The staff includes over 430 highly skilled employees; many have been with our hospital for over 25 years. KCH has 230 medical staff practitioners, 64 of whom are active practitioners. We also are one of the largest employers in West Hawaii.

Kohala Hospital

Kohala Hospital is a 26-bed Critical Access Hospital (CAH), founded in 1917, that serves the population of North Kohala. Located in Kapaau, Kohala Hospital (KOH) employs 58 full-time, part-time and casual-hire employees. With 22 beds dedicated to Long Term Care, KOH provides emergency services, outpatient lab, radiology and EKG services, inpatient short-stay acute care and inpatient rehab services. Emergency physicians are on-call at all times, servicing more than 1700 emergency room patients per year.

AWARDS AND ACCOLADES

- Kona Community Hospital was voted Best Hospital in West Hawaii in the 2016 West Hawaii Today "Best Of" poll.
- KCH Intensive Care Unit (ICU) was recognized for successful infection prevention. KCH ICU has been free of Central Line Blood Stream Infections (CLABSI) and Ventilator Associated Pneumonia infections (VAP) for more than three years.
- Kohala Hospital received an overall 5.0 Star Overall and Quality Rating on Medicare's Nursing Home Compare.

PEOPLE

The Board of Directors of the West Hawaii Region gained no new members in the fiscal year. However, In February 2016, Frank Sayre, DDS was appointed as Chairman of the Board following the unexpected death of Board Chair, William R. Cliff.

Employee engagement activities were held throughout the year. Activities include monthly Town Hall meetings, employee of the month recognition and monthly Employee Birthday Lunches where all employees with birthdays in the current month are invited to have lunch with the CEO. KCH continues to celebrate National Volunteer's, National Nurses' and National Hospital Weeks.

KCH implemented a facility-wide reduction in force (RIF) of 34 positions. In addition, the hospital closed its 18-bed skilled nursing service. Those 18 beds were relicensed to provide acute medical surgical service.

QUALITY

KCH programs improve patient outcomes:

- KCH has been a Level III Trauma Center since 2011. The Trauma Center averages of 12 trauma activations per month.
- KCH participates in the American Heart Association's Mission Lifeline: STEMI and Cardiac resuscitation system to improve survival rates for heart attack patients.
- KCH part pates in a TeleStroke program in collaboration with the Hawaii Stroke Network. The TeleStroke Program averages 2 – 3 stroke activations per month.
- KCH earned Baby-Friendly Hospital designation by the World Health Organization (WHO) and the United Nations Children's Fund (UNICEF). KCH is one of only three hospitals to have received this prestigious designation.

KCH programs offer community and patient engagement:

- Metabolic and Bariatric Weight Loss program. The only comprehensive weight loss program on Hawaii Island provides medical and surgical weight loss options to manage obesity and comorbid conditions.
- Heartburn and Reflux Program. We are the sole location on Hawaii Island to provide a new incision-less surgical procedure to treat the root cause of moderate to severe Gastroesophageal Reflux Disease (GERD).
- KCH is an American Heart Association certified training center, providing courses for the Public as well as Providers in: ACLS (Advanced Cardiac Life Support), BLS (Basic Life Support, PALS (Pediatric Advanced Life Support, and PEARS (Pediatric Emergency Assessment, Recognition and Stabilization) as well as ECG & Pharmacology.
- Certified childbirth educators from our Women's Services Unit offer six-week prenatal education classes for expectant mothers to improve the labor experience.

PHYSICIAN RETENTION & RECRUITMENT

Kohala hospital has 22 physicians; some serve both Kona and Kohala.

Kona Community Hospital has approximately seventy-three active physicians representing 28 specialties on its medical staff. In FY 2016, we credentialed new providers in the area of tele-psychiatry to provide service in the KCH emergency department.

We continue to fill the position of medical oncologist / hematologist with a long-term contract oncology/hematology specialist. We also collaborate with the Queens Medical Center oncology department to round and enhance oncology services to west Hawaii.

Sound Physicians provides comprehensive hospitalist in-patient services at KCH. As of FYE 2016, Sound Physicians employed a team of six physicians, one nurse practitioner and a dedicated hospitalist RN.

Hawaii County continues to have a severe physician shortage. Recruiting and retention of permanent physicians to our community remains a challenge. We continue to address this deficit with a progressive recruitment and retention plan in collaboration with our non-profit affiliate, Ali`i Health Center.

The recruitment process is affected by low reimbursements, economic uncertainty, Hawaii County's high cost of living, an aging physical plant, remote location from mainland medical centers and distance from family and friends.

PARTNERSHIPS & AFFILIATIONS

KCH has on-going partnerships with healthcare stakeholders in order to expand and enhance services we can provide to the community, including:

- Ali`i Health Center
- HHSC (Hawaii Health Systems Corporation)
- Hawaii Life Flight
- Kohala Hospital Charitable Foundation
- Kona Ambulatory Surgery Center
- Kona Community Hospital Auxiliary
- Kona Hospital Foundation

Kona Hospital Foundation raises monies for new medical technology, expanded services and enhanced facilities for KCH. The Foundation successfully concluded its campaign to raise funds for the planned expansion of the Medical Oncology clinic.

- Total Private Donations: $73,653
- Total Fundraising: $43,911
- Total Federal/state/Private grants: $100,000

Kona Community Hospital Auxiliary provides a volunteer support for service and fund-raising. Their primary mission is to fund nursing scholarships. In FY 2016, 37 active volunteers provided 3221 hours of service. The Auxiliary funded six nursing scholarships and purchased an Accu Vein Finder for our Intensive Care Unit.

Kohala Hospital Volunteer Services provides volunteer support for resident activities. In FY 2016, five active volunteers provided 978 hours of service to the hospital. The Auxiliary raised $1750.

FACILITIES

At Kona Community Hospital, $6 million in Capital Improvement Project (CIP) monies funded projects and improvements. Fiscal year 2016 included capital improvement projects:

- Construction completed
    - Emergency Department Triage – relocated and upgraded
    - Emergency Department Check In area – relocated and upgraded
    - New construction - ED North added six beds
    - OB room renovations
- Projects process
    - Pharmacy expansion and remodel
    - Replace flooring basement and 1st floors
    - Seismic mitigation of ceiling tiles and mechanical equipment
    - Electrical, mechanical and HVAC upgrades

At Kohala Hospital, State CIP dollars are assisting with funding Phase II of the Emergency Department renovation and relocation project.

CLINICAL SERVICES & TECHNOLOGY

KCH continued its contract with Hawaii Life Flight to operate a medically equipped, over-water helicopter. Monthly, KCH averages 25 – 30 Hawaii Life Flight activations per month.

KCH launched a state-of-the-art tele-mental health program to accommodate patients requiring the services of a psychiatrist. The program offers timely, high quality mental health care. The mental health services are provided by licensed, board certified psychiatrists for consultations and care of inpatients in KCH's acute care units, such as the Medical Surgical and Intensive Care units. The tele-psychiatrists are also able to co-manage care with a patient's hospitalist and care team.

ELECTRONIC MEDICAL RECORDS

Ongoing upgrades continue to standardize and enhance the West Hawaii Region electronic medical records system in different care settings including acute, long term care and critical access

- Along with HHSC, the West Hawaii Region continues to enhance the *my*Health Patient Portal. As required by CMS, the patient portal gives patients access to their personal hospital medical records. It also prepares us for the upcoming Health Information Exchange (HIE) that patients and physicians can use together.

FINANCIAL

At KCH, inpatient volumes both grew by 7% in 2016 resulting in increased revenue over the prior year. Outpatient volumes decreased by 7%. Also, during 2016 our skilled nursing facility closed due to the high cost of keeping the unit open. The net effect resulted in a slight increase in revenue.

This increased revenue was partly offset by a 2% Medicare reduction and no increase in state Medicaid payments. For the fiscal year 2016, KCH operating losses were $14 million due mostly to very high state pension and retirement costs, along with very restrictive union bargaining rules. This loss was offset by $14 million in state appropriation resulting in a breakeven net income for FYE 2016.

Kohala Hospital had a net operating loss of $2 million offset by $1 million in state appropriation resulting in a net loss of $1 million.

The West Hawaii Region continues to provide comprehensive community healthcare services to our community that are quality-driven, customer-focused and cost-effective. We continue to implement strategies to produce improved patient outcomes, deliver new clinical services and create strong community partnerships. With a strong leadership team in place along with the dedication of employees, physicians, volunteers, Foundation and its Board, the Region has made progressive advancements. We will continue to face critical financial challenges moving into 2017. However, we are focused on projects and initiatives to address the healthcare needs of West Hawaii.