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

"Touching Lives Every Day"

April 18, 2008

CEO-08-34

The Honorable Linda Lingle
Governor of Hawaii
Hawaii State Capitol
Executive Chambers
Honolulu, Hawaii 96813

REPORT TO THE 2008 LEGISLATURE
Hawaii Health Systems Corporation Annual Audit and Report for FY2007;
Disclosure of Revenue Projections; and Capital Improvement Projects For FiscalYear 2008;
Pursuant to Chapter 323F-22

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

HHSC annually has a detailed independent third party 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 improve our financial management and accounting systems throughout the years. Although in FY 1997 the Corporation received a qualified audit with many material weaknesses, we have now received our tenth consecutive "clean" unqualified audit with no material weaknesses for every fiscal year from FY 1998 through FY2007. In accordance with HRS Section 323F-22 the attached report includes the FY 2007 and FY 2006 comparative audit report, projected facility revenue and capital improvement projects planned for FY2008. HHSC organization, budget and service information are also included in the report.

Hawaii Health System Corporation (HHSC) facilities include: Hilo Medical Center, 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), Yukio Okutsu State Veterans Home - Hilo, Roselani Place - Maui and Affiliate HHSC facility Kahuku Medical Center – Oahu.

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Hawaii Health Systems Corporation recognizes the sustained guidance and support of the Management Advisory Committees and the Physician Advisory Group that were tremendously important to the successful functioning of our system in FY 07, but looks forward to new Governance structure as set forth in Act 290 during FY 08.

The five statutorily created, regional Public Health Facility Management Advisory Committees (MACs) provided valuable input to the President and CEO on the needs of the communities in monthly meetings. The MACs were very active and involved in the daily operations of our HHSC facilities. The chairs of the five MACs comprised the Executive MAC met monthly with the President and CEO, as well as played a vital role in policy decision at the facility and regional level. The Executive MAC Chairs served as a member of the HHSC Board of Directors. In previous years, the Regional MACs submitted annual reports that were included as attachments to HHSC's annual reports to the Governor and the legislature. Pursuant to Act 290 (2007), the Public Health Facility Management Advisory Committees (MACs) are abolished as Regional System Boards are established in each region. Creation of the Regional System Boards have begun.

The Physicians Advisory Group (PAG) constituted of physicians throughout the islands who volunteered their time and talents to come together on a semi-monthly basis with the President and CEO to discuss the clinical and medical staff issues facing our hospitals. This past fiscal year, the PAG represented approximately 1,000 HHSC medical staff members who are essential to operations and success of HHSC. In concert with implementation of Act 290 (2007) the PAG is now reconstituted as the Physician Leadership Group (PLG) to continue to provide guidance and support which will be tremendously important to both the successful functioning of the system and establishment of strategic direction of the system.

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

HHSC management has worked with respective hospital foundations to obtain donations and grants to both enhance services provided and to offset the cost of operating our system under the provisions of State civil service collective bargaining 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). Nine years ago, there were three foundations supporting HHSC facilities of which only two were active. Today there are nine separate foundations and multiple hospital auxiliaries supporting one or more HHSC hospitals.

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 initiatives, which have provided the system with measurable solutions for improving quality of care, were accomplished through the dedicated efforts and cooperation of our staff, community physicians, and other healthcare professionals.

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 those surveys. In 2005, HHSC completed its fourth Hospital accreditation survey by the Joint Commission again resulting in a full 3 yr accreditation for all hospitals surveyed

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.

HHSC management has worked in concert with our Board of Directors, MACs, PAG, and many other external constituencies to find creative and effective solutions to financial and operating issues; however, State leaders and unions have not yet endorsed major change to move the system toward reducing request for State support. During this time of National, State and HHSC specific challenge, more than ever we all understand the need to find new solutions to providing services to the communities that we serve while reducing the demands on the State to provide support. HHSC continues to solicit input from all of our stakeholders as to potentially new and innovative structural changes that could further improve HHSC's efficiency in the way we provide care to the communities we serve. We will continue to interact with both the Administration and the Legislature on future directions for HHSC with a commitment by our new Governance and management to have a completed long term strategic plan ready and submitted to the Administration and the Legislature by June 30, 2008.

In order to provide full perspective on challenges and outcomes in FY 2008, copies of the HHSC budget briefing presentations to the January 10, 2008 House Committee on Finance and the Senate Committee on Ways and Means are attached as well as our most up-to-date financial testimony offered to the Senate Committee on Ways and Means on March 27, 2008, pertaining to HB 2500 HD1, the State Budget.

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

Mahalo Nui Loa,

Tom Driskill

THOMAS M. DRISKILL, JR.
President and CEO
Hawaii Health Systems Corporation

Attachments:

1. Annual Audit – Consolidated Financial Statements for Years Ended June 30, 2007 and 2006
2. Projected revenues for each facility for FY08
3. List of proposed capital improvement projects during FY08
4. HHSC Information Overview and Volunteer Community Support (FY03-07)
5. HHSC Successes FY07
6. HHSC Budget Informational Briefings to the Senate Committee on Ways and Means and the House Committee on Finance, January 10, 2008
7. Joint Informational Briefing to the House Committee on Health and House Committee on Human Services, January 25, 2008
8. HHSC Testimony on the State Budget (HB2500HD1) to the Senate Committee on Ways and Means, March 27, 2008

EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

May 1, 2008

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fourth State Legislature
State Capitol, Room 409
Honolulu, HI 96813

Dear Madam President and Members of the Senate:

For your information and consideration, I am transmitting two (2) copies of the Report to the Legislature pursuant to SCR 140/HCR 197 (2006) on Development of Master Plan and Financial Feasibility Report for Leahi Hospital, HHSC Oahu Region - Preliminary Planning Documents for Leahi Hospital. In accordance with Section 93-16, Hawaii Revised Statues, I am also informing you that the report may be viewed electronically at www.state.hi.us/budget.

Sincerely,

LINDA LINGLE

Enclosures

EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

May 1, 2008

The Honorable Calvin K.Y. Say, Speaker
and Members of the House of Representatives
Twenty-Fourth State Legislature
State Capitol, Room 431
Honolulu, HI 96813

Dear Mr. Speaker and Members of the House of Representatives:

For your information and consideration, I am transmitting two (2) copies of the Report to the Legislature pursuant to SCR 140/HCR 197 (2006) on Development of Master Plan and Financial Feasibility Report for Leahi Hospital, HHSC Oahu Region - Preliminary Planning Documents for Leahi Hospital. In accordance with Section 93-16, Hawaii Revised Statues, I am also informing you that the report may be viewed electronically at www.state.hi.us/budget.

Sincerely,

LINDA LINGLE

Enclosures

Attachment 1

Hawaii Health Systems Corporation

Consolidated Financial Statements for the Years Ended June 30, 2007 and 2006, Supplemental Information for the Year Ended June 30, 2007, and Independent Auditors' Reports

HAWAII HEALTH SYSTEMS CORPORATION

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HAWAII HEALTH SYSTEMS CORPORATION

INTRODUCTION

PURPOSE OF THE REPORT

The purpose of this report is to present the consolidated financial statements of Hawaii Health Systems Corporation (HHSC) as of and for the years ended June 30, 2007 and 2006 and the independent auditors' reports thereon.

SCOPE OF THE AUDIT

The audit was required to be performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HHSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HHSC's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

ORGANIZATION OF THE REPORT

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

- The first section presents this introduction.
- The second section presents the consolidated financial statements of HHSC as of and for the years ended June 30, 2007 and 2006, and the independent auditors' report thereon. This section also presents management's discussion and analysis and supplemental financial information.
- The third section presents the independent auditors' report in accordance with *Government Auditing Standards* on HHSC's internal control and compliance with laws and regulations.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors of
Hawaii Health Systems Corporation:

We have audited the accompanying consolidated statements of net assets of Hawaii Health Systems Corporation (HHSC), a component unit of the State of Hawaii, as of June 30, 2007 and 2006, and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of HHSC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HHSC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of HHSC at June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, in fiscal year 1997, the administration of the facilities that comprise HHSC was transferred from the State Department of Health — Division of Community Hospitals ("State") to HHSC. As of June 30, 2007, negotiations between the State and HHSC relating to the transfer of assets and liabilities (including amounts due to the State) still had not been finalized. Accordingly, the assets, liabilities and net assets reflected in the accompanying consolidated statements of net assets at June 30, 2007 and 2006, may be significantly different from those eventually included in the final settlement.

The management's discussion and analysis information on pages 4 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule on pages 39 and 40 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental combining and consolidating information on pages 41 through 43 is presented for the purpose of additional analysis of the basic financial statements rather than to present the financial position and results of operations of individual facilities, and is not a required part of the basic financial statements. This supplemental schedule and the supplemental combining and consolidating information are the responsibility of HHSC's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2008, on our consideration of HHSC's internal control over financial reporting and 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 controls 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* and should be read in conjunction with this report in considering the results of our audit.

Deloitte + Touche LLP

April 7, 2008

HAWAII HEALTH SYSTEMS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Hawaii Health Systems Corporation's (HHSC's) basic financial statements. In accordance with Statement No. 34 of the Government Accounting Standards Board (GASB), *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, a government entity's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements are designed to provide readers with a broad overview of a government entity's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of a government entity's assets and liabilities, with the difference between the two reported as net assets. The statement of revenues, expenses, and changes in net assets presents information showing how the government entity's net assets changed during the most recent fiscal year. The statement of net assets and the statement of revenues, expenses, and changes in net assets are prepared using the economic resources measurement focus and the accrual basis of accounting.

Fund financial statements are used to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All funds of a government entity can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. HHSC's funds are categorized as proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary fund financial statements are similar to that of the government-wide financial statements in that they are also prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the provisions of GASB No. 34, HHSC is considered to be a Special Purpose government entity. And, as a Special Purpose government entity engaged only in business-type activities, the only financial statements required to be presented are those for proprietary funds. Accordingly, HHSC's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, and notes to financial statements.

Financial Analysis

Consolidated Statements of Net Assets

Summarized financial information of HHSC's consolidated statements of net assets as of June 30, 2007 and 2006, is as follows:

ASSETS	**2007**	**2006**
Current assets	$ 108,303,038	$ 96,685,796
Capital assets — net	253,157,203	221,454,648
Other assets	7,865,821	3,903,016
Total assets	$ 369,326,062	$ 322,043,460
LIABILITIES		
Current liabilities	$ 108,772,545	$ 82,744,813
Capital lease obligations — less current portion	35,091,398	32,254,903
Long-term debt — less current portion	10,774,103	10,880,541
Accrued vacation — less current portion	20,578,812	18,577,707
Due to the State of Hawaii	34,122,507	34,122,507
Other liabilities	702,805	702,924
Total liabilities	210,042,170	179,283,395
NET ASSETS		
Invested in capital assets — net of related debt	197,794,179	169,665,927
Restricted — primarily for capital acquisitions	2,861,656	493,445
Unrestricted	(41,371,943)	(27,399,307)
Total net assets	159,283,892	142,760,065
Total liabilities and net assets	$ 369,326,062	$ 322,043,460

At June 30, 2007, HHSC's capital assets, net of accumulated depreciation, comprised approximately 69% of its total assets. These assets consist mainly of land, hospital buildings, and equipment that are used in HHSC's operations. The increase of approximately $31.7 million is due to property additions of $51.3 million, offset by depreciation expense of $18.8 million and retirements of $0.7 million. The primary reason for the increase is due to the acquisition of medical equipment and information systems of $10.2 million funded through HHSC's municipal leasing lines of credit, State-funded capital improvement projects of $19.6 million, and federal funded capital improvement projects of the Yukio Okutsu Veterans Care Home of $19.0 million. The State-funded capital improvement projects consisted primarily of construction costs for the expansion of Maui Memorial Medical Center (MMMC), the emergency room expansion at Hilo Medical Center (HMC), and part of the construction costs for the Yukio Okutsu Veterans Care Home.

At June 30, 2006, HHSC's capital assets, net of accumulated depreciation, comprised approximately 69% of its total assets. These assets consist mainly of land, hospital buildings and equipment that are used in HHSC's operations. The increase of approximately $25.7 million is due to property additions of $44.7 million, offset by depreciation expense of $18.5 million and retirements of $0.6 million. The primary reason for the increase is due to the acquisition of medical equipment, information systems, and energy-saving equipment of $13.3 million funded through HHSC's municipal leasing lines of credit and State-funded capital improvement projects of $26.1 million. The State-funded capital improvement projects consisted primarily of construction costs for the $38 million expansion of MMMC and for the construction of the Yukio Okutsu Veterans Care Home.

A summary of HHSC's capital assets as of June 30, 2007 and 2006, is as follows:

	2007	2006
Land and land improvements	$ 6,920,296	$ 5,180,572
Buildings and improvements	279,524,980	221,899,300
Equipment	130,016,266	121,057,483
Construction in progress	42,387,766	63,085,041
	458,849,308	411,222,396
Less accumulated depreciation and amortization	(205,692,105)	(189,767,748)
Capital assets — net	$ 253,157,203	$ 221,454,648

At June 30, 2007, HHSC's current assets approximated 29% of total assets. Current assets increased $11.6 million from the fiscal year 2006 balance due to an increase in patient accounts receivable, federal grants receivable and supplies and other current assets offset by a decrease in cash and cash equivalents. The increase in patient accounts receivable of $8.3 million is primarily due to Medicaid withholding $4.1 million in payments due to HHSC facilities as of June 2007, which were received in July 2007. The remainder of the increase in patient accounts receivable is due to an increase in outpatient and emergency department revenues by HHSC during fiscal year 2007, as well as a 10% rate increase that took effect at the beginning of fiscal year 2007. The increase in federal grants receivables of $2.2 million is due to contributions from the Department of Veteran Affairs that were accrued but not yet received by HHSC as of June 30, 2007. The increase in supplies and other current assets of $2.4 million is due primarily to the following: 1) Leahi Hospital placing $793,000 in a term certificate of deposit to fund planned building improvements, 2) increase in radiology inventory at MMMC of $761,000 as a result of expansion of angiography services, and 3) increase in surgical supplies inventory at Kauai Veterans Memorial Hospital (KVMH) of $303,000 due to the opening of a second operating room resulting in a 52% increase in operating room procedures.

At June 30, 2006, HHSC's current assets approximated 30% of total assets. Current assets increased $12.9 million from the fiscal year 2005 balance due to an increase in cash and cash equivalents and an increase in patient accounts receivable. The increase in cash and cash equivalents of $6.9 million is primarily due to the need to save sufficient funds to fund the July 20 payroll payment and an increase in the cash on deposit with the State of Hawaii of $1.4 million (used to fund the July 5 payroll payment). The other reason for the increase in cash and cash equivalents is the increase in cash collections for fiscal year 2006 as compared to the prior year. HHSC collected $351 million in fiscal year 2006 as compared to $317 million in fiscal year 2005 due to $12.7 million in extraordinary third-party payor settlements received as a result of the status of several HHSC facilities being designated as sole community hospitals, $8.8 million in supplemental direct payments to hospitals from the State Department of Human Services (DHS), and HHSC's success in negotiating increases in reimbursement rates with third-party payors. Further, HHSC reduced its gross days in accounts receivable from 72.1 days at June 30, 2005 to 70.7 days at June 30, 2006. The reduction in gross days in accounts receivable was due to management's concerted effort to improve HHSC's revenue-cycle processes, focusing on regular monitoring of HHSC's revenue-cycle performance against industry key performance indicators, with corrective action being taken where necessary. The increase in patient accounts receivable of $8.5 million is primarily due to the accrual of $5.1 million in relief payments from DHS to mitigate the detrimental impact on reimbursements that Act 294 had on HHSC's long-term care facilities. This money was paid to HHSC in July 2006.

At June 30, 2007, HHSC's current liabilities approximated 52% of total liabilities. The primary reason for the increase from fiscal year 2006 is due to increases in accounts payable and accrued expenses and an advance from the State of Hawaii. Accounts payable and accrued expenses at June 30, 2007, increased by $19.2 million from June 30, 2006, primarily due to an increase of $17.1 million in accounts payable, resulting from the cash flow shortfalls experienced by HHSC during fiscal year 2007. Further, during 2007, HHSC received a $10 million advance from the State of Hawaii which was repaid in July 2007.

The estimated third-party payor settlements liability decreased by $3.5 million to $1.1 million at June 30, 2007. The decrease is primarily due to an increase in the receivable from Medicaid for fiscal year 2006 and an increase in the cost basis for reimbursements for fiscal year 2007 for HHSC's seven critical access hospital facilities.

At June 30, 2006, HHSC's current liabilities approximated 42% of total liabilities. The primary reason for the increase from fiscal year 2005 is due to increases in accounts payable, accrued payroll, and estimated third-party payor settlements. Accounts payable at June 30, 2006, increased by $2.9 million from June 30, 2005, primarily due to an increase of $19.3 million in non-payroll expenses from fiscal year 2005 to fiscal year 2006. As a result, days in accounts payable increased from 35.6 days at June 30, 2005 to 38.8 days at June 30, 2006.

At June 30, 2007 and 2006, HHSC's total capital lease obligation balance increased approximately $1.9 million and $5.3 million from fiscal years 2006 and 2005, respectively. The primary reason for the increases is the acquisition of fixed equipment, medical equipment, and application systems (see explanation under capital assets above). HHSC has municipal leasing lines of credit with several municipal leasing companies, which allow HHSC to finance equipment purchases at interest rates below market rates.

At June 30, 2007, HHSC's long-term debt balances represented: 1) notes and term loans payable on the land, building, and medical equipment previously owned by Hilo Residency Training Program with a remaining balance of approximately $9.7 million, 2) a mortgage note payable relating to the acquisition of nursing cottages on the MMMC campus with a remaining balance of approximately $1.0 million, 3) notes payable to two individuals relating to the acquisition of clinic assets with a remaining balance of approximately $117,000, and 4) a term loan of $758,000 to pay for the planning and design of a new surgery area and modifications of the existing surgery room at the KVMH.

At June 30, 2007, the portion of HHSC's net assets that is reflected as its investment in capital assets, net of related debt, of approximately $197.8 million, and restricted net assets of $2.9 million are larger than the total net assets of approximately $159.3 million. This means that HHSC's net operations since inception have resulted in losses of approximately $41.4 million.

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

Summarized financial information of HHSC's consolidated statements of revenues, expenses, and changes in net assets for the years ended June 30, 2007 and 2006, is as follows:

	2007	2006
Operating expenses:		
Salaries and benefits	$ 269,255,418	$ 234,888,851
Purchased services and professional fees	57,017,208	47,700,312
Supplies and drugs	58,171,015	56,760,887
Depreciation and amortization	18,919,920	18,483,895
Insurance	6,136,486	6,146,134
Other	29,246,222	27,168,552
Total operating expenses	438,746,269	391,148,631
Operating revenues	367,401,428	352,772,138
Loss from operations	(71,344,841)	(38,376,493)
Nonoperating revenues (expenses):		
General appropriations from State of Hawaii	34,154,041	32,280,041
Collective bargaining pay raise appropriation from State of Hawaii	14,585,780	5,474,356
Restricted contributions	369,194	260,421
Other nonoperating revenues (expenses) — net	44,372	(233,411)
Total nonoperating revenues (expenses)	49,153,387	37,781,407
Loss before capital grants and contributions	(22,191,454)	(595,086)
Capital grants and contributions	38,715,281	26,115,844
Increase in net assets	$ 16,523,827	$ 25,520,758

For the year ended June 30, 2007, HHSC's operating expenses exceeded its operating revenues by $71.3 million. The appropriations from the State of Hawaii for collective bargaining pay raises of $14.6 million, general fund appropriations from the State of Hawaii of $34.2 million, restricted contributions of $0.4 million, and capital grants and contributions from the State of Hawaii and the federal government of $38.7 million resulted in an increase in net assets of $16.5 million.

For the year ended June 30, 2006, HHSC's operating expenses exceeded its operating revenues by $38.4 million. The appropriations from the State of Hawaii for collective bargaining pay raises of $5.5 million, general fund appropriations from the State of Hawaii of $32.3 million, restricted contributions of $0.3 million, other non-operating expenses of $0.3 million, and capital assets contributed by the State of Hawaii of $26.1 million resulted in an increase in net assets of $25.5 million.

Management believes that three factors impede the comparability of the fiscal year 2007 results with those of prior fiscal years: 1) property contributed by the State of Hawaii and the federal government of $38.7 million, which represents payments made for HHSC's construction projects and 2) relief payments for fiscal years

2006 and 2007 to HHSC's facilities with long-term care beds for the negative impact of Act 294. Management believes that these factors are neither controllable nor recurring, and may not reflect HHSC's true operating performance. The following chart shows the impact of these three factors on HHSC's financial performance.

Increase in net assets for the year ended June 30, 2007	$ 16,523,827
Adjustments to exclude noncontrollable or nonrecurring items:	
Contributed capital assets and transfers	(38,715,281)
Act 294 relief payments	(4,912,000)
Total adjustments	(43,627,281)
Adjusted decrease in net assets for the year ended June 30, 2007	$ (27,103,454)

Operating expenses in fiscal year 2007 were approximately 12% higher than fiscal year 2006. The increase was mainly in the category of salaries and benefits, purchased services, professional fees, and repairs and maintenance expense. Salaries and benefits expense increased 14.6% from fiscal year 2006, due primarily to the following factors: 1) collective bargaining pay raises of 3.5% to 5.0% for HHSC's union employees totaling approximately $9.1 million, 2) an increase in the fringe benefit rate assessed to HHSC by the State of Hawaii from 36.46% to 41.13% totaling approximately $8.7 million, and 3) additional employees hired by HHSC's acute facilities to support clinical operations. The additional employees hired at MMMC were to improve staffing ratios for patient care, to staff the new wing which opened in November 2006, to staff expansion of services such as angiography, and to add more staff nurses to reduce the need to contract for registry nurses. The additional employees hired at HMC were primarily nurses to reduce the need to contract for agency nurses, but the facility also hired two orthopedists and a general surgeon to provide basic medical services to the community, as well as support staff for those physicians and a physician practice manager to support the growing number of physicians being hired by the facility. The additional employees hired at Kona Community Hospital were support staff to create a medical staff office, as well as a general surgeon. The additional employees hired at KVMH were to support the growth in the physician practices at the facility and to fully staff the hospital and clinic business offices. Professional fees and purchased services expenses increased $9.3 million from fiscal year 2006 primarily due to the following: 1) an increase in registry nurse usage of approximately $1.2 million over fiscal year 2006, 2) an increase in payments for on-call and hospitalist services of $3.7 million over fiscal year 2006, and 3) an increase in clinical laboratory costs of approximately $1.7 million due to an inflationary price adjustment and an increase in laboratory test volumes of 7%. Repairs and maintenance expense increased $3.2 million from fiscal year 2006, due to expenses incurred to mitigate the damages caused by the October 15, 2006, earthquake to Kona Community Hospital, Hale Ho'ola Hamakua, and Kohala Hospital, as well as general maintenance work needed to keep HHSC's aging facilities up to standards required by surveyors.

Operating expenses in fiscal year 2006 were approximately 10.6% higher than fiscal year 2005. The increase was mainly in the category of salaries and benefits, supplies and drugs, professional fees, and purchased services expense. Salaries and benefits expense increased 7.2% from fiscal year 2005, due primarily to collective bargaining pay raises for HHSC's union employees and an increase in the fringe benefit rate assessed to HHSC by the State of Hawaii. During fiscal year 2006, HHSC's union employees in Hawaii Government Employees Association (HGEA) and UPW received pay raises from the unions' collective bargaining agreements with the State of Hawaii of varying percentages effective on various dates throughout the fiscal year. These pay raises represented an additional $5.5 million in salaries expense over fiscal year 2005. Further, the fringe benefit rate assessed to HHSC by the State of Hawaii increased from 34.66% for fiscal year 2005 to 39.39% for fiscal year 2006. The primary reason for the increase is the increase in the required contribution to fund the State Employee Retirement System. The impact of the increase in fringe benefit rate on HHSC was approximately $7.9 million for fiscal year 2006. The remaining increase is due to an increase in full-time equivalents as a result of additional contracting personnel needed to comply with the requirements of the State Procurement Code and additional physician employees to ensure that sufficient medical coverage is available for patients needing care in HHSC's acute care facilities. The increase in supplies and drugs expense was primarily due to a 7% increase in utilization of drugs sold to patients, as well as an increase in the use of chemotherapy drugs, which are much more expensive than other types of drugs. Chemotherapy procedures increased 41% from fiscal year 2005 to 2006. Professional fees and purchased services expenses increased $8.7 million from fiscal year 2005 primarily due to an increase of $4.8 million in registry nurse expense. The increase in registry nurse expense is primarily due to the need to maintain minimum nurse staffing ratios to keep up with patient volume. Increase is also due to the use of registry nurses to staff the emergency rooms that opened at Hale Ho'ola Hamakua, Kula Hospital, and Samuel Mahelona Memorial Hospital during fiscal year 2006. The remaining increase is primarily due to contracted payments to physicians to ensure the availability of specialty medical care and on-call coverage for neighbor island patients.

Fiscal year 2007 operating revenues increased by approximately 4% over fiscal year 2006 as a result of increases in net patient service revenues at HMC and KVMH. The increase in net patient service revenues at HMC was due to an increase in emergency department visits of 6.7% and an increase in acute admissions of 5.8%. The increase in net patient service revenues at KVMH was due to increases in surgery revenue and related revenues for anesthesia, laboratory, radiology, and pharmacy as a result of an 83% increase in inpatient surgery procedures from contracting with more physicians to provide basic general surgery and anesthesia services for the hospital.

Fiscal year 2006 operating revenues increased by approximately 9.9% over fiscal year 2005 as a result of extraordinary third-party payor settlements received for sole community hospital reimbursement (primarily at MMMC), payments received from DHS for supplemental direct payments to hospitals, payments received from DHS for Act 294 relief provisions for fiscal years 2004 and 2005, and increases in negotiated reimbursement rates from private third-party payors. In fiscal year 2006, HHSC received $9.2 million in third-party payor settlements from government-type payors relating to the sole community hospital reimbursement for MMMC, HMC, and Kona Community Hospital, with $8.2 million of the total going to MMMC. The settlements covered the fiscal years 2002 through 2004. Sole community hospitals are hospitals that, because of factors such as isolated location, weather conditions, travel conditions, or absence of other hospitals, are the sole source of inpatient services reasonably available in a geographic area, or are located more than 35 road miles from another hospital. Sole community hospitals receive either hospital-specific prospective rates based on base year costs updated to the present or the federal PPS rate, whichever is higher. In fiscal year 2006, HHSC received $8.8 million in supplemental direct payments to hospitals from DHS (see discussion on Medicaid reimbursement issues on page 12 for more information). In fiscal year 2006, HHSC also recorded $8.2 million in relief payments from DHS for the detrimental reimbursement impact on HHSC's long-term care reimbursements as a result of Act 294 (see discussion on Medicaid reimbursement issues below for more information). The increase in negotiated reimbursement rates from private third-party payors primarily represented inflationary increases of varying percentages.

For the years ended June 30, 2007 and 2006, General Fund Appropriations from the State of Hawaii consisted of $34.2 million and $32.3 million, respectively, approved for HHSC's operating purposes by the 2005 Legislature.

HHSC's management believes that the significant excess of operating expenses over operating revenues in both 2007 and 2006, as well as the cumulative net losses, is due to several factors. First, HHSC's payor mix is made up of predominantly government-type payors. For fiscal year 2007, 59% of HHSC's total gross revenues were from government-type payors (approximately 23% from Medicare and approximately 25%

from Medicaid and QUEST). For fiscal year 2006, 60% of HHSC's total gross revenues were from government-type payors (approximately 23% from Medicare and approximately 25% from Medicaid and QUEST). In fact, government-type payors account for 89% of HHSC's long-term care revenues. Reimbursements from government-type payors has not kept up with the increasing costs of health care providers since the Balanced Budget Act of 1997 was passed, which dramatically reduced the level of reimbursements from government-type payors. According to the November 2006 "Financial Trends of Hawaii's Hospitals, Nursing Facilities, Home Care and Hospice Providers" presented by the Healthcare Association of Hawaii, Medicare pays hospitals only 78% of cost and Medicaid/QUEST pays only 81% of cost for all Hawaii hospitals, the lowest as compared to all other third-party payors.

Further, management believes that there are two Medicaid reimbursement issues that have had a significant negative impact on the financial performance of HHSC: the implementation of Act 294 and the lack of Medicaid Disproportionate Share Hospital (DSH) provider reimbursements in the State of Hawaii. Act 294 was passed by the State Legislature in 1998, and requires that no later than June 30, 2003, there be no distinction in reimbursement rates between hospital-based and non-hospital-based long-term care facilities under the Medicaid program. Prior to the passage of Act 294, hospital-based long-term care facilities received a higher reimbursement than freestanding long-term care facilities under the Medicaid program, primarily due to the recognition that hospital-based long-term care facilities are subject to the compliance with "Emergency Medical Treatment and Labor Act" (EMTALA) requirements, which requires hospitals to accept all patients who come through an emergency room, regardless of the patient's ability to pay. Freestanding long-term care facilities are not subject to EMTALA requirements. Compliance with EMTALA requirements imposes additional costs on hospital-based long-term care facilities, primarily in staffing requirements and in bad debt expense. Six HHSC facilities would be negatively impacted by the implementation of Act 294, while one facility (Maluhia) would be positively impacted. Understanding the dramatic impact that implementation of Act 294 would have on HHSC, DHS authorized a phased implementation of Act 294 over six years. However, management estimates that even with a phased implementation, the cost to HHSC will be approximately $38 million over the six-year phase-in period. Upon the implementation of Act 294, management estimates that the cost to HHSC will be approximately $13 million per year. Management believes that such large annual costs will simply serve to increase the amount of general fund appropriations that HHSC will be seeking from the State of Hawaii each year, as the amount of cost reductions/revenue enhancements that can be reasonably explored will not be enough to absorb such costs. In September 2003, the Center for Medicare and Medicaid Services approved Hawaii's Medicaid State Plan Amendment to provide relief payments to those nursing facilities negatively impacted by Act 294. In fiscal year 2007, DHS paid $5.1 million to HHSC in Act 294 relief payments for patient services rendered in fiscal year 2004. In fiscal year 2007, HHSC accrued estimated Act 294 relief payments for patient services rendered in fiscal year 2006 and 2007 of $3.6 million and $1.3million respectively. While this will provide short-term relief for HHSC's facilities that are negatively impacted by Act 294, management is continuing to work with DHS to explore long-term alternative reimbursement solutions that would ease the burden of Act 294 on HHSC's long-term care facilities.

When the State of Hawaii implemented the QUEST program in 1994, the federal funds provided to the State of Hawaii for Medicaid DSH payments to hospitals were used to partially fund the QUEST program in order to expand health insurance coverage to more residents of the State. DSH payments are additional reimbursements that attempt to reflect additional costs incurred by providers who serve a significantly disproportionate number of low-income patients and/or significant number of Medicaid patients. HHSC's patient mix is such that it would have qualified for Medicaid DSH payments had the State of Hawaii not eliminated such payments. Such additional reimbursements would have reduced the amount of State subsidies needed to finance the operations of HHSC. Management estimates that if the State of Hawaii had maintained Medicaid DSH payments, the amount of federal funds received by the State of Hawaii for the Medicaid program would be significantly more than what is currently being provided. To illustrate the importance of Medicaid DSH payments to public hospital systems, the National Association of Public Hospitals' report on

"America's Public Hospitals and Health Systems, 2004" states that "Medicaid DSH funding financed almost one-fifth of the unreimbursed care provided in 2004, while state and local subsidies financed 35 percent." In September 2005, the State Department of Human Services (DHS), in partnership with HHSC management, the Governor, the State of Hawaii Legislature, and the Healthcare Association of Hawaii (HAH), was able to use HHSC's fiscal years 2006 and 2007 projected losses from providing uncompensated care under the Medicaid fee-for-service program to draw down additional federal funding for all Hawaii hospitals. DHS has paid to HHSC $6.9 million and $8.8 million for fiscal years 2007 and 2006, respectively. Because of this innovative approach to drawing down additional federal funds, HHSC was able to reduce its request for State general fund appropriations by those amounts in fiscal years 2007 and 2006. Management will continue to work with DHS, the State of Hawaii Legislature, and HAH to explore long-term reimbursement enhancements that could reduce HHSC's reliance on general fund appropriations.

Second, HHSC's facilities on the neighbor islands suffer from an insufficient supply of long-term care beds. For fiscal year 2007, HHSC's long-term care occupancy percentage was 95.5%, and there are very few other freestanding long-term care facilities on the neighbor islands. As a result, HHSC's acute care facilities, especially HMC and MMMC, have numerous patients initially admitted as acute patients, but who continue to occupy acute-care beds while awaiting long-term care beds to become available. Such patients are called "wait-list" patients. HHSC receives little to no reimbursement from insurers for such patients, as insurers will not reimburse providers for patients whose required level of care does not coincide with the type of bed the patient is occupying. Combined, HMC and MMMC have an average census of approximately 20-40 wait list patients per day. Management expects the wait-list problem to worsen as Hawaii's population continues to age and the State of Hawaii lags behind on a credible plan to address the long-term care crisis.

Third, HHSC's salaries and benefits expenses represent approximately 60% of its total operating expenses, and management continues to face several challenging issues regarding management of personnel and personnel costs. HHSC is bound by the collective bargaining agreements negotiated by the State of Hawaii and the public employee unions (HGEA and UPW). The collective bargaining agreements not only bind HHSC to the negotiated pay raises, but also to the union work regulations and benefit packages. Management believes that such arrangements do not allow HHSC to manage its resources as effectively as other healthcare systems.

Also, since the majority of HHSC's facilities are in rural locations, management faces many recruitment and retention issues of key clinical personnel. Areas of acute shortage include RNs and LPNs, anesthetists, imaging technicians, physicians, surgery technicians, pharmacists and pharmacy technicians, and health information management specialists. These shortage areas are caused by several factors: 1) a nation-wide shortage of health care workers, 2) the inability of local colleges and universities to provide sufficient classes and teachers that can educate students in these areas, and 3) competition for these same types of positions with private hospitals, which can pay significantly higher wage rates than HHSC. In particular, the shortage of RNs and LPNs results in HHSC having to expend significant amounts for agency nurses, which are paid at significantly higher rates. Agency nurse expenses increased from $5,909,792 for fiscal year 2005 to $11,947,154 for fiscal year 2007. Another issue compounding HHSC's nursing situation is the fact that all of HHSC's nurses are full-time salaried employees, while the nurses at the other private hospitals are hourly employees. This allows the private hospitals to increase or decrease their nurse staffing based on census; by contrast, HHSC facilities cannot decrease their nurse staffing if census is lower than budgeted.

The shortage of physicians on the neighbor islands has been of particular concern to management. In past years, HHSC's facilities had very little contractual or employment relationships with physicians. The medical staff of HHSC's facilities consisted of those physicians with their own practices who had admitting privileges at the facilities. Within the past several years, many of the physicians who had practices on the neighbor islands have left their communities because of a confluence of factors including low physician reimbursements from third-party payors, high malpractice insurance costs, Hawaii's high cost of living, and the lack of tort reform that would limit the amounts that parties could sue medical care providers. As a result, residents of the neighbor islands were at times not able to receive specialty physician services in the event of an emergency, and had to be transported to Oahu to receive the necessary care. As an example, according to Hawaii Health Information Corporation data for fiscal year 2006, 57% of East Hawaii residents and 59% of West Hawaii residents were discharged for orthopedic surgeries from Oahu hospitals. In keeping with HHSC's mission of providing and enhancing accessible, comprehensive healthcare services that are quality-driven, customer-focused, and cost-effective, management began to contract or employ physicians to ensure that neighbor island residents would be able to receive quality healthcare in a timely manner in the community in which they reside. HHSC's costs of contracting with or employing physicians increased from $8.7 million in fiscal year 2006 to $9.6 million in fiscal year 2007, and it is expected to increase to $20 million in fiscal year 2008. These costs not only include the salary or contract payments to the physicians, but also the cost of establishing the clinics and physician offices for those physicians. Management believes that without significant medical tort reform and an increase in physician reimbursement rates, there will be continuing pressure put on HHSC's facilities to recruit and employ the physician specialists that are needed to ensure that neighbor island residents receive the quality healthcare that they deserve.

Related to the physician shortage issue is the issue of on-call coverage. In the past, physicians provided on-call coverage for hospital emergency rooms as part of their duties as a medical staff member. However, due to the financial pressures listed in the paragraph above, physicians have started to demand payment for providing on-call coverage for hospital emergency rooms in order to make up for the financial shortfalls they experience from their private practices. Management has attempted to mitigate the need to pay physicians for on-call coverage by contracting with or employing hospitalists. Hospitalists are doctors whose primary professional focus is the practice of hospital medicine. They help manage patients throughout the continuum of hospital care, often seeing patients in the emergency room, and admitting them to inpatient wards. However, the lack of specialty physician availability on the neighbor islands described above has caused HHSC to pay certain of its physicians to provide on-call coverage for the emergency room. HHSC's cost for hospitalist/on-call coverage was $1.5 million in fiscal year 2006, $5.3 million in fiscal year 2007, and is expected to be $11.2 million in fiscal year 2008.

Fourth, HHSC inherited aging facilities upon the formation of the Corporation in 1996. These aging facilities require substantial improvements and maintenance before they can be brought up to par with other health care facilities in the State of Hawaii. While the State of Hawaii has provided annual funding for capital improvement projects, that funding has been primarily used to correct life-safety code concerns. Funding for medical equipment, application systems, and routine repair and maintenance must be funded from HHSC's operational cash flow. Given HHSC's payor mix and cost burdens, HHSC's operational cash flows are inadequate to fully fund the capital acquisitions that are necessary to keep up with the advances in health care technology that allow hospitals to improve the quality of care for their patients. Management has identified over $831 million in capital improvement projects that need to be funded in the next ten years in order to have HHSC's facilities continue to deliver quality care to its patients.

Fifth, in the 2004 State of Hawaii Legislative Session, the Legislature passed, and the Governor signed into law, HB 2136, which effectively removed exemptions from HRS 103(d) (the "State procurement code") for many state agencies (including HHSC) effective January 1, 2005. The State procurement code required that for purchases greater than $25,000, competitive sealed bids must be solicited, with the award of the contract made to the lowest responsive and responsible offeror. For purchases less than $25,000, the State procurement code required that the State agency obtain no less than three price quotes, with the award of the contract made to the most advantageous quotation. Any exceptions to these regulations must be approved by the Chief Procurement Officer for that agency. Under Act 262, HHSC was granted the ability to develop its own internal policies and procedures for the procurement of goods and services, consistent with the goals of public accountability and public procurement practices, but not subject to HRS 103(d). In fact, prior to the formation of HHSC, the state hospitals under the Division of Community Hospitals were excluded from HRS 103(d) competitive procurement provisions, so that the hospitals could have the autonomy to procure goods and services in a setting where timeliness is crucial to the provision of quality health care to patients.

During the 2006 Legislative Session, the State of Hawaii Legislature passed S.B. 2898, S.D.2, H.D.2, C.D.1, designating the chief executive officer of HHSC as its chief procurement officer. This bill also amended HRS 103(d) by raising the small purchase threshold from $25,000 to $50,000. Even with the designation of chief procurement officer authority, HHSC has incurred significant costs in its attempt to comply with the provisions of HRS 103(d). The most troubling cost is in the area of delayed medical care due to the delay in obtaining needed medical equipment. This results in more pain for the patient and the likelihood of a detrimental outcome increases. Another cost is that the medical staffs at HHSC's hospitals are upset about the implementation of the code. These physicians are being forced to spend an inordinate amount of time justifying the purchase of a specific piece of essential medical equipment on a piece-by-piece basis, which is time that could better be spent providing care to their patients. Given the shortage of certain physician specialists on the neighbor islands, anything that would cause frustration to these physicians could result in a loss of certain specialty care in neighbor island communities should these physicians choose to leave. The medical staffs are also upset that preferences of a surgeon in using particular brands of medical equipment require extensive justification under HRS 103(d). Further, the State Procurement Office is having a difficult time providing answers to questions and training to HHSC personnel due to their limited staff and the difficulty in reconciling the provisions of HRS 323(f) (the statute that delineates the powers and governance of HHSC) and HRS 103(d). Finally, HHSC has incurred costs in increasing procurement/legal staff to handle the increased workload of complying with the requirements of HRS 103(d), as well as the cost of increased employee time to handle the increased paperwork and number of requests for proposal (RFPs) that are required under the code. An exemption was granted to the regions within HHSC as a result of Act 290, which is discussed more later on in this report.

In the 2007 Legislative Session, two acts were passed that will have a significant effect on how HHSC operates as a healthcare system in the future. Act 113, H.B. 843, which became effective May 31, 2007, amends Hawaii Revised Statutes 323F to allow for the assimilation of Kahuku Hospital into HHSC in a manner and to an extent that may be negotiated between Kahuku Hospital and HHSC. Kahuku Hospital is a 25-bed critical access hospital that provides acute, long-term care, and emergency room services to the North Shore residents on the island of Oahu. Further details on the assimilation can be found in Note 16 to the consolidated financial statements. Management believes that the assimilation of Kahuku Hospital is in line with HHSC's safety-net mission to provide important healthcare services in Hawaii's rural communities.

Act 290, S.B. 1792, which became effective July 1, 2007, requires the establishment of a 7 to 15-member regional system board of directors for each of the 5 regions of the HHSC system. Further details on the establishment of the regional boards and the impact on the HHSC board of directors can be found in Note 16 to the consolidated financial statements. Management believes that this Act significantly changes the structure and operations of HHSC since its inception in 1997, and that the new governance model will enhance the ability of HHSC's five regions to respond to the healthcare needs of their communities.

As this reorganization effort will require extensive coordination and support, management has selected The Governance Institute (TGI), a national leading governance development firm, to guide this unprecedented effort. TGI will educate board members on the fundamentals of board development as well as methods for creating strong working relationships between the regional boards, and facilitate extensive discussions on delineating the major roles and responsibilities of the regional and system boards. In addition, TGI will provide a two-year guidance program for the new boards, including extensive development support, materials and educational programs. Although there will continue to be operational challenges to resolve as the regional boards begin to assume governance over the HHSC regions, management is excited about this opportunity to transition to a stronger community-based governance model.

Finally, HHSC is a significant provider of health care for the State of Hawaii. For fiscal year 2006, HHSC's facilities accounted for 19.23% of all acute care discharges in the State of Hawaii. HHSC's facilities discharged more acute care patients during that time period than most of the acute care hospitals on Oahu. Also, HHSC is the sole source of health care for several isolated neighbor island communities (e.g. Ka'u, Kohala, Lanai, etc.). Further, MMMC is the primary acute care facility on the island of Maui, and HMC and Kona Community Hospital are the only acute care facilities with more than 50 acute beds on the island of Hawaii. In large part because of HHSC's facilities in Maui, 84.17% of Maui County residents received their care in Maui instead of having to fly to Oahu to receive care. The same can be said for residents of the county of Hawaii, as 66.58% of all residents in the county of Hawaii received medical services from HHSC's five facilities on the island of Hawaii. In addition, Leahi Hospital functions as the primary tuberculosis hospital for the State of Hawaii. Also, HHSC's long-term care facilities provide the primary source of long-term care services for elderly people who cannot afford private care or nursing homes and do not have family that can care for them. Given all of the above, management believes that HHSC has a vital role in ensuring that the people of the State of Hawaii have access to quality health care.

HAWAII HEALTH SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

ASSETS	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents:		
On deposit with the State of Hawaii	$ 12,008,539	$ 11,171,229
On deposit with banks and on hand (Note 3)	14,315,259	16,317,741
Patient accounts receivable, less allowances of $97,310,824 and $75,777,177 for contractual adjustments and doubtful accounts	62,009,527	53,705,809
Due from Medicaid for Act 294	4,912,000	5,100,601
Federal grants receivable	2,243,901	
Supplies and other current assets	12,813,812	10,390,416
Total current assets	108,303,038	96,685,796
CAPITAL ASSETS — Net (Notes 4, 7, 8, and 13)	253,157,203	221,454,648
ASSETS LIMITED AS TO USE	4,308,834	872,233
OTHER ASSETS (Notes 8 and 11)	3,556,987	3,030,783
TOTAL	$369,326,062	$322,043,460

(Continued)

HAWAII HEALTH SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

LIABILITIES AND NET ASSETS	2007	2006
CURRENT LIABILITIES:		
Accounts payable and accrued expenses (Note 11)	$ 59,067,339	$ 39,825,747
Accrued workers' compensation liability (Note 14)	19,020,204	19,274,950
Current portion of capital lease obligations (Note 7)	7,179,538	8,105,845
Current portion of accrued vacation (Note 7)	10,684,661	9,645,674
Current portion of long-term debt (Note 8)	838,748	699,070
Other current liabilities	880,061	605,314
Estimated third-party payor settlements (Note 6)	1,101,994	4,588,213
Advance from the State of Hawaii (Note 5)	10,000,000	
Total current liabilities	108,772,545	82,744,813
CAPITAL LEASE OBLIGATIONS — Less current portion (Note 7)	35,091,398	32,254,903
LONG-TERM DEBT — Less current portion (Note 8)	10,774,103	10,880,541
ACCRUED VACATION — Less current portion (Note 7)	20,578,812	18,577,707
DUE TO AFFILIATES — Net		
DUE TO THE STATE OF HAWAII (Note 5)	34,122,507	34,122,507
PATIENTS' SAFEKEEPING DEPOSITS AND DEFERRED INCOME — Restricted contributions	395,211	378,788
OTHER LIABILITIES	307,594	324,136
Total liabilities	210,042,170	179,283,395
NET ASSETS:		
Invested in capital assets — net of related debt	197,794,179	169,665,927
Restrictions — primarily for capital acquisitions (Note 12)	2,861,656	493,445
Unrestricted (Note 3)	(41,371,943)	(27,399,307)
Total net assets	159,283,892	142,760,065
TOTAL	$369,326,062	$322,043,460

See notes to consolidated financial statements.

(Concluded)

HAWAII HEALTH SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Net patient service revenues (net of contractual adjustments and provision for doubtful accounts of $403,470,168 and $320,954,755) (Note 9)	$ 361,761,910	$ 347,877,556
Other operating revenues	5,639,518	4,894,582
Total operating revenues	367,401,428	352,772,138
OPERATING EXPENSES:		
Salaries and benefits (Notes 9 and 10)	269,255,418	234,888,851
Purchased services (Notes 9 and 11)	50,789,110	43,644,893
Medical supplies and drugs	42,635,195	41,746,921
Depreciation and amortization	18,919,920	18,483,895
Other supplies	15,535,820	15,013,966
Repairs and maintenance	10,277,258	7,084,445
Utilities	9,607,844	8,733,781
Professional fees	6,228,098	4,055,419
Insurance	6,136,486	6,146,134
Rent and lease	5,458,805	4,520,138
Other (Note 14)	3,902,315	6,830,188
Total operating expenses	438,746,269	391,148,631
LOSS FROM OPERATIONS	(71,344,841)	(38,376,493)
NONOPERATING REVENUES (EXPENSES):		
General appropriations from State of Hawaii	34,154,041	32,280,041
Collective bargaining pay raise appropriation from State of Hawaii	14,585,780	5,474,356
Noncapital restricted contributions (Note 12)	369,194	260,421
Interest and dividend income	878,277	539,539
Interest expense (net of capitalized interest) (Notes 7 and 8)	(2,236,023)	(2,355,317)
Other nonoperating revenues — net (Notes 9 and 11)	1,402,118	1,582,367
Total nonoperating revenues (expenses)	49,153,387	37,781,407
LOSS BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(22,191,454)	(595,086)
CAPITAL GRANTS AND CONTRIBUTIONS (Notes 4 and 13)	38,715,281	26,115,844
INCREASE IN NET ASSETS	16,523,827	25,520,758
NET ASSETS — Beginning of year	142,760,065	117,239,307
NET ASSETS — End of year	$ 159,283,892	$ 142,760,065

See notes to consolidated financial statements.

HAWAII HEALTH SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES:		
Receipts from government, insurance, and patients	$ 350,160,574	$ 347,976,991
Payments to employees	(264,122,172)	(235,762,109)
Payments to suppliers and others	(136,656,187)	(133,378,977)
Other receipts — net	5,639,518	4,894,582
Net cash used in operating activities	(44,978,267)	(16,269,513)
NONCAPITAL FINANCING ACTIVITIES:		
Appropriations from State of Hawaii	48,739,821	37,754,397
Advances from the State of Hawaii	10,000,000	
Other nonoperating revenues — net	2,213,648	1,664,197
Net cash provided by noncapital financing activities	60,953,469	39,418,594
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Repayments on capital lease obligations	(8,260,533)	(8,068,835)
Capital expenditures	(20,061,682)	(5,322,474)
Payments on long-term debt	(724,760)	(650,995)
Interest on capital lease obligations and long-term debt	(2,236,023)	(2,355,317)
Proceeds from sale of capital assets		150
Additions to long-term debt	758,000	
Proceeds from federal grants	15,347,990	
Net cash used in capital and related financing activities	(15,177,008)	(16,397,471)
INVESTING ACTIVITIES:		
Distributions received from the Clinical Laboratories of Hawaii partnership	146,884	183,600
Purchase of investments and amounts held in escrow	(2,110,250)	
Net cash provided by (used in) investing activities	(1,963,366)	183,600
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,165,172)	6,935,210
CASH AND CASH EQUIVALENTS — Beginning of year	27,488,970	20,553,760
CASH AND CASH EQUIVALENTS — End of year	$ 26,323,798	$ 27,488,970

(Continued)

HAWAII HEALTH SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES:		
Loss from operations	$ (71,344,841)	$ (38,376,493)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Provision for doubtful accounts	31,247,900	21,173,044
Depreciation and amortization	18,919,920	18,483,895
Amounts released from restrictions	397,763	860,292
Change in operating assets and liabilities:		
Patient accounts receivable and amounts due from Medicaid for Act 294	(39,363,017)	(29,636,517)
Supplies and other assets	(2,390,541)	(1,481,657)
Assets limited as to use		
Accounts payable, accrued expenses, and other liabilities	18,255,422	7,238,372
Accrued workers' compensation liability	(254,746)	(6,008,013)
Estimated third-party payor settlements	(3,486,219)	8,562,908
Accrued vacation	3,040,092	2,914,656
NET CASH USED IN OPERATING ACTIVITIES	$ (44,978,267)	$ (16,269,513)
SUPPLEMENTAL CASH FLOW INFORMATION —		
Interest paid, primarily on capital lease obligations	$ 2,263,023	$ 2,355,317
NONCASH FINANCING AND INVESTING ACTIVITIES:		
• Capital assets acquired under capital leases	10,170,721	13,339,332
• Capital assets contributed by State of Hawaii	19,628,153	26,115,844
• Restricted cash and accrued federal government contributions	3,739,138	
• Capital asset purchases included in accounts payable	1,545,921	301,544
• Contribution of capital assets	54,091	24,736
• Capital assets acquired with restricted assets (Note 12)	156,739	209,221
• Rental income contributed to and equity in earnings of the Clinical Laboratories of Hawaii partnership	751,776	984,727
• Capital assets transferred from other noncurrent assets		25,000

See notes to consolidated financial statements.

(Concluded)

1. ORGANIZATION

Hawaii Health Systems Corporation (HHSC) is a public body corporate and politic and an instrumentality and agency of the State of Hawaii ("State"). HHSC is managed by a chief executive officer under the control of a 13-member board of directors.

In June 1996, the Legislature of the State passed Act 262, S.B. 2522. The Act, 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

West Hawaii Region:
- Kona Community Hospital
- Kohala Hospital

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

Oahu Region:
- Leahi Hospital
- Maluhia

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

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 consolidated 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, 2007. Accordingly, the assets, liabilities, and net assets of HHSC reflected in the accompanying consolidated statements of net assets may be significantly different from those eventually included in the final settlement.

During 2007 and 2006, HHSC had losses from operations of approximately $71 million and $38 million, respectively. Management believes that maintaining the current levels of service that HHSC provides would require continued funding by the State.

The consolidated financial statements are being presented for HHSC, Hawaii Health Systems Foundation (HHSF), and Alii Community Care, Inc. ("Alii"). 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 health care facilities in the State.

See Note 16 for a description of (1) Act 290, which restructures the HHSC governing board system and (2) Act 113, which assimilates the operations of Kahuku Hospital into HHSC.

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.

HHSC's financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Organizations*. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, HHSC has elected not to apply the provisions of relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — Cash and cash equivalents include short-term investments with original maturities of three months or less. It also includes amounts held in the State Treasury. The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury ("cash pool"). HHSC's portion of this cash pool at June 30, 2007 and 2006, is indicated in the accompanying consolidated statements of net assets as "Cash and cash equivalents on deposit with the State of Hawaii." The Hawaii Revised Statutes authorize the Director of Finance to invest in obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with State statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

HHSC has cash in financial institutions that is in excess of available depository insurance coverage. The amount of uninsured and uncollateralized deposits totaled approximately $19,433,473 and $18,224,319 at June 30, 2007 and 2006, respectively. 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 may not be returned to it.

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 are 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
Major moveable equipment	10–20 years
Fixed equipment	3–15 years

Gains or losses on the sale of capital assets are reflected in other non-operating revenues. 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 assets accounts and are reflected as revenue below the non-operating revenues category on the consolidated statement of revenues, expenses, and changes in net assets.

Assets Limited as to Use — Assets limited as to use are restricted net assets, patients' safekeeping deposits, and restricted deferred contributions. Such restrictions have been externally imposed by contributors. Restricted resources are applied before unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets 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, 2007, assets limited as to use consisted of restricted cash of $3,698,584 and an escrow fund receivable from a municipal leasing company of $610,250. At June 30, 2006, the entire balance of assets limited as to use consisted of restricted cash.

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.

Operating Revenues and Expenses — HHSC has defined its operating revenues and expenses as those relating to the provision of health care services. Those revenues and expenses relating to capital and related financing activities, noncapital financing activities, and investing activities are excluded from that definition.

Net Patient Service Revenues — Net patient service revenues are recorded on an accrual basis in the period in which the related services are provided at established rates, less contractual adjustments, 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 years ended June 30, 2007 and 2006, was $2,211,583 and $2,575,220, respectively.

HHSC has agreements with third-party payors that provide for payments at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The adjustments to the final settlements did not have a significant impact on the fiscal year 2007 and 2006 financial statements.

The estimated third-party payor settlement payable of $1,101,994 and $4,588,213 as of June 30, 2007 and 2006, respectively, 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.

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, which are due to the Medicare fiscal intermediaries five months after the fiscal year-end. Medicare cost reports for the majority of the HHSC facilities have been audited by the Medicare fiscal intermediary through fiscal year 2006.

- *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 (RUG) classification system calculated from the Minimum Data Set (MDS) 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.

  Net patient revenue for 2007 and 2006 include approximately $4,900,000 and $5,100,000, respectively, of adjustments to Medicaid payments made by the State to mitigate the impact of Act 294 on HHSC's long-term care facilities.

- *Critical Access Hospitals* — HHSC has seven facilities (Hale Hoʻola Hamakua, Kauai Veterans Memorial Hospital, Ka'u Hospital, Kohala Hospital, Kula Hospital, Lanai Community Hospital, and Samuel Mahelona Memorial Hospital) that are designated as critical access hospitals (CAH) by the Center 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 health care facility, or 3) be certified by the State as being a necessary provider of health care 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 Hospitals* — HHSC has three facilities (Hilo Medical Center, Kona Community Hospital, and Maui Memorial Medical Center) that are designated as sole community hospitals (SCH) 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.

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

Bond Interest — HHSC reports as non-operating expense the interest paid by the State for general obligation bonds whose proceeds were used for hospital construction. A corresponding contribution from the State is also reported as non-operating revenues, resulting in no significant effect in the financial statements. The bonds are obligations of the State, to be paid by the State's general fund, and are not reported as liabilities of HHSC. For the years ended June 30, 2007 and 2006, the amount of bond interest allocated to HHSC was approximately $5,329,000 and $4,414,000, respectively.

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 14.

Concentration of Credit Risk — Patient accounts receivable consists of amounts due from insurance companies and patients for services rendered by facilities. The facilities grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables from patients and third-party payors at June 30, 2007 and 2006, was as follows:

	2007	2006
Medicare	15 %	15 %
Medicaid	21	20
HMSA	12	14
Other third-party payors	22	25
Patients and other	30	26
	100 %	100 %

Reclassifications — Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation. In addition, losses on disposal of capital assets have been reclassified from capital financing activities to noncapital financing activities in the statement of cash flows for the year ended June 30, 2006, consistent with the presentation for the year ended June 30, 2007. The effect of this reclassification was to increase net cash used in capital and related financing activities, and decrease net cash used in noncapital financing activities by $551,756.

New Accounting Pronouncements — The following accounting pronouncements will become effective after June 30, 2007:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* — This statement establishes standards for the measurement, recognition, and display of other postemployment expense and related liabilities, note disclosures, and if applicable, required supplementary information in the financial reports of state and local government employers. The statement will become effective for periods beginning after December 15, 2006. Management is studying the effects that the statement may have on HHSC's financial statements.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* — This statement establishes criteria that governments will use to ascertain whether proceeds received from the exchange of their interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments should be reported as revenue or a liability. The statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The statement will become effective for periods beginning after December 15, 2006. Management is studying the effects that the statement may have on HHSC's financial statements.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* — This statement addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. Pollution remediation outlays should be capitalized only if the outlays incurred meet four specific criteria; otherwise they should be expensed. The statement will become effective for periods beginning after December 15, 2007. Management is studying the effects that the statement may have on HHSC's financial statements.

GASB Statement No. 50, *Pension Disclosures* — This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The reporting changes required by this statement amend applicable note disclosures and required supplementary information requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of GASB Statements No. 43, *Financial Reporting for Postemployement Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployement Benefits Other Than Pensions*. The statement will become effective for periods beginning after June 15, 2007. Management is studying the effects that the statement may have on HHSC's financial statements.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* — This statement establishes accounting and financial reporting requirements for intangible assets. The statement requires that all intangible assets not specifically excluded by the statement be classified as capital assets. The statement will become effective for periods beginning after June 15, 2009. Management is studying the effects that the statement may have on HHSC's financial statements.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* — This statement establishes standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. The statement will become effective for periods beginning after June 15, 2008. Management is studying the effects that the statement may have on HHSC's financial statements.

3. BOARD-DESIGNATED FUNDS

As of June 30, 2007 and 2006, HHSC's Board of Directors had designated cash reserves as follows:

For capital equipment acquisitions and/or equity investments for growth initiatives	$5,000
For settlement and extinguishment of residual workers' compensation claims	500
Total	$5,500

During the years ended June 30, 2007 and 2006, HHSC's Board of Directors did not release any of the designated cash reserves for use in operations.

The designated funds are included in cash on deposit with banks.

4. CAPITAL ASSETS

Transactions in the capital assets accounts for the years ended June 30, 2007 and 2006, were as follows:

2007	Beginning of Year	Additions	Retirements	Transfers	End of Year
Assets not subject to depreciation:					
Land and land improvements	$ 5,180,572	$ 361,627	$ -	$ 1,378,097	$ 6,920,296
Construction in progress	63,085,041	41,722,741	(198,184)	(62,221,832)	42,387,766
Assets subject to depreciation:					
Buildings and improvements	221,899,300	719,151	(487,289)	57,393,818	279,524,980
Major moveable equipment	84,255,477	8,333,836	(2,337,713)	3,171,491	93,423,091
Fixed equipment	36,802,006	147,259	(634,516)	278,426	36,593,175
	411,222,396	51,284,614	(3,657,702)	-	458,849,308
Less accumulated depreciation and amortization	(189,767,748)	(18,842,938)	2,918,581		(205,692,105)
Capital assets — net	$ 221,454,648	$ 32,441,676	$ (739,121)	$ -	$ 253,157,203

2006	Beginning of Year	Additions	Retirements	Transfers	End of Year
Assets not subject to depreciation:					
Land and land improvements	$ 5,180,572	$ -	$ -	$ -	$ 5,180,572
Construction in progress	30,385,291	37,868,620		(5,168,870)	63,085,041
Assets subject to depreciation:					
Buildings and improvements	216,954,326	838,620	(383,809)	4,490,163	221,899,300
Major moveable equipment	79,429,038	5,755,287	(2,152,755)	1,223,907	84,255,477
Fixed equipment	43,239,553	216,533	(6,108,880)	(545,200)	36,802,006
	375,188,780	44,679,060	(8,645,444)	-	411,222,396
Less accumulated depreciation and amortization	(179,395,725)	(18,465,561)	8,093,538		(189,767,748)
Capital assets — net	$ 195,793,055	$ 26,213,499	$ (551,906)	$ -	$ 221,454,648

In 2007 and 2006, the State Department of Accounting and General Services transferred capital assets, including construction in progress, aggregating $19,628,153 and $26,115,844, respectively, to HHSC as a contribution of capital.

During fiscal years 2007 and 2006, $19,243,867 and $209,221, respectively, of capital assets were purchased with funds contributed by the federal government and outside organizations.

5. ADVANCE FROM THE STATE OF HAWAII

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2007, HHSC did not have the ability, and thus does not intend to repay the advance. Furthermore, management does not expect the State to demand payment of the advance in fiscal year 2008. Accordingly, the advance is classified as a noncurrent liability at June 30, 2007, consistent with fiscal year 2006. The amount due to the State of $34,122,507 at June 30, 2007 and 2006, consists of the $14,000,000 previously described, plus $20,122,507 of cash advances to the Department of Health – Division of Community Hospitals, which was assumed by HHSC at the date of its formation.

In 2007, HHSC received a $10,000,000 advance from the State which was repaid in July 2007.

6. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

The estimated amounts due to government reimbursement programs at June 30, 2007 and 2006, consisted of the following:

	2007	2006
Cost Reports:		
Medicare	$ 1,358,736	$1,129,946
Medicaid	(2,620,625)	(294,400)
HMSA 65 C Plus	(221,484)	522,625
Medicaid dual eligible claims	2,585,367	3,230,042
Total	$ 1,101,994	$4,588,213

7. LONG-TERM LIABILITIES

Among HHSC's long-term liabilities include accrued vacation and capital lease obligations. Transactions for these accounts during the years ended June 30, 2007 and 2006, were as follows:

2007	Beginning of Year	Additions	Reductions	End of Year	Current Portion	Noncurrent Portion
Accrued vacation	$28,223,381	$19,214,881	$ (16,174,789)	$31,263,473	$10,684,661	$20,578,812
Capital lease obligations	40,360,748	10,170,721	(8,260,533)	42,270,936	7,179,538	35,091,398
2006						
Accrued vacation	$25,308,725	$ 4,586,009	$ (1,671,353)	$28,223,381	$ 9,645,674	$18,577,707
Capital lease obligations	35,090,251	13,339,332	(8,068,835)	40,360,748	8,105,845	32,254,903

Future capital lease payments were as follows:

Years Ended June 30	
2008	$ 9,853,558
2009	8,880,946
2010	7,754,053
2011	7,101,719
2012	4,570,594
2013-2017	12,576,468
2018-2021	2,528,360
Total future minimum payments	53,265,698
Less amount representing interest	(10,994,762)
Total capital lease obligations	42,270,936
Current portion	(7,179,538)
Noncurrent portion	$ 35,091,398

HHSC entered into capital leases on behalf of the facilities. The capital lease obligation is recorded in HHSC-Corporate's ("Corporate") accounting records. While the assets are being constructed, the amounts are recorded as construction in progress in the accounting records of either Corporate or the facilities. Corporate makes the capital lease payments and incurs the interest expense, while the facilities record depreciation on the capital asset. Corporate also computes capitalized interest on construction in progress and transfers the capitalized interest asset to the facilities. The facilities reimburse Corporate through the due from affiliates account. For the years ended June 30, 2007 and 2006, interest capitalized was approximately $1,239,000 and $1,279,000, respectively.

8. LONG-TERM DEBT

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.

Maui Memorial Medical Center Nurses' Cottages — During fiscal year 2003, HHSC acquired buildings for $1,690,900 on behalf of Maui Memorial Medical Center (MMMC) for use in its operations. During fiscal year 2003, Corporate transferred the buildings to MMMC, but retained the loan payable in its accounting records. The loan payable is collateralized by a security interest in the capital assets acquired.

Kauai Veterans Memorial Hospital Clinic — During fiscal year 2005, Kauai Veterans Memorial Hospital (KVMH), purchased certain assets of a clinic operated by certain physicians for $360,000. The assets purchased included office equipment, supplies, a trademark/service mark, and non-compete agreements for two physicians. No existing liabilities of the clinic were assumed. Since the purchase price exceeded the estimated fair value of the purchased assets, goodwill of $243,000 was recorded, and is being amortized over 40 years. The non-compete agreements were valued at $55,000 and are being amortized over the three-year period of the agreements. The goodwill and non-compete agreements are included in other assets. In connection with the purchase, HHSC paid cash of $108,000 and signed two promissory notes to the former clinic owners totaling $252,000.

Term Loan — In August 2006, HHSC Corporate entered into a term loan for $758,000 to pay for the planning and design of a new surgery area and modifications of the existing surgery room at KVMH. The original term loan required monthly payments of interest at LIBOR plus 3%, and the principal balance was initially due on August 2007, but was extended in August 2007 to August 2009. The new terms require $31,583 in monthly principal payments, plus interest.

Long-term debt as of June 30, 2007 and 2006, consisted of the following:

	2007	2006
Loan payable to Central Pacific Bank; $9,500,000; interest at 5.75% (interest at weekly average of 5-year U.S. Treasury Securities rate plus 250 basis points); monthly principal and interest payments of $57,015; due December 1, 2027	$ 8,199,062	$ 8,423,972
Loan payable to Central Pacific Bank; $319,000; interest at 5.88% (interest at weekly average of 3-year U.S. Treasury Securities rate plus 275 basis points); monthly principal and interest payments of $3,500; due June 8, 2007		161,951
Note payable to United States Department of Agriculture (USDA); $1,250,000; interest at 4.75%; monthly principal and interest payments of $6,188; due June 24, 2034	976,686	1,003,357
Note payable to USDA; $1,000,000; interest at 4.75%; monthly principal and interest payments of $8,170; due August 13, 2014	530,371	648,765
Loan payable to Academic Capital; $1,690,900; interest at 6.3%; monthly principal and interest payments of $19,028; due November 4, 2012	1,032,048	1,189,928
Notes payable to two individuals; $252,000; interest at 5% monthly principal and interest payments of $22,745; due January 1, 2008	116,684	151,638
Term loan to AIG Commercial Equip. Finance, Inc.; $758,000; interest at 8.43% (LIBOR plus 3%); monthly principal payments of $31,583; due August 1, 2009	758,000	
Total	11,612,851	11,579,611
Less current portion	(838,748)	(699,070)
Noncurrent portion	$10,774,103	$10,880,541

Transactions in long-term debt during the years ended June 30, 2007 and 2006, were as follows:

	Beginning of Year	Additions	Reductions	End of Year
2007				
Long-term debt	$ 11,579,611	$ 758,000	$ (724,760)	$ 11,612,851
2006				
Long-term debt	$ 12,230,606	$ -	$ (650,995)	$ 11,579,611

Maturities of long-term debt are as follows:

Years Ending June 30	Principal	Interest	Total
2008	$ 838,748	$ 600,700	$ 1,439,448
2009	874,817	570,626	1,445,443
2010	602,239	539,548	1,141,787
2011	556,364	508,395	1,064,759
2012	589,381	475,379	1,064,760
2013-2017	1,994,273	1,996,934	3,991,207
2018-2022	2,322,596	1,414,475	3,737,071
2023-2027	3,083,657	653,414	3,737,071
2028-2032	595,399	67,237	662,636
2033-2034	155,377	6,143	161,520
Total	$11,612,851	$6,832,851	$18,445,702

9. FACILITY-BASED TECHNICAL SERVICE AGREEMENTS

HHSC has facility-based technical service agreements relating to certain ancillary services. These arrangements are generally related to administrative services, clinical personnel, space rental, and clinical services. Reimbursement arrangements vary by contractor and range from fixed amounts per month to 100% reimbursements of charges. Amounts charged by the contractors are included in operating expenses in purchased services and aggregated approximately $18,095,000 and $16,795,000 (excluding Clinical Laboratories of Hawaii partnership fees of approximately $14,511,000 and $12,724,000 as disclosed in Note 11) during fiscal years 2007 and 2006, respectively.

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

HHSC charges the contractors for use of the premises, supplies, and laundry. These amounts are included in other non-operating revenues and aggregated approximately $1,156,000 and $1,070,000 during fiscal years 2007 and 2006, respectively. In addition, HHSC charges the contractors for the use of clinical personnel employed in the facilities. These amounts are netted against salaries and benefits expense and totaled approximately $ 854,000 and $848,000 during fiscal years 2007 and 2006, respectively.

10. EMPLOYEE BENEFITS

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

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

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% of their salary to this plan. Further, 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% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan.

HHSC's contribution to the ERS for the years ended June 30, 2007, 2006 and 2005, was approximately $26,103,000, $22,973,000, and $14,126,000 respectively, equal to the required contribution.

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

Post-Retirement Health Care and Life Insurance Benefits — In addition to providing pension benefits, the State provides certain health care (medical, prescription drug, vision, and dental) and life insurance benefits to all qualified employees and their dependents. Pursuant to HRS Chapter 87A, on July 1, 2003, the Hawaii Employer-Union Health Benefits Trust Fund was established as the State agency to provide such benefits.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of services, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

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.

Contributions are financed on a pay-as-you-go basis. HHSC's post-retirement benefits expense approximated $13,483,000 and $11,179,000 for the years ended June 30, 2007 and 2006, respectively.

Sick Leave — Accumulated sick leave as of June 30, 2007 and 2006, was approximately $ 54,858,330 and $50,105,000, respectively. 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 consolidated financial statements.

11. CLINICAL LABORATORIES OF HAWAII PARTNERSHIP

On May 1, 2002, HHSC entered into a Partnership Agreement with Clinical Laboratories of Hawaii, Inc., St. Francis Healthcare Enterprises, Inc., and Kapiolani Service Corporation to form Clinical Laboratories of Hawaii, LLP ("Partnership"). The primary purpose of the Partnership is to provide clinical laboratory services within the State of Hawaii. On June 1, 2002, HHSC contributed the use of the laboratory space and related ancillary services in seven of its facilities (Hilo Medical Center, Kona Community Hospital, MMMC, Hale Ho'ola Hamakua, Ka'u Hospital, Kohala Hospital, and Kula Hospital) in exchange for a less than controlling interest in the Partnership. Ordinary distributions from the Partnership are to be made at least annually from the Partnership's "Available Cash" (as defined in the Partnership Agreement). In fiscal years 2007 and 2006, HHSC received partnership distributions of $146,884 and $183,600, respectively.

HHSC's investment in the Partnership and related contribution of laboratory space and ancillary services are being recorded over the life of the Partnership Agreement. The contributed space and services recognized in fiscal year 2007 and 2006 amounted to $751,776 and $984,727, respectively, and the investment balance as of June 30, 2007 and 2006, was $ 3,365,175 and $2,760,283, respectively. The contributed space and services are included in other non-operating revenues in the consolidated statements of revenues, expenses and changes in net assets, and the investment balance is included in other assets in the consolidated statements of net assets.

In addition, HHSC charges the Partnership for the use of clinical personnel employed in the facilities, and certain routine tests referred to a facility's laboratory by the Partnership. Amounts billed to the Partnership totaled approximately $1,815,000 and $1,706,000 during fiscal years 2007 and 2006, respectively. Amounts due from the Partnership for such charges aggregated approximately $571,000 and $522,000 as of June 30, 2007 and 2006, respectively.

HHSC contracts with the Partnership to provide clinical laboratory and pathology services at its facilities. Amounts charged by the Partnership aggregated approximately $14,511,000 and $12,724,000 during fiscal years 2007 and 2006, respectively. Amounts due to the Partnership aggregated approximately $8,865,000, and $3,388,000 as of June 30, 2007 and 2006, respectively.

KVMH and Samuel Mahelona Memorial Hospital contract with the Partnership to provide various services, but did not contribute the use of laboratory space and ancillary services to the Partnership. Amounts charged by the Partnership were approximately $150,000 and $93,000 during fiscal years 2007 and 2006, respectively. In addition, the Partnership contracts with KVMH to perform certain routine tests referred to the KVMH laboratory by the Partnership. Amounts billed to the Partnership were approximately $81,000 and $79,000 during fiscal years 2007 and 2006, respectively. There were no amounts due from or due to the Partnership as of June 30, 2007 and 2006.

12. TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets for the years ended June 30, 2007 and 2006, were as follows:

	2007	2006
Balance — beginning of year	$ 493,445	$ 1,302,537
Restricted contributions received	19,456,322	260,421
Restricted cash ·		
Expenditures for restricted purposes	(397,763)	(860,292)
Capital assets purchased	(16,690,348)	(209,221)
Balance — end of year	$ 2,861,656	$ 493,445

13. VETERANS HOME

In fiscal years 2007 and 2006, HHSC received $4,337,353 and $3,392,928, respectively, from the State for construction of the new veterans' long-term care facility. At June 30, 2007, $26,151,230 had been expended for planning, design, and construction costs and is included in construction in progress in the consolidated statements of net assets.

In fiscal year 2007, HHSC recorded $19,087,128 in contributions from the Department of Veterans Affairs for construction of the facility.

14. COMMITMENTS AND CONTINGENCIES

Professional Liability — HHSC maintains professional and general liability insurance with a private insurance carrier with a $20 million limit per claim. HHSC's General Counsel advises that, in the unlikely event any judgments rendered against HHSC exceed HHSC's professional liability coverage, such amount would likely be paid from an appropriation from the State's general fund. Settled claims have not exceeded the overage 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's facilities also directly provide treatment for injured workers. The estimated liability is based on actuarial projections of costs using historical claims-paid data. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. HHSC accrued a liability of $19,020,204 and $19,274,950 for unpaid claims as of June 30, 2007 and 2006, respectively.

Corporate Integrity Agreement — In July 2007, Hilo Medical Center (HMC) and the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services entered into a settlement agreement and a corporate integrity agreement to resolve allegations of non-compliance with certain federal laws governing Hilo's financial arrangements with a physician. The corporate integrity agreement requires HMC to, among other things, maintain its existing compliance program and code of conduct; provide a variety of compliance trainings to its employees, contractors, and physicians; formalize procedures to ensure that each existing and new or renewed arrangements with physicians and other health care providers are in compliance with the federal laws; and retain an Independent Review Organization to conduct periodic reviews of its compliance with the requirements of the agreement. The amount of the settlement of $774,542 was paid in June 2007 (reflected as other operating expenses in the statement of revenues, expenses, and changes in net assets).

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 were made available to OHA from the pro rata 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 revenues 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.

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/non-ceded fraction of the parcel that generated the receipt, multiplying the receipt by the ceded/non-ceded fraction, and multiplying that result by 20%. 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, 2007, HHSC's share of public land trust payments to OHA approximated $57,000.

Litigation — HHSC is a party to various 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.

15. SIGNIFICANT EVENTS

October 15, 2006 Earthquake — On October 15, 2006, an earthquake with a magnitude of 6.7 occurred approximately 10 miles north-northwest of Kailua-Kona on the island of Hawaii. The earthquake and its subsequent aftershocks caused significant damage to the structure and fixtures at Kona Community Hospital and Hale Ho'ola Hamakua, with minor damage reported at Kohala Hospital, Kula Hospital, and MMMC. Total damages incurred and substantially expensed by HHSC as a result of the earthquake were approximately $1,825,000. Management expects that the majority of the costs of repairing the hospitals' facilities will be reimbursed to HHSC from a combination of proceeds from the State's property insurance policy and disaster relief assistance from the Federal Emergency Management Agency (FEMA). In September 2007, HHSC received $82,772 from FEMA through the State Department of Civil Defense for reimbursement of repairs made to HHSC's facilities.

16. SUBSEQUENT EVENTS

Act 290 – Regional System Board of Directors — In June 2007, the State Legislature passed Act 290, S.B. 1792. The Act, which became effective July 1, 2007, requires 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 is given custodial control and responsibility for management of the facilities and other assets in their respective regions. The Act requires that these regional boards be formed no later than January 1, 2008. The Act also restructures 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 exempts 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.

The Act appropriates $750,000 to pay for implementation of the new structure.

Purchase of Assisted Living Facility — In September 2007, Alii Community Care, Inc. ("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. Because of the settlement of the arbitration award, Alii adjusted the arbitration liability recorded at June 30, 2007, to $500,000.

Operating Lease Agreement – Hilo Medical Center — Effective July 1, 2007, Hilo Medical Center entered into a lease and related sublease agreement for a medical building. Future minimum lease payments and sublease receipts at July 1, 2007, were as follows:

Years Ending June 30	Lease Payments	Sublease Receipts
2008	$ 613,230	$ 181,981
2009	733,200	181,981
2010	733,200	181,981
2011	755,040	187,174
2012	776,880	192,580
2013-2017	3,884,400	
Total	$ 7,495,950	$ 925,697

Act 113 – Kahuku Hospital — In June 2007, the State Legislature passed Act 113, H.B. 843. The Act amends Hawaii Revised Statutes 323F to allow for the assimilation of Kahuku Hospital into HHSC in a manner and to an extent that may be negotiated between Kahuku Hospital and HHSC. The Act also specifies that none of the liabilities of Kahuku Hospital shall become the liabilities of HHSC, that HHSC may adjust the levels of services provided by Kahuku Hospital, and that the employees of Kahuku Hospital shall not be considered employees of the State. The Act appropriated $3,900,000 to pay for the costs of assimilating Kahuku Hospital into HHSC and to operate the facility.

From July 1, 2007 through March 13, 2008, HHSC operated Kahuku Hospital under a management agreement between the two parties. HHSC formed a nonprofit corporation, Kahuku Medical Center, to acquire the assets of Kahuku Hospital and to operate the facility. On March 14, 2008, the asset purchase was completed and the facility is now operating as Kahuku Medical Center.

Financing – Maui Memorial Medical Center — On January 7, 2008, Maui Memorial Medical Center received a non-binding commitment from a lender to obtain $11 million in financing for working capital needs, subject to certain conditions. In addition, the facility is also working with the lender to obtain additional financing for a heart, brain and vascular tower, and for other programs.

* * * * * *

HAWAII HEALTH SYSTEMS CORPORATION

SUPPLEMENTAL SCHEDULE OF RECONCILIATION OF CASH ON DEPOSIT WITH THE STATE OF HAWAII
JUNE 30, 2007

	Appropriation Symbol	
CASH ON DEPOSIT WITH THE STATE OF HAWAII:		
SPECIAL FUNDS:		
	S-07-373-H	$ 380,877
	S-07-312-H	736,292
	S-07-355-H	3,656,731
	S-07-365-H	557,862
	S-07-358-H	102,593
	S-07-371-H	625,354
	S-07-353-H	169,223
	S-93-359-H	2,818
	S-96-359-H	2,007
	S-97-359-H	3,556
	S-07-359-H	669,191
	S-07-350-H	2,821,666
	S-07-352-H	170,713
	S-07-351-H	254,364
	S-07-354-H	1,459,352
	S-94-396-H	8,673
	S-95-396-H	19,636
	S-96-396-H	9,039
	S-97-396-H	182
	S-98-396-H	1,687
	S-07-303-H	314,481
TRUST FUNDS:		
	T-04-923-H	4,129
	T-04-921-H	6,679
	T-04-918-H	1,273
TOTAL PER STATE		11,978,378
RECONCILING ITEMS		30,161
TOTAL PER HHSC		$ 12,008,539

(Continued)

HAWAII HEALTH SYSTEMS CORPORATION

SUPPLEMENTAL SCHEDULE OF RECONCILIATION OF CASH ON DEPOSIT WITH THE STATE OF HAWAII
JUNE 30, 2007

	Appropriation Symbol	
ASSETS LIMITED AS TO USE:		
PATIENT TRUST FUNDS:		
	T-07-365-H	$ 22,912
	T-06-915-H	12,763
	T-04-919-H	1,044
	T-07-925-H	102,650
	T-07-926-H	12,197
TOTAL PER STATE		151,566
RECONCILING ITEMS:		
Patients' safekeeping deposits held by financial institutions		256,188
Restricted assets held by financial institutions		3,292,473
Escrow fund receivable		610,250
Other		(1,643)
TOTAL PER HHSC		$4,308,834

(Concluded)

HAWAII HEALTH SYSTEMS CORPORATION

SUPPLEMENTAL COMBINING AND CONSOLIDATING STATEMENT OF NET ASSETS INFORMATION
JUNE 30, 2007

Facilities

ASSETS	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
CURRENT ASSETS:							
Cash and cash equivalents:							
On deposit with the State of Hawaii	$ 2,821,066	$ 255,637	$ 177,392	$ -	$ 1,459,352	$ 169,223	$ 3,656,731
On deposit with banks on hand	305,685	11,616	45,152		168,334	37,650	87,493
Patient accounts receivable — less allowances for contractual adjustments and doubtful accounts	14,016,134	513,986	585,431		7,131,128	674,828	26,462,574
Due from Medicaid for Act 294	642,000	381,000			847,000		
Federal grant receivable				2,243,901			
Supplies and other current assets	2,509,953	112,539	35,448		2,264,146	41,679	4,604,773
Total current assets	20,295,438	1,274,778	843,423	2,243,901	11,869,960	923,380	34,811,571
UE FROM AFFILIATES — Net							
APITAL ASSETS — Net	39,439,166	13,342,781	1,127,658	26,178,892	26,782,408	1,855,968	101,436,071
SSETS LIMITED AS TO USE	37,179	17,031	5,378	1,495,237	67,259	5,137	123,913
ESTRICTED CASH							
THER ASSETS	1,744,445	35,674	29,868		610,647	34,245	885,806
OTAL	$ 61,516,228	$ 14,670,264	$ 2,006,327	$ 29,918,030	$ 39,330,274	$ 2,818,730	$ 137,257,361

ASSETS	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Total Facilities
CURRENT ASSETS:							
Cash and cash equivalents:							
On deposit with the State of Hawaii	$ 625,354	$ 102,593	$ 768,803	$ 557,862	$ 681,701	$ 380,877	$ 11,657,191
On deposit with banks on hand	10,374	3,186	100,771	79,252	659,215	66,304	1,575,032
Patient accounts receivable — less allowances for contractual adjustments and doubtful accounts	2,471,627	308,786	2,457,392	1,841,382	3,700,336	1,845,923	62,009,527
Due from Medicaid for Act 294	530,000		1,231,000	1,076,000		205,000	4,912,000
Federal grant receivable							2,243,901
Supplies and other current assets	294,690	98,568	954,858	616,451	1,077,385	147,256	12,757,746
Total current assets	3,932,045	513,133	5,512,824	4,170,947	6,118,637	2,645,360	95,155,397
UE FROM AFFILIATES — Net							
APITAL ASSETS — Net	4,144,537	863,824	4,826,946	4,943,366	14,278,276	5,451,792	244,671,685
SSETS LIMITED AS TO USE	99,654		131,678	78,338	42,935	63,683	2,167,422
ESTRICTED CASH							
THER ASSETS	24,885				191,417		3,556,987
OTAL	$ 8,201,121	$ 1,376,957	$ 10,471,448	$ 9,192,651	$ 20,631,265	$ 8,160,835	$ 345,551,491

ASSETS	Corporate	Reclassifi-cations and Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care	Reclassifi-cations and Eliminations	HHSC Consolidated
CURRENT ASSETS:							
Cash and cash equivalents:							
On deposit with the State of Hawaii	$ 351,348	$ -	$ 12,008,539	$ -	$ -	$ -	$ 12,008,539
On deposit with banks on hand	11,740,784		13,315,816	709,056	290,387		14,315,259
Patient accounts receivable — less allowances for contractual adjustments and doubtful accounts			62,009,527				62,009,527
Due from Medicaid for Act 294			4,912,000				4,912,000
Federal grant receivable			2,243,901				2,243,901
Supplies and other current assets	10,631		12,768,377		45,435		12,813,812
Total current assets	12,102,763		107,258,160	709,056	335,822		108,303,038
UE FROM AFFILIATES — Net	273,407,548	(262,686,172)	10,721,376			(10,721,376)	
APITAL ASSETS — Net	8,288,982		252,960,667		196,536		253,157,203
SSETS LIMITED AS TO USE			2,167,422	29,396	1,766		2,198,584
ESTRICTED CASH	2,110,250		2,110,250				2,110,250
THER ASSETS	97,822		3,654,809			(97,822)	3,556,987
OTAL	$ 296,007,365	$ (262,686,172)	$ 378,872,684	$ 738,452	$ 534,124	$ (10,819,198)	$ 369,326,062

AWAII HEALTH SYSTEMS CORPORATION

PPLEMENTAL COMBINING AND CONSOLIDATING STATEMENT OF NET ASSETS INFORMATION
NE 30, 2007

ETS BILITIES AND NET ASSETS (DEFICIT)	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	Lanai Community Hospital	Leahi Hospital	Maluhia	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital
RENT LIABILITIES													
ounts payable and accrued expenses	$ 14,721,201	$ 505,865	$ 546,381	$ 1,185,618	$ 7,908,976	$ 460,149	$ 21,607,746	$ 1,203,123	$ 669,078	$ 1,463,158	$ 1,176,941	$ 2,486,271	$ 877,351
rued workers' compensation liability	4,799,254	696,000	162,000		2,307,000	253,000	4,692,000	1,785,000	129,000	1,253,373	981,220	1,001,785	540,572
rent portion of capital lease obligations													
rent portion of accrued vacation	2,085,154	237,412	109,980		1,360,588	172,907	2,842,797	518,336	89,135	1,055,284	711,912	1,081,372	148,497
rent portion of long-term debt	288,112											66,684	
r current liabilities	208,236		354		5,072							71,998	
mated third-party payor settlements	1,850,726	(912,679)	(413,675)		401,852	(781,351)	2,852,706	(149,536)	(463,222)	53,389		19,932	(1,356,148)
ance from the State of Hawaii													
Total current liabilities	23,952,683	526,598	405,040	1,165,618	11,983,488	104,705	31,995,249	3,356,923	423,991	3,825,204	2,872,073	4,728,042	210,272
TAL LEASE OBLIGATIONS — Less current portion													
G-TERM DEBT — Less current portion	9,468,007												
UED VACATION — Less current portion	5,239,712	466,514	198,165		2,661,561	190,743	5,733,072	1,189,716	161,965	1,189,477	1,061,966	509,731	1,196,506
O AFFILIATES — Net	57,524,291	3,892,996	9,551,871	276,909	41,744,651	8,919,476	5,010,195	19,008,231	11,219,742	13,586,093	23,995,501	49,124,458	18,831,758
O THE STATE OF HAWAII		506,153			7,605,205	528,149		1,114,264		6,416,791	491,450	1,043,345	2,417,150
NTS' SAFEKEEPING DEPOSITS													
DEFERRED INCOME — Restricted contributions	37,179	17,031	5,378		6,505	5,137		99,654		131,678	53,803	11,281	25,799
R LIABILITIES	7,802						9,770				13,296	48,726	10,620
Total liabilities	96,229,674	5,409,292	10,160,454	1,462,527	64,001,410	9,748,210	42,748,286	24,768,788	11,805,698	25,149,243	28,488,089	55,465,583	22,692,105
SSETS:													
ed in capital assets — net of related debt	29,683,047	13,342,781	1,093,735	24,993,274	26,769,227	1,855,968	101,373,233	4,144,537	829,374	4,803,934	4,836,677	14,192,066	5,451,792
icted	(64,396,493)	(4,081,809)	(9,247,862)	908,709	(51,501,117)	(8,785,448)	(6,988,071)	(20,712,204)	(11,258,115)	(19,481,729)	(24,156,650)	(49,058,038)	(20,020,946)
orarily restricted				2,553,520	60,754		123,913				24,535	31,654	37,884
otal net assets	(34,713,446)	9,260,972	(8,154,127)	28,455,503	(24,671,136)	(6,929,480)	94,509,075	(16,567,667)	(10,428,741)	(14,677,795)	(19,295,438)	(34,834,318)	(14,531,270)
	$ 61,516,228	$ 14,670,264	$ 2,006,327	$ 29,918,030	$ 39,330,274	$ 2,818,730	$ 137,257,361	$ 8,201,121	$ 1,376,957	$ 10,471,448	$ 9,192,651	$ 20,631,265	$ 8,160,835

ETS BILITIES AND NET ASSETS (DEFICIT)	Total Facilities	Corporate	Reclassifi-cations and Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care	Reclassifi-cations and Eliminations	HHSC Consolidated
RENT LIABILITIES								
ounts payable and accrued expenses	$ 54,813,858	$ 3,524,431	$ -	$ 58,338,289	$ -	$ 728,258	$ 792	$ 59,067,339
rued workers' compensation liability	18,600,204	420,000		19,020,204				19,020,204
rent portion of capital lease obligations		7,179,538		7,179,538				7,179,538
rent portion of accrued vacation	10,413,374	271,287		10,684,661				10,684,661
rent portion of long-term debt	354,796	483,952		838,748				838,748
r current liabilities	285,660			285,660	283,306	311,095		880,061
mated third-party payor settlements	1,101,994			1,101,994				1,101,994
ance from the State of Hawaii		10,000,000		10,000,000				10,000,000
Total current liabilities	85,569,886	21,879,208		107,449,094	283,306	1,039,353	792	108,772,545
TAL LEASE OBLIGATIONS — Less current portion		35,091,398		35,091,398				35,091,398
G-TERM DEBT — Less current portion	9,468,007	1,306,096		10,774,103				10,774,103
UED VACATION — Less current portion	19,799,128	779,684		20,578,812				20,578,812
O AFFILIATES — Net	262,686,172		(262,686,172)		357,674	10,364,494	(10,722,168)	
O THE STATE OF HAWAII	20,122,507	14,000,000		34,122,507				34,122,507
NTS' SAFEKEEPING DEPOSITS								
DEFERRED INCOME — Restricted contributions	393,445			393,445		1,766		395,211
R LIABILITIES	90,214	217,380		307,594				307,594
Total liabilities	398,129,359	73,273,766	(262,686,172)	208,716,953	640,980	11,405,613	(10,721,376)	210,042,170
SSETS:								
ed in capital assets — net of related debt	233,369,645	(35,772,002)		197,597,643		196,536		197,794,179
icted	(288,779,773)	258,505,604		(30,274,172)	68,076	(11,068,025)	(97,822)	(41,371,943)
orarily restricted	2,832,260			2,832,260	29,396			2,861,656
otal net assets	(52,577,868)	222,733,599		170,155,731	97,472	(10,871,489)	(97,822)	159,283,892
	$ 345,551,491	$ 296,007,365	$ (262,686,172)	$ 378,872,684	$ 738,452	$ 534,124	$ (10,819,198)	$ 369,326,062

AWAII HEALTH SYSTEMS CORPORATION

PPLEMENTAL COMBINING AND CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
AR ENDED JUNE 30, 2007

	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	Lanai Community Hospital	Leahi Hospital	Maluhia	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Total Facilities	Corporate	Reclassifi- cations and Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care	Reclassifi- cations and Eliminations	HHSC Consolidated
RATING REVENUES																					
patient service revenue	$ 95,010,265	$ 7,662,074	$ 4,249,266	$ -	$ 42,998,842	$ 4,150,974	$ 126,273,047	$ 14,309,508	$ 2,154,069	$ 18,292,637	$ 14,894,334	$ 21,219,249	$ 10,547,625	$ 361,761,910	$ -	$ -	$ 361,761,910	$ -	$ -	$ -	$ 361,761,910
r revenues	664,314	22,049	13,659		426,411	17,631	1,135,754	103,048	18,153	345,735	54,344	283,988	44,456	3,129,542		(13,020)	1,116,522		2,522,996		5,639,518
Total operating revenues	95,674,579	7,684,123	4,262,945	-	43,425,253	4,168,605	127,408,801	14,412,556	2,172,222	18,638,372	14,948,678	21,503,237	10,592,081	364,891,452	-	(13,020)	364,878,432	-	2,522,996	-	367,401,428
ATING EXPENSES																					
ies and benefits	65,559,182	5,804,229	3,682,540		33,474,727	3,458,347	81,774,778	13,485,258	2,019,152	16,909,583	12,975,482	14,229,381	9,200,681	262,573,340	6,665,856		269,239,196	16,222			269,255,418
hased services	14,197,158	943,639	840,517		5,911,405	723,895	17,615,626	1,562,220	915,011	684,498	753,451	5,494,995	1,316,282	50,958,697	164,392	(350,154)	50,772,935	1,199	14,976		50,789,110
cal supplies and drugs	13,598,695	188,202	159,739		5,805,982	119,556	19,344,469	422,377	309,623	484,767	320,735	1,574,773	306,277	42,635,195			42,635,195				42,635,195
eciation and amortization	3,558,944	496,703	95,046		3,061,786	231,305	6,439,795	338,465	72,683	726,328	314,186	1,430,389	400,729	17,166,359	1,656,946		18,823,305		96,615		18,919,920
r supplies	3,811,816	331,140	156,953		1,248,923	136,113	5,289,934	999,244	93,613	973,570	745,062	836,851	527,731	15,150,950	145,491		15,296,441	1,636	237,543		15,535,820
rs and maintenance	2,915,222	485,341	30,495		2,741,540	88,219	2,043,649	173,465	31,009	363,537	547,111	477,002	76,206	9,974,796	272,027		10,246,823		30,435		10,277,258
ies	1,475,688	593,866	104,482		1,181,730	121,942	3,129,492	265,698	85,721	665,230	426,893	838,420	368,907	9,258,069	87,770		9,345,839		262,005		9,607,844
essional fees	627,310	32,675	13,227	3,800	575,179	110,791	1,317,691	56,959	71,169	47,373	35,912	483,033	373,010	3,748,129	746,635		4,494,764		1,733,334		6,228,098
ance	1,760,690	128,060	157,204		551,091	57,754	1,651,832	365,685	30,312	445,518	389,295	399,436	97,773	6,034,650	16,843		6,051,493		84,993		6,136,486
and lease	726,430	22,597	30,223		383,464	21,712	1,997,750	21,038	7,218	17,110	25,921	477,723	32,976	3,764,162	63,150	(32,723)	3,794,589	555	1,663,661		5,458,805
	1,101,793	46,073	119,385		668,103	31,072	1,470,304	95,384	41,049	107,705	440,560	445,789	404,387	4,971,604	229,672		5,201,276	7,009	(1,305,970)		3,902,315
Total operating expenses	109,332,928	9,072,525	5,389,811	3,800	55,603,930	5,100,706	142,075,320	17,785,793	3,678,560	21,425,219	16,974,608	26,687,792	13,104,959	426,235,951	10,048,782	(382,877)	435,901,856	26,821	2,817,592	-	438,746,269
ME (LOSS) FROM OPERATIONS	(13,658,349)	(1,388,402)	(1,126,866)	(3,800)	(12,178,677)	(932,101)	(14,666,519)	(3,373,237)	(1,506,338)	(2,786,847)	(2,025,930)	(5,184,555)	(2,512,878)	(61,344,499)	(10,048,782)	369,857	(71,023,424)	(26,821)	(294,596)	-	(71,344,841)
PERATING REVENUES AND EXPENSES																					
al operating appropriations from State of Hawaii															34,154,041		34,154,041				34,154,041
tive bargaining pay raise appropriation from State of Hawaii	3,701,113	313,584	154,280		1,905,510	184,657	4,515,620	710,134	131,693	932,023	743,831	717,575	426,620	14,436,640	149,140		14,585,780				14,585,780
cted contributions		10,681	16,477		319,592		(339)					12,436	347	359,194			359,194	10,000			369,194
t and dividend income	5,533		83		5,188		7,057			34,625	16,104	208	3,137	71,935	782,191		854,126	22,610	1,541		878,277
expense (net of capitalized interest)	(545,494)	(342)			(92,434)	(3,524)	(75,116)	(157)		(73)		(6,031)	8	(723,163)	(1,512,860)		(2,236,023)				(2,236,023)
ate allocation expense	(3,012,296)	(248,957)	(148,236)		(1,511,321)	(134,934)	(3,897,906)	(497,757)	(104,180)	(589,925)	(494,046)	(728,507)	(360,309)	(11,728,374)	11,728,374						
nonoperating revenues (expenses) — net	898,979	183,372	11,818		239,790	50,653	30,298	92,600	45,779	(32,706)	(71,145)	239,826	258,067	1,947,331	(43,255)	(369,857)	1,534,219	(132,101)			1,402,118
Nonoperating revenues (expenses) — net	1,047,835	258,338	34,422	-	866,325	96,852	579,614	304,820	73,292	343,944	194,744	235,507	327,870	4,363,563	45,257,631	(369,857)	49,251,337	(99,491)	1,541	-	49,153,387
E (LOSS) BEFORE CAPITAL IBUTIONS, TRANSFERS, AND SPECIAL ITEM	(12,610,514)	(1,130,064)	(1,092,444)	(3,800)	(11,312,352)	(835,249)	(14,086,905)	(3,068,417)	(1,433,046)	(2,442,903)	(1,831,186)	(4,949,048)	(2,185,008)	(56,980,936)	35,208,849		(21,772,087)	(126,312)	(293,055)		(22,191,454)
L GRANTS AND CONTRIBUTIONS	1,790,573	684,000		23,424,481	297,000	74,258	10,897,454	58,000		114,461	331,464	328,766	714,824	38,715,281			38,715,281				38,715,281
SE (DECREASE) IN NET ASSETS	$ (10,819,941)	$ (446,064)	$ (1,092,444)	$ 23,420,681	$ (11,015,352)	$ (760,991)	$ (3,189,451)	$ (3,010,417)	$ (1,433,046)	$ (2,328,442)	$ (1,499,722)	$ (4,620,282)	$ (1,470,184)	$ (18,265,655)	$ 35,208,849	$ -	$ 16,943,194	$ (126,312)	$ (293,055)	$ -	$ 16,523,827

Attachment 2

Pursuant to Chapter 323F, HRS - Projected Revenues by Each Health Care Facility: FY 08 **June 12, 2007 based upon FY07 (Dec 2006Y-T-D)**

Hawaii Health Systems Corporation – Fiscal Year 2008 Budget (Amounts in $000), Total Operating Revenue

Hamakua	7,592
Hilo	105,577
Kau	3,975
Kauai	27,772
Kohala	4,255
Kona	54,976
Kula	15,020
Lanai	2,014
Leahi	16,805
Maluhia	13,086
Maui	146,683
SMMH	14,840
Total	412,595

Source: Hawaii Health Systems Corporation
Fiscal Year 2008 Budget
Amounts in 000s

FORM C

FY 08 CIP IMPLEMENTATION PLAN ($ thousands)

Contact Person/Phone No.

Priority	Act/Yr	Item	Project Title	E or L	M OF	Apprn	Prior Allot	1st Half of FY 08	2nd Half of FY 08	COMMENTS
1	213/07	E-11	Hawaii Health System Corporation, System wide seismic mitigation study and design	E	C	2,500		750	1750	
2	213/07	E-11	Hilo Medical Center, Replacementof Elevator(s) and Dumbwaiter(s)	E	C	5,215			5215	
3	213/07	E-11	Samuel Mahelona Memorial Hospital, Replace Windows	E	C	777			777	
4	213/07	E-11	Kohala Hospital, Renovate & Upgrade the Facility	E	C	753		705	48	
5	213/07	E-11	Kau Hospital, Emergency Generator	E	C	684			684	
6	213/07	E-11	Lanai Community Hospital, ER renovation, replace equipment & building upgrades	E	C	1,200		250	950	
7	213/07	E-11	Hilo Medical Center,Replacement of OR Lights	E	C	728			728	
8	213/07	E-11	Maui Memorial Medical Center, Laundry Exhaust system repair/replacement (OSHA required)	E	C	300		75	225	
9	213/07	E-11	Kona Community Hospital, Fire Alarm Upgrade	E	C	488			488	
10	213/07	E-11	Leahi Hospital, Install sprinkler system in Medical Records Dept.	E	C	140		25	115	
11	213/07	E-11	Kula Hospital, Wastewater/cesspool system replacement & grease trap replacement	E	C	500			500	
12	213/07	E-11	Maui Memorial Medical Center, Exterior repairs and reroofing	E	C	2,000		200	1800	
13	213/07	E-11	Maui Memorial Medical Center, Renovate Hospital - Plumbing repair/improvements	E	C	910		210	700	
14	213/07	E-11	Kula Hospital, Upgrade Flooring	E	C	1,431			1431	
15	213/07	E-11	Kula Hospital, Upgrade plumbing	E	C	500			500	
16	178/05	E-6	Kula Hospital, Reroofing	E	C	75			75	
17	178/05	E-6	Kula Hospital, Electrical Upgrades	E	C	300			300	
18	213/07	E-11	Replace failing x-ray system at Leahi Hospital	E	C	54			54	
19	213/07	E-11	New Nurse Call System for Kona Community Hospital	E	C	81			81	
20	213/07	E-11	Nurse call system for Kula Hospital	E	C	81			81	
21	213/07	E-11	Leahi Hospital, Repair and repainting	E	C	238			238	
22	213/07	E-11	Hilo Medical Center, Hale Hoola New Security Wall	E	C	25			25	
23	213/07	E-11	Hilo Medical Center, Replacement of Boilers	E	C	115			115	
24	213/07	E-11	Hilo Medical Center, Replacement of One (1) 400 Ton Chiller	E	C	77			77	
25	213/07	E-11	Kau Hospital, Repairs to Building	E	C	30			30	
26	213/07	E-11	Kona Community Hospital, Parking Lot Lighting	E	C	41			41	
27	213/07	E-11	Kona Community Hospital, AC Upgrades - reheat coils, replace chill water insulation	E	C	153			153	
28	213/07	E-11	Hilo Medical Center, Replace sterilizers	E	C	115			115	
29	178/05	E-6	Samuel Mahelona Memorial Hospital, Replace all electrical	E	C	630			630	
30	178/05	E-6	Kauai Veterans Memorial Hospital, Electrical Upgrades	E	C	950			950	
31	178/05	E-6	Kauai Veterans Memorial Hospital, Replace Emergency Generator	E	C	650			650	
32	178/05	E-6	Kau Hospital, Upgrade AC System	E	C	300			300	
33	213/07	E-11	Kau Hospital, Upgrade AC System	E	C	140			140	
34	213/07	E-11	Kau Hospital, Plumbing Upgrades	E	C	199			199	
35	213/07	E-11	Kula Hospital, Fire Sprinkler Upgrades	E	C	40			40	
36	213/07	E-11	Maluhia, Plumbing Upgrades	E	C	151			151	
37	213/07	E-11	Maluhia, Replace Hala Drive Windows	E	C	46			46	

Attachment 3

HHSC

FY 08 CIP IMPLEMENTATION PLAN ($ thousands)

Contact Person/Phone No.

Priority	Act/Yr	Item	Project Title	E or L	MOF	Apprn	Prior Allot	1st Half of FY 08	2nd Half of FY 08	COMMENTS
38	213/07	E-11	Kula Hospital, Steamline and Equipment	E	C	121			121	
39	213/07	E-11	Kau Hospital, Reroof Hospital	E	C	101			101	
40	213/07	E-11	SMMH, Plumbing Upgrades	E	C	66			66	
41	213/07	E-14	Maui Memorial Medical Center, Generators	L	C	3,190		300	2890	
42	213/07	E-13	Leahi Hospital, Master Plan	L	C	80			80	
43	213/07	E-12	Hilo Medical Center, Expand & Upgrade Cardiovascular Suite	L	C	650		650		
			TOTAL			26,825	$0	3,165	23,660	

Subtotals , by MOF

	MOF	Apprn	Prior Allot	1st Half of FY 08	2nd Half of FY 08
General Fund	A	-	-	-	-
Special Funds	B	-	-	-	-
General Obligation Bonds	C	26,825	-	3,165	23,660
Reimbursable GO Bonds	D	-	-	-	-
Revenue Bonds	E	-	-	-	-
Federal Funds	N	-	-	-	-
Private Contributions	R	-	-	-	-
County Funds	S	-	-	-	-
Interdepartmental Transfers	U	-	-	-	-
Revolving Funds	W	-	-	-	-
Other Funds	X				

Total, by MOF

E = Executive Project; L = Legislative Project

"Touching Lives Everyday"
HAWAII HEALTH SYSTEMS
CORPORATION

HHSC Information Overview
for FY 2003-2007

January 2008
POC: Thomas Driskill, HHSC President and CEO; 733-4151

HHSC Healthcare Services
Information Paper for FY2003 - 2007

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HHSC Healthcare Services
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EAST HAWAII REGION

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EAST HAWAII REGION

HILO MEDICAL CENTER (HMC)

Hilo Medical Center (HMC) is the largest facility in the Hawaii Health Systems Corporation. Established in 1897, HMC has grown from a 10-bed hospital, created by the Hawaiian Government, to the present facility of 271-licensed beds, consisting of 137 acute and 22 skilled nursing licensed beds including a 20-bed psychiatric unit, a separate 112-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 Okustu 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 950 (FTE, FY07) employees.

Also on campus are Hawaii Pacific Oncology Center, Liberty Dialysis and the Veteran's Administration (VA) Community-Based Outpatient Clinic. Other off-campus clinics also under Hilo Medical Center include Surgery, Cardiology Neurology and Urology. Efforts by our Medical Group Practice Director and Medical Staff Office to recruit physicians in general and specialty areas are underway and ongoing. In addition, Hilo Medical Center is exploring possibilities of recruiting hospitalists in Long-Term Care, Behavior Health, Obstetrics and Neonatology.

Programs and Services

2003 FY

- Admissions 7,055
- Births 1,008
- ER Visits 21,564
- Patient Days 82,217

2004 FY

- Admissions 7,211
- Births 1,076
- ER Visits 22,769
- Patient Days 79,768

2005 FY

- Admissions 7,433
- Births 1,106
- ER Visits 23,762
- Patient Days 82,008

2006 FY

- Admissions 7,211
- Births 1,063
- ER Visits 23,676
- Patient Days 87,703

2007 FY

- Admissions 8,797
- Births 1,177
- ER Visits 32,128
- Patient Days 90,078

This past year, HMC had 8,797 admissions. In addition, HMC delivered 1,177 babies, had over 32,128 emergency visits (second busiest in the State, after Queens Medical Center on Oahu), and provided 3,418 surgical services.

Patient services

- 24-Hour Physician-Staffed Emergency Care
- Intensive and Cardiac Critical Care, Echocardiography, Thallium Stress Treadmills, Pacemakers, Cardiac Telemetry
- Hospitalist Services
- Intensivist

- Acute Inpatient Dialysis
- Bronchoscopy
- Obstetrics with Childbirth Education Classes, Labor and Delivery, and Post-partum Services
- Gynecology
- Pediatrics
- Adult Psychiatric Care
- General Radiology
- Urology
- Neurology
- Angiography and Interventional Radiology
- Telemedicine, including Teleradiology
- Surgical Services—Same Day Surgery, Post-Anesthesia Care, and Special Procedures
- Subspecialty Surgery Services—Vascular Surgical Services (Open and Endo-), Orthopedics, Ophthalmology, Otorhinolaryngology, Urology
- Physiatry
- Skilled Nursing and Long Term Care Facilities
- Wound and Ostomy Services
- Endoscopy, including ERCP
- Outpatient Surgery Clinic
- Hawaii Pacific Oncology Center—Medical and Radiation Oncology
- In-Patient Pharmacy
- EEG
- 24 hour CAP-Accredited Pathology Laboratory and Blood Bank Services
- Food and Nutrition Services and Counseling
- Home Healthcare
- 32 Multi-Slice CT Scanner, MRI, Ultrasound, Nuclear Medicine

- Rehab Services-Physical, Occupational, Speech, and Recreational Therapies
- Respiratory Therapy
- Social Services

HMC's strategy to continue meeting our region's health care needs is to expand and enhance services. One of the brightest spots in East Hawaii and perhaps our the entire state is the November 2007 dedication of the Yukio Okutsu Veterans Home, Hawaii's first State Veterans Home. This 95-bed veterans nursing home and day health center honors Hawaii's veterans with an attention to detail in the design, architecture, color scheme and layout. The home offers many amenities such as private and specially designed semi-private rooms, wide hallways accented with archways, central air conditioning and a number of common areas for residents to visit with friends and family. Avalon Health Care has been named as the management company in charge of the home's daily operations.

The Emergency Department Expansion and Renovation Project began in February 2007 and is slated for completion in 2008. The project will add a nursing station, increase the number of exam rooms from 14 to 28, and the expand the Emergency Department area from over 7,000 sq. ft. to over 11,000 sq. ft. The additional space will provide patients more privacy and comfort. Last year, over 32,000 patients visited our Emergency Department, which was originally built to handle 11,000 visitors per year.

In September 2007, HMC's Emergency Department launched the Electronic Medical Record system – HHSC's first. Prior to the launch, Emergency Department physicians and staff, as well as, staff from Laboratory, Radiology, Respiratory Therapy, and Patient Services participated in months of training and preparation.

In the year ahead, Hilo Medical Center's priorities will be focusing on: initiating the Family Practice Residency Program/Rural Health Training Program in collaboration with the University of Hawaii at Manoa John A. Burns School of Medicine; replacing or renovating and expanding the 112-bed Extended Care Facility to a 200-bed facility; retaining and recruiting physicians; establishing a Cardiovascular Service Line; achieving a Level 2 Neonatal Intensive Care Unit; and creating a Human Patient Simulation Unit for training and advanced education.

NEW PROGRAMS, COST SAVINGS, REVENUE ENHANCEMENTS

- Expansion and Renovation of the Emergency Room
- Electronic Medical Records System Installed in the Emergency Department
- Completion of the 95-bed Yukio Okutsu Veterans Home with adult day care

- ➢ Hospitalist Service
- ➢ Neurology Specialist
- ➢ Urgology Specialist
- ➢ Neonatology Specialist
- ➢ Family Medicine Residency Rotation

2007 HMSA Quality Award Recipient: Hilo Medical Center was recognized in 2007 by HMSA (Hawaii Medical Service Association) for its efforts to improve the quality of hospital care over the past year. HMC received second place for improving sepsis rates and third place overall in the State. This facility's quality care improvements resulted in HMSA awarding HHSC almost $894,000 to be disbursed among those 6 HHSC hospitals recognized by HMSA.

COMMUNITY-BASED FOUNDATION SUPPORT OF EAST HAWAII REGION FACILITIES: FY2003-2007

Estimated Total Fundraising / Private Donations / Grant Funding:

- 2002 – 2003 - $662,754
- 2003 – 2004 - na
- 2004 – 2005 - $1,631,653
- 2005 – 2006 - $215,980
- 2006 – 2007 - $188,909

GRAND TOTAL 2003-2007 Foundation $$ to Benefit HMC = $2,699,296

VOLUNTEER SERVICES FY2003 – FY2007

- FY2003 Number of Active Volunteers: **100**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **24,300 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$15,000 - $30,000 annually**

- FY2004 Number of Active Volunteers: **100**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **27,100 volunteer hours**

- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$15,000 - $30,000 annually**

- FY2005 Number of Active Volunteers: **100**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **26,000 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$15,000 - $30,000**

- FY2006 Number of Active Volunteers: **100**
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **23,000 volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$39,000**

- FY2007 Number of Active Volunteers: average of **96** volunteers per month
- FY2007 Number of Volunteer Hours Provided to the HHSC Facility: **20,424** volunteer hours
- FY2007 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$60,000**

GRAND TOTAL 2003-2007 Auxiliary $$ to benefit HMC = $174,000+

HALE HO'OLA HAMAKUA (HHH)

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 (50)-bed 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 a staff of 83 (FTE, FY07) 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.

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.

Services provided by HHH include:

- 4 Acute/SNF Swing Beds
- 46 Long Term Care (ICF/SNF) Beds
- Emergency Room Services, 24hours/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

On October 16, 2006, the devastating earthquake with 6.7 magnitude hit the Big Island of Hawaii resulting in the total evacuation of HHH Hospital. The 49 patients were relocated to the renovated old Honokaa Hospital building (now called NHERC) for 5 days until HHH was able to accommodate residents again in dormitory style in the main dining room and Rehab Room. Patients were finally returned to their repaired rooms in January 2007. Other major repairs outside the patient occupied areas are still in process a year later (10/07) and will not be completed for another 6-8 months.

2003 FY:

Admissions	62
Patient Days	17,201

2004 FY:

Admissions	82
Patient Days	17,038

2005 FY

Admissions	96
Patient Days	16,988

2006 FY:

Admissions	115
Patient Days	17,478

2007 FY:

Admissions	72
Patient Days	16,735

COST SAVINGS AND REVENUE ENHANCEMENTS

- Critical Access Hospital conversion resulted in higher Medicare and Medicaid reimbursements

- Assisted to establish new North Hawaii Research & Education Center located in old Honokaa Hospital to be operated by University of Hawaii at Hilo
- Annual occupancy rate of 97% plus
- $9.1 million secured in FY 2005 State Executive Budget to expand bed capacity by 50 beds (funds yet to be released)

VOLUNTEER SERVICES FY2003 – FY2007

- FY2003 Number of Active Volunteers: **29**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **9,096 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$2,500**

- FY2004 Number of Active Volunteers: **29**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **9,983 volunteer hours**
- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$2,500**

- FY2005 Number of Active Volunteers: **38**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **12,000 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$4,000**

- FY2006 Number of Active Volunteers: **29**
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **10,000 volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$3,700**

- FY2007 Number of Active Volunteers: **28**

- FY2007 Number of Volunteer Hours Provided to the HHSC Facility: **9,000 volunteer hours**
- FY2007 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$3,421.02**

GRAND TOTAL 2003-2007 Auxiliary $$ to Benefit HHH = $16,121

KA'U HOSPITAL

Ka`u Hospital, in Pahala, is a 21-bed facility with 16 long-term care beds and 5 acute beds with 44.6 (FTE, FY07). 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.

Programs and Services

2003 FY

Admissions	32
ER Visits	1,437
Patient Days	6,068

2004 FY

Admissions	47

ER Visits	1,237
Patient Days	5,912

2005 FY

Admissions	85
ER Visits	1,364
Patient Days	5,925

2006 FY

Admissions	56
ER Visits	1,568
Patient Days	6,276

2007 FY

Admissions	34
ER Visits	2,079
Patient Days	6,888

Services:

- 24-hour Emergency Services
- Acute Care
- Intermediate and Skilled level care
- Adult Day Health Services Program
- Radiology - inpatient and outpatient
- Rehab Services – Physical, Occupational, and Speech Therapy
- Laboratory services
- Rural Health Clinic provides primary care including:
    - Family Practice
    - Internal Medicine

- Geriatric Medicine
- Outpatient laboratory and pharmacy services on campus

COST SAVINGS AND REVENUE ENHANCEMENTS

- Attained Critical Access Hospital (CAH) Status in July 2001
- Increased LTC/acute Beds from 15-21 total beds
- $300K annual savings with Rural Health Clinic Implementation
- Community donations of time, labor and funds are enabling hospital to repaint and renovate all rooms in long-term care, and day activities room at no cost to the facility or the state.
- Community funds purchased two physiologic monitors for the emergency department in 2007 as well as helping with the purchase of a portable x-ray machine.

COMMUNITY- BASED FOUNDATION SUPPORT OF HHSC FACILITIES: FY2003 - 2007

Estimated Total Fundraising / Private Donations / Grant Funding:

- 2003 – na
- 2004: $12,000
- 2005 - $ 3,100
- 2006 - $15,000
- 2007 - $30,000

GRAND TOTAL 2003 - 2007 Foundation $$ to Benefit Ka`u = $60,100

VOLUNTEER SERVICES FY2003 – FY2007

- FY2003 Number of Active Volunteers: **3**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **1,600 volunteer hours**

- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$1,000**

- FY2004 Number of Active Volunteers: **17**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **1,500 volunteer hours**
- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$7,074**

- FY2005 Number of Active Volunteers: **52**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **1,620 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$8,000**

- FY2006 Number of Active Volunteers: **10**
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **1,810 volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$20,050**

- FY2007 Number of Active Volunteers: **15**
- FY2007 Number of Volunteer Hours Provided to the HHSC Facility: **1,400 volunteer hours**
- FY2007 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **Funds raised given to the Ka'u Charitable Foundation**

GRAND TOTAL 2003-2007 Auxiliary $$ to Benefit KH = $36,124

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 dependant upon both psychological and financial community support. We view our mission as attempting to enhance that support.

Foundation President: Carol Myrianthis, RPT, Psy D

Executive Director: Claudia Wilcox Boucher
cwboucher@hhsc.org Tele: 935-2957

Contact information:
Hilo Medical Center Foundation
1190 Waianuenue Avenue, Box 629
Hilo, HI 96720
Tel: 808-935-2957 Fax: 808-974-4746

Ka`u Hospital Charitable Foundation

Ka'u Hospital Charitable Foundation was created to raise funds for the benefit of Ka'u Hospital 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: Marge Elwell

Foundation Vice President/Director: Israel Gorali

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

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WEST HAWAII REGION

KOHALA HOSPITAL

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 54 (FTE FY07) employees, has 28 licensed beds (4 acute and 24 long-term care), and provides the following services:

Critical Access Hospital (CAH)

- 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)

2003 FY:

- Admissions: 55
- Patient Days: 8,343
- ER Visits: 952

2004 FY:

- Number of Admissions: 57
- Patient Days: 8,707
- ER Visits: 972

2005 FY:

- Number of Admissions: 63
- Patient Days: 9,616
- Emergency Visits: 923

2006 FY:

- Number of Admissions: 55
- Patient Days: 9,715
- Emergency Visits: 1,130

2007 FY:

- Number of Admissions: 53
- Patient Days: 9,249
- Emergency Visits: 1,384

COST SAVINGS AND ENHANCED REVENUES

- Attained Critical Access Hospital status in July 2001
- Implemented Teleradiology Service
- Increased Licensed LTC Beds from 22 to 24
- Completed Replacement of Facility Roof
- Upgrade of Electrical System
- Installation of Sprinkler System throughout Hospital
- Expansion of Outpatient Rehabilitation Service

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES:

FY 2003 - 2007

Estimated Total Private Donations received by the Foundation

- 2003 - $9,082
- 2004 - $31,300
- TOTAL - $40,382

Estimated Total Fundraising Monies received by the Foundation

- 2003 - $11,500
- 2004 - $14,900
- TOTAL - $26,400

Estimated Total Funding received by the Foundation from Federal/State/Private Grants

- 2003 - $-0-
- 2004 - $3,000
- 2005 - na
- 2006 - $52,000

TOTAL - $55,000

Estimated Total Funding received by the Foundation from Donations/Fundraising/Federal/State/Private Grants

- 2007- $35,000

GRAND TOTAL 2003-2007 Foundation $$ to Benefit Kohala Hospital= $156,782

VOLUNTEER SERVICES FY2002 – FY2006

- FY2002 Number of Active Volunteers: **21**
- FY2002 Number of Volunteer Hours Provided to the HHSC Facility: **1,700 volunteer hours**
- FY2002 Volunteer Auxiliary Cash Contributions to the Facility: **$4,385**

- FY2003 Number of Active Volunteers: **21**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **1,700 volunteer hours**

- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$8,380**

- FY2004 Number of Active Volunteers: **22**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **1,900 volunteer hours**
- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$23,013**

- FY2005 Number of Active Volunteers: **20**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **2,415 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$22,000**

- FY2006 Number of Active Volunteers: **20**
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **3,500 volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$8,900**

GRAND TOTAL 2002-2006 Auxiliary $$ to Benefit the Facility= $66,678

KONA COMMUNITY HOSPITAL

Kona Community Hospital (KCH), the primary health care facility serving West Hawaii, is a 94-bed full service medical center; 33 beds Medical Surgical acute; 34 beds Skilled Nursing/Long Term Care; 7 beds Obstetrics; 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 413 (FTE FY07) employees. There are 61 active medical staff members representing a wide variety of medical specialties. Patient services include:

2003 FY:

Admissions	3,537
Births	480
ER Visits	11,719
Patient Days	26,171

2004 FY:

Admissions	3,634
Births	508
ER Visits	12,180
Patient Days	24,224

2005 FY:

Admissions	3,622
Births	446
ER Visits	13,182
Patient Days	24,357

2006 FY:

Admissions	3,745
Births	504
ER Visits	14,367
Patient Days	24,830

2007 FY:

Admissions	3,375

Births	558
Patient Days	5,212
Emergency Visits	15,950

Services:

- 24-hour Emergency Room
- Inpatient & Outpatient Surgery
- Long-Term Care / Skilled Nursing
- Acute Inpatient Care (Obstetrics/Gynecology, Medical/Surgical, Intensive Care, Behavioral Health, Skilled Nursing/Long Term Care)
- Outpatient Nursing Services (Chemotherapy)
- Rehabilitation Services (PT, OT, Respiratory Therapy, Speech Therapy)
- Pharmacy
- Laboratory and Pathology Services
- Imaging Center (MRI, 16-slice CT Scan, Ultrasound, Echocardiogram, Nuclear Medicine)
- Cardiology
- Radiation Therapy (April 2005)
- Physician Specialties (General Surgery, Internal Medicine, Cardiology, Medical Oncology, Radiation Oncology, Pediatrics, OB/GYN, Urology, ENT, Ophthalmology, Plastic Surgery)
- Current annual workload consists of over 4,000 acute inpatient admissions, nearly 500 births, and over 15,000 emergency room visits.

COST SAVINGS AND ENHANCED REVENUES

- Established Hospitalist Program
- Increased Total Licensed Beds from 75 to 94
- New Magnetic Resonance Imaging
- New Behavioral Health Unit
- New Chemotherapy Clinic
- New Computerized Tomography Scanner
- New Lithotripsy (HMC too)
- New Nuclear Medicine Service

- ➢ Added 4 New Labor & Delivery Beds

2005 HMSA Quality Award Recipient: Kona Community Hospital was recognized in 2005 by HMSA (Hawaii Medical Service Association) for its efforts to improve the quality of hospital care over the past year.

2005 JCAHO Certification: In 2005 the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) gave this hospital its highest rating with a 3 full-year accreditation.

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES: 2003-2007

Estimated Total Private Donations received by the Foundation

- 2003 - $ 341,350
- 2004 - $ 324,682
- TOTAL - $666,032

Estimated Total Fundraising Monies received by the Foundation

- 2003 - $160,615
- 2004 - $183,052
- TOTAL - $343,667

Estimated Total Funding received by the Foundation from Federal/State/Private Grants

- 2003 -$214,713
- 2004 - $ 75,000
- TOTAL - $289,713

Estimated Total Fundraising / Private Donations / Grant Funding:

- 2005 - $200,000
- 2006 - $375,000
- 2007 - $500,000

TOTAL – $1,075,000

GRAND TOTAL 2002-2006 Foundation $$ to Benefit KCH = $2,374,412

VOLUNTEER SERVICES FY2003 – FY2007

- FY2003 Number of Active Volunteers: **71**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **10,000 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$41,365**
-
- FY2004 Number of Active Volunteers: **71**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **10,120 volunteer hours**
- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$45,565**

- FY2005 Number of Active Volunteers: **80**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **4,630 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$20,200**

- FY2006 Number of Active Volunteers: **100**
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **4,630 volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$2,500**

- FY2007 Number of Active Volunteers: **135**
- FY2007 Number of Volunteer Hours Provided to the HHSC Facility: **8,250 volunteer hours**
- FY2007 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$ 0**

GRAND TOTAL 2003-2007 Auxiliary $$ to Benefit the Facility= $109,630

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:
James Higgins

Foundation Chief Development Officer:
Cheryl Holdcroft choldcroft@kcf.hawaii.org
Tel: 808-322-4587

Contact information:
Kona Hospital Foundation
79-1019 Haukapila Street
Kealakekua, HI 96750
Tel: 808-322-9311 Fax: 808-322-4488

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:
Tommy Tinker

Foundation Vice President:
Alan Axelrod

Contact information:
Kohala Hospital Charitable Foundation
P.O. Box 430
Kapaau, HI 96755
Tel: 808-889-7905

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KAUAI REGION

WEST KAUAI MEDICAL CENTER

West Kauai Medical Center (WKMC) was formerly known as Kauai Veterans Memorial Hospital (KVMH) and was completed in October 1957 and dedicated to the Veterans of the Korean War. KVMH was built to meet the increasing medical needs for the people of the surrounding communities. Although this hospital still continues to honor the service and sacrifice of all our Veterans, the hospital has unofficially adopted a new name and today it is known as the West Kauai Medical Center (WKMC). WKMC has 45 licensed beds, including 25 acute and 20 long-term care beds. Today WKMC employs approximately 205 (FTE FY07) employees and provides the following services:

2003 FY

- Admissions 662
- Births 66
- ER Visits 3,537
- Patient Days 9,321

2004 FY

- Admissions 1,040
- Births 112
- ER Visits 3,997
- Patient Days 10,676

- 2005 FY
- Admissions 1,153
- Births 123
- ER Visits 4,854

- Patient Days 11,628

2006 FY

- Admissions 1,221
- Births 146
- ER Visits 4,728
- Patient Days 12,038

2007 FY

- Admissions 1,160
- Births 221
- ER Visits 4,334
- Patient Days 12,103

Through the provision of the following patient services:

- Critical Care
    - Orthopedic Surgeon on Staff
    - Full-time Radiologist
    - Radiology, CT Scan, Ultrasound, Mammography
    - Full-time radiologist
- High Risk Fetal Ultrasound Consultations with Kapiolani Medical Center
- Cardiac Ultrasound Consultations with Queens Medical Center
- Cardiac Care
- Physical Therapy
- Occupational Therapy
- Inpatient/Outpatient Surgery

- Ophthalmology
  - GYN/OB
  - General Surgeries
  - Orthopedics
- Outpatient Surgery
- Surgery
- 24-Hour Emergency Care
- Pharmacy
- Respiratory Therapy
- OB/GYN Services
- Mother/Baby Care
- Medical Surgical/Pediatric Care
- Dietary Counseling
- CAP-approved Laboratory Services
- Skilled Nursing Care
- Intermediate Nursing Care
- Orthopedic Consulting Services
- CLIA-approved Laboratory Services
- Social Services
- KVMH Operates 3 Clinics
  - Waimea Clinic staffed with 6 KVMH physicians
  - Eleele Clinic staffed with 2 KVMH physicians and 1 nurse practitioner
  - Kalaheo Clinic staffed with 6 KVMH physicians

The Kawaiola Medical Office Building (MOB) was completed and dedicated November 1996. Kawaiola was the outcome of a collaborated Hospital and

Community Strategic Plan for health care for the West Kauai communities. Ten Physicians and one Nurse Practitioner occupy the MOB. Five of the Physicians are WKMC doctors, and the other five are members of various professional groups that serve WKMC. Services presently being provided in the MOB are:

- Family Practice
- Internal Medicine
- General Surgery
- Neurology Consultations
- Teleradiology
- Hemodialysis (St. Francis)
- Radiology
- Retail Pharmacy
- Hospital Gift Shop
- Obstetrics and Gynecology
- Pediatrics
- Orthopedics
- The Kawaiola Medical Office Building also houses:
    - Cardiac and Dermatology Consultation Clinics
    - St. Francis Dialysis and Hemo-dialysis Services
    - MedCenter Retail Pharmacy
    - KVMH Radiology Satellite
    - KVMH Hospital Gift Shop
- Federally Qualified Health Clinic (Kauai Community Health Center) - Medical and Dental

COST SAVINGS AND ENHANCED REVENUES

- Established First Critical Access Hospital in Hawaii
- Added New 24-Hour Ultrasound Service
- Initiated Kauai Teleradiology Center

- Helped Facilitate Establishment of Kauai's First Federally-Qualified Health Center (via Collaborative Work with Hale Ho'ola and Hawaii Primary Care Association)
- Established Two New Community Clinics
- Expanded Outpatient Dialysis Service on West Kauai via Partnership with St. Francis.
- Expanded Obstetrics Service with over 100 babies born in FY04.

2005 HMSA Quality Award Recipient: West Kauai Medical Center was recognized in 2005 by HMSA (Hawaii Medical Service Association) for its efforts to improve the quality of hospital care over the past year.

2005 JCAHO Certification: In 2005 the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) gave this hospital its highest rating with a 3 full-year accreditation.

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES: FY2003-2007

Estimated Total Private Donations received by the Foundation

- 2003 - $1,650
- 2004 - $1,800

TOTAL - $3,450

Estimated Total Fundraising Monies received by the Foundation

- 2003 - $9,700
- 2004 - $9,600

TOTAL - $19,300

Estimated Total Funding received by the Foundation from Federal/State/Private Grants

- 2003 - $68,200
- 2004 - $10,000
- TOTAL - $78,200

Estimated Total Fundraising / Private Donations / Grant Funding:

- 2005 - $106,000
- 2006 - $9,190
- 2007 - $30,000

TOTAL – 145,190

GRAND TOTAL 2003-2007 Foundation $$ to Benefit WKMC= $246,140

VOLUNTEER SERVICES FY2003 – FY2007

- FY2003 Number of Active Volunteers: **40**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **3,200 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$40,500**

- FY2004 Number of Active Volunteers: **40**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **3,200 volunteer hours**
- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$38,100**

- FY2005 Number of Active Volunteers: **48**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **4,100 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$28,500**

- FY2006 Number of Active Volunteers: **50**
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **4,250 volunteer hours**

- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$31,900**

- FY2007 Number of Active Volunteers: **52**
- FY2007 Number of Volunteer Hours Provided to the HHSC Facility: **4,350 volunteer hours**
- FY2007 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$3,700**

GRAND TOTAL 2003-2007 Auxiliary $$ to Benefit WKMC= $142,700

SAMUEL MAHELONA MEMORIAL HOSPITAL (SMMH)

Samuel Mahelona Memorial Hospital (SMMH) is the oldest operating hospital on Kauai. Founded in 1917 as a tuberculosis (TB) hospital, it received its name from a member of the Wilcox family who died of TB as a young man. In the 1960's, with the cure from TB well established, SMMH gradually transitioned to providing acute psychiatric, skilled nursing, medical acute, TB, and ancillary outpatient and inpatient services. SMMH has 80 licensed beds, 66 long-term care and 14 acute care.

This hospital currently employs 135 (FTE FY07) people and its services continue to develop to meet the changing needs of the community. In the past year, an Emergency Department was opened to provide services to Kauai's east and north shore communities. Currently, patient services include:

2003 FY

Admissions	219
Patient Days	25,066

2004 FY

Admissions	210
Patient Days	25,991

2005 FY

Admissions	194
Patient days	26,686

2006 FY

Admissions	175
Patient days	25,180

2007 FY

Admissions	211
Patient days	23,765

- **Established CAH FY2006**

- Emergency Services – 24-hour mid-level emergency services staffed by Board Certified ER physicians and ER nurses.
- 5 Acute / SNF Beds

Outpatient Services

- Laboratory
- Physical Therapy
- Radiology
- Occupational Therapy

Psychiatric Services (9 Acute Beds; Locked unit)

- Adult Inpatient Psychiatric Care
- Detoxification

Long-Term Care (66 SNF/ICF Beds)

- Skilled Nursing Beds
- Intermediate Care Beds

Tuberculosis Services (6 Acute/SNF Beds)

- Clinic (in cooperation with the Department of Health)
- Negative pressure rooms available for patients requiring hospitalization

Support for all Services

- Inpatient Pharmacy
- Social Services
- Occupational Therapy
- Recreational Therapy
- Speech Therapy
- Physical Therapy
- Dietitian

COST SAVINGS AND ENHANCED REVENUES

- ➢ Established Collaborative Relationship with State Adult Mental Health Program to Allow Admission of Forensic Patients to SMMH Psych Unit
- ➢ Teleradiology Spoke
- ➢ Helped Facilitate Establishment of Kauai's Second Federally Qualified Health Center on the Mahelona Medical Center campus
- ➢ Attained Critical Access Hospital (CAH) designation in 2005 which will provide significantly enhanced revenues for the hospital, via cost-based reimbursement

2005 HMSA Quality Award Recipient: Samuel Mahelona Memorial Hospital was recognized in 2005 by HMSA (Hawaii Medical Service Association) for its efforts to improve the quality of hospital care over the past year.

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES: FY 2003-2007

Estimated Total Private Donations received by the Foundation

- 2003 - $1,800
- 2004 - $9,000

TOTAL - $10,800

Estimated Total Fundraising Monies received by the Foundation

- 2003 - $1,875
- 2004 - $500

TOTAL - $2,375

Estimated Total Funding received by the Foundation from Federal/State/Private Grants

- 2003 - $ -0-
- 2004 - $500
- 2005 – na
- 2006 - $5,350
- TOTAL - $5,850

Estimated Total Donations, Fundraising, Federal/State/Private Grants, received by the Foundation

- 2007 - $7,715

GRAND TOTAL 2003-2007 Foundation $$ to Benefit SMMH = $26,740

VOLUNTEER SERVICES FY2003 – FY2007

- FY2003 Number of Active Volunteers: **58**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **7,500 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$16,650**

- FY2004 Number of Active Volunteers: **58**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **7,500 volunteer hours**

- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$17,150**

- FY2005 Number of Active Volunteers: **55**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **4,000 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$17,500**

- FY2006 Number of Active Volunteers: **165**
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **6,750 volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$10,325**

- FY2007 Number of Active Volunteers: **120**
- FY2007 Number of Volunteer Hours Provided to the HHSC Facility: **6,280 volunteer hours**
- FY2007 Volunteer Auxiliary Cash / Equipment Contributions (Thrift Shop/Fundraising/Donations/Grant donations) to the Facility: **$98,415**

GRAND TOTAL 2003-2007 AUXILIARY $$ TO BENEFIT SMMH = $160,040

Kauai Region Foundations Supporting HHSC Hospitals

Background / Contact Information

Kauai Veterans Memorial Hospital (KVMH) Foundation

This foundation was formed in the fall of 1998. The board consists of 10 community members and 3 employees of the Kauai Veterans Memorial Hospital.

The foundation's main focus is to support the many services, equipment purchases, and programs the West Kauai Medical Center/KVMH provides for its community and the people of Kauai.

Foundation President: Linda Faye-Collins

Foundation Vice President/Treasurer: Eric Honma

Contact information:
KVMH Foundation
Kauai Veterans Memorial Hospital
4643 Waimea Canyon Road
Waimea, Kauai, HI 96796
TEL: 808-338-9431 FAX: 808-338-9420

Samuel Mahelona Memorial Hospital (SMMH) Foundation

This foundation was formed in the spring of 1999. It is managed by eleven board members consisting of eight community members, two employees of SMMH, and one resident of SMMH.

As a Foundation, we are committed to bringing the best healthcare possible to our community through our efforts of raising money from various projects, grants, endowments and community support. To accomplish this, we must go into the community and listen to their health concerns and needs and speak the message of SMMH to them; thus forming a bond of trust, integrity and partnership.

Foundation President: Dave Goller

Foundation Vice-President: Herman Paleka

Secretary-Treasurer: Sharyl Lam Yuen

Contact information:
SMMH Foundation
Samuel Mahelona Memorial Hospital
4800 Kawaihau Road
Kapaa, Kauai, HI 96746
Tel: 808-822-4961 Fax: 808-822-5781

MAUI REGION

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MAUI REGION

MAUI MEMORIAL MEDICAL CENTER (MMMC)

Maui Memorial Medical Center (MMMC) is licensed for 197 (acute and LTC) beds and now has nearly 1,120 (FTE FY07) employees. In fiscal year 2007, there were 10,521 admissions, with 1,835 births; and a total of 54,101 patient days.

- Date MMMC was established – opened in 1884 as "Malulani" by Queen Kapiolani. In 1927, the County of Maui assumed financial responsibility for Malulani Hospital. In 1952, a new 140-bed Central Maui Memorial Hospital was opened. In 1966, operations were transferred to the State of Hawaii. In 1996, HHSC took over the administration of MMMC.

  MMMC patient services include:

  2003 FY:

Admissions	10,791
Births	1,656
ER Visits	19,588
Patient Days	58,500

  2004 FY:

Admissions	11,025
Births	1,666
ER Visits	21,090
Patient Days	56,353

  2005 FY:

Admissions	11,172

Births	1,672
ER Visits	22,732
Patient Days	53,353

2006 FY:

Admissions	11,282
Births	1,649
ER Visits	24,346
Patient Days	55,992

2007 FY:

Admissions	10,521
Births	1,835
ER Visits	26,686
Patient Days	54,101

- Radiology, CT Scan, MRI, Ultrasound, Nuclear Medicine, Thallium Stress Treadmills, General Angiography and Interventional Procedures, Cardioversion, Ablations, EP Studies, Cardiac Catheterization, Pacemakers, ERCP, Stereotactic Mammography
- Cardiac and Intensive Care Unit, Progressive Care Unit
- Psychiatric Care – /Adult
- Physical, Occupational, and Recreational Therapy
- Outpatient Surgery
- Acute Inpatient Dialysis
- Surgery & Post-Anesthesia Care Unit

- Obstetrics/Gynecology with childbirth education classes
- Cancer Center (medical oncology, radiation oncology)
- 24-Hour Emergency Care, Urgent Care
- Pharmacy
- Respiratory Therapy
- Pediatrics
- Telemetry
- EEG
- Laboratory – 24-hour services
- Echocardiography, Transesophageal echos, Treadmill stress tests
- Neurosurgery
- Endoscopy
- Nutrition Services
- General Med/Surg
- Outpatient Observation Unit
- Wound/Ostomy
- Skilled Nursing Unit

COST SAVINGS AND ENHANCED REVENUES

- Magnetic Resonance Imaging Replacement
- New Computerized Tomography Scanner
- New Monitoring Systems
- New Neurosurgery Service
- SonoSite Titan Portable Ultrasound
- Medical Imaging for Surgery (Electromagnetic Surgical Navigation)
- New Cardio-Vascular Center
- Started $42M Hospital expansion and renovation

2005 HMSA Quality Award Recipient: Maui Memorial Medical Center was recognized in 2005 by HMSA (Hawaii Medical Service Association) for its efforts to improve the quality of hospital care over the past year.

<u>2005 JCAHO Certification</u>: In 2005 the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) gave this hospital its highest rating with a 3 full-year accreditation.

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES:
2003-2007

Estimated Total Private Donations received by the Foundation

- **2003- $361,718**
- **2004 - $474,652 (includes $175K from sale of donated property)**
- **TOTAL - $836,370**

Estimated Total Fundraising Monies received by the Foundation

- **2003 - $54,000**
- **2004 - $111,000**
- **TOTAL - $165,000**

Estimated Total Funding received by the Foundation from Private Grants Only

- **2003 - $174,800**
- **2004 - $316,657**
- **TOTAL - $491,457**

Estimated Total Fundraising / Private Donations / Grant Funding:

- **2005 - $900,000**
- **2006 - $900,000**
- **2007 – $320,000**
- **TOTAL – $2,120,000**

GRAND TOTAL 2003-2007 Foundation $$ to Benefit MMMC= $3,612,827

VOLUNTEER SERVICES FY2002 – FY2006

- FY2002 Number of Active Volunteers: **60**
- FY2002 Number of Volunteer Hours Provided to the HHSC Facility: **16,200 volunteer hours**
- FY2002 Volunteer Auxiliary Cash Contributions to the Facility: **$146,080**

- FY2003 Number of Active Volunteers: **60**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **12,500 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$44,257**

- FY2004 Number of Active Volunteers: **60**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **12,000 volunteer hours**
- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$17,473**

- FY2005 Number of Active Volunteers: **55**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **10,000 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$71,000**

- FY2006 Number of Active Volunteers: **59**
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **12,000 volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$9,300**

GRAND TOTAL 2002-2006 Auxiliary $$ to Benefit MMMC= $288,080

KULA HOSPITAL

Kula Hospital began operations in 1909 as a tuberculosis facility. In 1936, Kula Sanitorium, with 200 beds for tuberculosis (TB) patients, became an addition to the hospital. By the 1960's, it began offering psychiatric care. Kula evolved into a long-term care facility during the early 1970's.

Kula Hospital has 104 licensed beds (5 acute/SNF swing care and 99 SNF/ICF) and employs 195 (FTE FY07) employees. Its patient services include:

- Limited Acute Care
- Inpatient Skilled Nursing and Intermediate Care
- Developmentally Disabled Inpatient Services (ICF-MR)
- Alzheimer's and Dementia Care
- Family Practice Clinic Services
- Pharmacy
- Physical, Occupational Therapy
- Laboratory & X-Ray Services
- Outpatient Clinic

COST SAVINGS AND ENHANCED REVENUES

- Increased Admissions from 25/year to 150/year
- Increased Skilled Nursing Days from 900 patient days/year to 6,000+patient days/year
- Attained Critical Access Hospital (CAH) designation in 2005 which will provide significantly enhanced revenues for the hospital, via cost-based reimbursement

2003 FY:

Admissions	**211**
Patient Days	**38,849**

2004 FY:

Admissions	**172**

Patient Days	**37,725**

FY 2005:

Admissions	**98**
Patient Days	**37,401**

FY 2006:

Admissions	**93**
Patient Days	**38,200**

FY 2007:

Admissions	**72**
Patient Days	**38,158**

VOLUNTEER SERVICES FY2002 – FY2006

- FY2002 Number of Active Volunteers: **56**
- FY2002 Number of Volunteer Hours Provided to the HHSC Facility: **6,850 volunteer hours**
- FY2002 Volunteer Auxiliary Cash Contributions to the Facility: **$26,500**

- FY2003 Number of Active Volunteers: **88**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **4,108 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$17,600**

- FY2004 Number of Active Volunteers: **27**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **6,100 volunteer hours**
- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$16,000**

- FY2005 Number of Active Volunteers: **27**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **8,000 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$25,000**

- FY2006 Number of Active Volunteers: 32
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: 7,500 **volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$26,200**

GRAND TOTAL 2002-2006 Auxiliary $$ to Benefit the Facility= $111,300

LANAI COMMUNITY HOSPITAL (LCH)

Lanai Community Hospital (LCH) is the only hospital on the island of Lanai. It was originally built 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. Lanai Community Hospital has 14 licensed acute care (4) and long-term care (10) beds (duo certification for SNF/ICF.

LCH has 31 (FTE FY07) employees. Annually, LCH averages about 35 admissions, with over 2,800 patient days; and more than 700 Emergency Room visits. Its patient services include:

2003 FY:

Admissions	43

Patient Days	3,661
Births	3
ER Visits	506

2004 FY:

Admissions	38
Patient Days	3,551
Births	0
ER Visits	822

2005 FY:

Admissions	21
Patient Days	3,236
Births	0
ER Visits	793

2006 FY:

Admissions	38
Patient Days	2,990
Births	2
ER Visits	894

2007 FY:

Admissions	47
Patient Days	2,469
Births	2
ER Visits	984

- 24-Hour Emergency Care
- Limited Laboratory & X-Ray Services
- Limited Acute Care
- Extended Care (long-term services)
- Hemo-dialysis Services on Lanai are now available.

COST SAVINGS AND ENHANCED REVENUES

- New Renal Dialysis Service
- Nurse Call System Replacement
- Attained Critical Access Hospital (CAH) status in July 2001.

2005 HMSA Quality Award Recipient: Lanai Community Hospital was recognized in 2005 by HMSA (Hawaii Medical Service Association) for its efforts to improve the quality of hospital care over the past year.

VOLUNTEER SERVICES FY2002 – FY2006

- FY2002 Number of Active Volunteers: **54**
- FY2002 Number of Volunteer Hours Provided to the HHSC Facility: **1,715 volunteer hours**
- FY2002 Volunteer Auxiliary Cash Contributions to the Facility: **$500**

- FY2003 Number of Active Volunteers: **26**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **1,750 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$500**

- FY2004 Number of Active Volunteers: **26**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **1,750 volunteer hours**
- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$500**

- FY2005 Number of Active Volunteers: **26**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **1,900 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$3,000**

- FY2006 Number of Active Volunteers: **26**
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **1,900 volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$2,500**

GRAND TOTAL 2002-2006 Auxiliary $$ to Benefit the Facility= $7,000

Maui Region Foundation Supporting HHSC Hospitals

Background / Contact Information

Maui Memorial Medical Center (MMMC) Foundation

This foundation was formed in 1996 and opened a foundation office in 1999. It is a support foundation with a nonprofit status to support the master plan for development, scholarship funding and the purchase of state-of-the-art equipment.

MMMC is Maui's acute care facility, serving everyone. It is here for the generations to follow. Your support will ensure a safe and healthy future for us all. MAHALO!

Foundation President:
Fran Peart Mitsumura

Foundation Executive Director:
Lani Correa (lcorrea@hhsc.org) 808-242-2632

Contact information:
Maui Foundation (www.MauiFoundation.org)
285 Mahalani Street, Suite 25
Wailuku, Maui, HI 96793
Tel: 808-242-2632 Fax: 808-242-2633

OAHU REGION

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OAHU REGION

MALUHIA

<u>Maluhia</u> operates 158 licensed beds and employs 215 (FTE) employees. In fiscal year 2007, there were 148 admissions. The total patient days were 56,648, and the facility occupancy rate was 97% during fiscal year 2007.

- Date Maluhia was established: 1923

Programs and Services

2003 FY:

Admissions	227
Patient Days	56,612

2004 FY:

Admissions	224
Patient Days	56,639

2005 FY:

Admissions	233
Patient Days	56,158

2006 FY:

Admissions	205
Patient Days	55,623

2007 FY:

Admissions	148
Patient Days	56,648

The following are the programs and types of services offered at Maluhia:

Long-Term Care Inpatient Services

- 158 Skilled Nursing and Intermediate Care Beds
- Adult Day Health Services
- Home Care Services
- Primary Care Clinic

Support

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

COST SAVINGS AND ENHANCED REVENUES

- Basement Expansion & Interior Improvements
- Transitioning PACE to Adult Day Health, Home Care, & Physician Services

VOLUNTEER SERVICES FY2003 - FY2007

- FY2003 Number of Active Volunteers: **102**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **16,000 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$40,700**

- FY2004 Number of Active Volunteers: **102**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility:

16,000 volunteer hours

- FY2004 Volunteer Auxiliary Cash Contributions to the Facility: **$38,000**

- FY2005 Number of Active Volunteers: **90**
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **16,000 volunteer hours**
- FY2005 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$19,200**

- FY2006 Number of Active Volunteers: 55
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: 8,900 **volunteer hours**
- FY2006 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$9,060**

- FY2007 Number of Active Volunteers**: 59**
- FY2007 Number of Volunteer Hours Provided to the HHSC Facility: 1,150 **volunteer hours**
- FY2007 Volunteer Auxiliary Cash / Equipment Contributions to the Facility: **$4,441**

GRAND TOTAL 2003-2007 Auxiliary $$ to Benefit Maluhia = $111,401

LEAHI

Leahi Hospital operates 190 beds and employs 151 (FTE) employees. In fiscal year 2007, there was 4 TB as well as 151 LTC admissions. The total patient days were 227 TB days and 64,350 LTC days. The facility LTC occupancy rate is steadily at 98%.

- Date Leahi was established: 1902

Programs and Services

2003 FY:

Admissions	116
Patient Days	65,063

2004 FY:

Admissions	205
Patient Days	64,193

2005 FY:

Admissions	146
Patient Days	64,660

2006 FY:

Admissions	170
Patient Days	64,168

2007 FY:

Admissions	155
Patient Days	64,577

TB Services

- 9 Acute TB Inpatient Beds
- Outpatient Services (TB patients are discharged to the Lanakila TB clinic for follow-up)

Leahi Geriatrics Outpatient Clinic

- Collaboration with UH School of Medicine, Geriatrics Medicine Division to provide outpatient geriatric consultation and medical services

Long-Term Care Inpatient Services

- 179 Dual Certified SNF/ICF Beds

Outpatient Services

- Adult Day Health Center

Support for all Services

- Pharmacy
- Recreational Therapy
- Dietary Services
- Social Services
- Speech Therapy
- Laboratory
- Occupational Therapy
- Physical Therapy
- X-Ray

COST SAVINGS AND ENHANCED REVENUES

- Adult Day Care Health Service Expansion
- Developed IV Therapy Program

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES: FY 2003-2007

Total Private Donations received by the Foundation

- 2003 - Foundation not established until 2004
- 2004 - $ 8,627

TOTAL – $8,627

Total Fundraising Monies received by the Foundation

- 2003 - Foundation not established until 2004
- 2004 - $ 8,627

TOTAL - $ 8,627

Total Funding received by the Foundation from Federal/State/Private Grants

- 2003 - Foundation not established until 2004
- 2004 - $ 8,627
- 2005 - $ 64,641
- 2006 - $17,350 (Leahi/Maluhia)
- 2007 - $10,955 (Leahi/Maluhia)

TOTAL - $101,573

GRAND TOTAL 2003-2007 Foundation $$ to Benefit Leahi/Maluhia = $118,827

<u>VOLUNTEER SERVICES FY2003 - FY2007</u>

- FY2003 Number of Active Volunteers: **60**
- FY2003 Number of Volunteer Hours Provided to the HHSC Facility: **8,640 volunteer hours**
- FY2003 Volunteer Auxiliary Cash Contributions to the Facility: **$20,548**

- FY2004 Number of Active Volunteers: **78**
- FY2004 Number of Volunteer Hours Provided to the HHSC Facility: **9,169 volunteer hours**
- FY2004 Volunteer Auxiliary Cash Contributions to the Facility:**$ 37,981**

- FY2005 **70** Active Individual Volunteers and **196** Regular and Occasional Group Volunteers.
- FY2005 Number of Volunteer Hours Provided to the HHSC Facility: **10,203 volunteer hours**
- FY 2005 Volunteer Auxiliary Cash/Equipment Contributions to the Facility: **$ 49,263**

- FY2006 **59** Active Individual Volunteers and **343** Group Volunteers.
- FY2006 Number of Volunteer Hours Provided to the HHSC Facility: **7,499 volunteer hours**
- FY 2006 Volunteer Auxiliary Cash/Equipment Contributions to the Facility: **$ 24,000**

- FY2007 **72** Active Individual Volunteers and **343** Group Volunteers.
- FY2007 Number of Volunteer Hours Provided to the HHSC Facility: **10,821 volunteer hours**
- FY 2007 Volunteer Auxiliary Cash/Equipment Contributions to the Facility: **$14,144.00**

GRAND TOTAL 2003-2007 Auxiliary $$ to Benefit Leahi = $145,936

Oahu Region Foundation Supporting HHSC Hospitals Background /Contact Information

Leahi & Maluhia Foundation

This foundation was established in 2003, to support the work of Leahi Hospital and Maluhia Long Term Care Center in their mission, development, and provision of quality health and long term care.

Foundation President: Jay Duquette
jayd@hhsc.org

Foundation Program Administrator: Lydia Chock
lchock@hhsc.org

Contact Information:
Leahi-Maluhia Foundation
Maluhia, 1027 Hala Drive, Honolulu 96817
Tele: 808-832-6149 Fax: 808-832-3039

Nine Foundations Supporting HHSC Hospitals

Kauai Veterans Memorial Hospital (KVMH) Foundation

KVMH Foundation
Kauai Veterans Memorial Hospital
4643 Waimea Canyon Road
Waimea, Kauai, HI 96796
TEL: 808-338-9431 FAX: 808-338-9420

Samuel Mahelona Memorial Hospital (SMMH) Foundation

SMMH Foundation
Samuel Mahelona Memorial Hospital
4800 Kawaihau Road
Kapaa, Kauai, HI 96746
Tel: 808-822-4961 Fax: 808-822-5781

Maui Memorial Medical Center (MMMC) Foundation

Maui Foundation (www.MauiFoundation.org)
285 Mahalani Street, Suite 25
Wailuku, Maui, HI 96793
Tel: 808-242-2632 Fax: 808-242-2633

Kona Community Hospital Foundation

Kona Hospital Foundation
79-1019 Haukapila Street
Kealakekua, HI 96750
Tel: 808-322-9311 Fax: 808-322-4488

Kohala Hospital Charitable Foundation

Kohala Hospital Charitable Foundation
P.O. Box 430
Kapaau, HI 96755
Tel: 808-889-7905

Hilo Medical Center Foundation

HMC Foundation
Hilo Medical Center Foundation
1190 Waianuenue Avenue, Box 629
Hilo, HI 96720
Tel: 808-935-2957 Fax: 808-974-4746

Ka`u Hospital Charitable Foundation

Ka`u Hospital Foundation
Ka`u Hospital
1 Kamani Street
P.O. Box 40
Pahala, HI 96777
Tel: 808-928-2959 Fax: 808-928-8980

Leahi & Maluhia Foundation

Leahi-Maluhia Foundation
Maluhia
1027 Hala Drive
Honolulu, HI 96817
Tel: 808-832-6149 Fax: 808-832-3039

Hawaii Health Systems Foundation

Hawaii Health Systems Foundation
Hawaii Health Systems Corporation
3675 Kilauea Avenue
Honolulu, HI 96816
Tel: 808-733-4020 Fax: 808-733-4028

HHSC Hospital Auxiliaries and Community-Based Volunteer Programs
Supporting HHSC Community Hospitals
FY 2003 – FY 2007

- During the years FY2003 – FY2007, HHSC healthcare facilities have benefited from the outstanding, dedicated service of community-based "Hospital Auxiliaries" comprised of more than 4,000 individual and group volunteers system-wide.

- These Volunteers have provided more than 487,400 hours of direct service to their respective HHSC community hospital. That is the equivalent of over 60,925 days workdays.

- These Hospital Auxiliary volunteers have contributed through their work in the 12 HHSC healthcare facilities, more than $1,369,010 in cash and in-kind donations of supplies, equipment and services.

Hawaii Health Systems Corporation

Successes

- **<u>HHSC Has Enhanced Quality</u>**: Quality of care, access to care, and levels of service throughout the system have dramatically improved as a result of HHSC's management decisions and operational leadership

- **<u>Successful Accreditation and Certification</u>**: Over the past nine years, each of our twelve HHSC facilities successfully passed every State / Federal accreditation and certification survey as well as every survey by the Joint Commission. HHSC certification and survey scores have been markedly higher compared to scores received prior to HHSC taking full responsibility for the system in 1997.

- **<u>Seven HHSC Hospitals Achieve Critical Access Hospital (CAH) Designation</u>**: In order to capitalize on enhanced reimbursement for rural hospitals in the Federal CAH program, seven HHSC hospitals applied for and have been re-designated as CAHs. This re-designation has resulted in more than $6 million per year in additional Federal reimbursement to HHSC for services provided at our CAHs.

- **<u>Telemedicine & Telehealth</u>**: HHSC in partnership with University of Hawaii has established the State of Hawaii Telehealth Access Network (STAN) enabling HHSC facilities to take the leading edge in Telemedicine technology and initiatives in Hawaii.

- **<u>HHSC-Union Partnership</u>**: Over the last several years, HHSC and the Unions representing HHSC employees and patients have established very collegial and collaborative working relationships. HHSC considers our professional relations with HGEA, UPW, ILWU and other local unions, to be a "partnership to success."

- **<u>One of Hawaii's Largest Provider of Long Term Care</u>**: HHSC continues to proactively respond to the growing healthcare needs of Hawaii's aged population. In spite of having to work with limited resources, HHSC continues to fulfill its mission of providing quality long-term care service for close to 800 long-term care patients.

- **<u>HHSC Successful in Attaining Disproportionate Share Payments</u>**: In concert with the Hawaii State Department of Human Services (DHS), HHSC has used certified Medicaid losses to obtain an additional $7.5 per year in disproportionate share payments.

- **<u>Maui Memorial Medical Center Opens New Wing:</u>** The new $46 million, 75,000 square foot wing includes: a new lobby an admitting area; an expanded physical therapy/ occupational therapy department with a gym; a new ambulatory surgery center with four procedure rooms and two fully-equipped endoscopy suites; a new ICU unit with larger rooms to accommodate families; and improved patient and public waiting areas.

Attachment 6

"Touching Lives Everyday"
HAWAII HEALTH SYSTEMS
C O R P O R A T I O N

Hawaii Health Systems Corporation, HHSC
Informational Briefing
Fiscal Year 2009

Presented to the

The Senate
Committee on Ways and Means

Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair

January 10, 2008, 9:00 AM
Conference Room # 211
Hawaii State Capitol

Program I.D. and Title: HTH 210 – Hawaii Health Systems Corporation

I. Introduction:

A. Summary of program objectives.

To maintain and enhance the levels of accessible service and quality of care for the communities we serve in the most effective and cost-efficient fashion thus providing better healthcare for the people of Hawaii, with emphasis on support for our rural acute and Long Term Care (LTC) facilities.

Hawaii Health Systems Corporation (HHSC) facilities include: Hilo Medical Center, 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) as well as State Veterans Home, Hilo; Roselani Place Assisted Living Center, Maui; and Management control for Kahuku Hospital, Oahu.

B. Description of program objectives.

System. Following direction set by the HHSC Board of Directors, and with advice provided by both the Regional Public Health Facility Management Advisory Committees and the Physician Advisory Group, as we transition to a structure that includes Regional System Boards, the HHSC President/CEO and staff, in collaboration with our Regional CEO's; coordinate and implement planning, policy formulation, hospital system operation, business development, quality assurance, corporate compliance, coordination, financial management, legal counsel, public affairs, personnel management, materials management, information systems operation and technical services support for regions and their respective community hospitals, as well as interaction with the State administrative government agencies, the Hawaii Legislature, Hawaii's Congressional Delegation, community advisors, labor leaders, employees, medical staff and all other key stakeholders.

Regions and Facilities. HHSC manages and operates, for the State of Hawaii, the largest community hospital system in the State that is the 25th largest business in Hawaii and the 4th largest public health system in the nation. HHSC's Community Hospitals are organized into five regions and the HHSC sole member not-for-profit 501 (c) 3's across five different islands. The major activities and services provided by the five regions and fifteen community facilities constitute the primary hospital acute, long term care (LTC) and rural health care on the Neighbor Islands with a large LTC presence on Oahu.

Essentially, HHSC provides the hospital "safety-net" for community acute and long term care services on the neighbor islands plus additional levels of specialty service in select locations. Collectively, through operations of our eleven emergency departments, HHSC hospitals are the largest provider of emergency services in the State, far surpassing the annual number of ER visits logged by Queen's Medical Center, the State's Trauma Center. Collectively, HHSC hospitals are the single largest provider of LTC services in the State. In this regard, HHSC essentially also serves as the LTC "safety net" for the State of Hawaii. Inpatient services include surgical, medical, critical care, obstetrics, pediatrics, and psychiatric care. Outpatient care services include ambulatory surgery, home health, and emergency room services. Clinical services include nursing, anesthesiology, central supply, radiology, oncology, pathology, cardiology, pediatrics, obstetrics, home health, respiratory therapy, physical and occupational therapy, social services, pharmacy, and dietary. Support services include administration, admitting, business, personnel, data processing, medical records, logistics, housekeeping, and maintenance.

Identification of important system relationships. As a public hospital system, HHSC depends heavily on input and support from our local communities. Over this past year, hundreds of community volunteers Statewide donated over 100,000 service hours to our facilities. Generous benefactors donated many hundreds of thousands of dollars to our nine hospital foundations. This close collaboration between HHSC and community organizations is essential to the long-term success of HHSC.

During the aftermath of the Big Island earthquake disaster on October 15, 2006, maintenance, engineering, and other staff from non-affected HHSC facilities (i.e., Hilo Medical Center, Kauai Veterans Memorial, Leahi Hospital, and Samuel Mahelona Memorial Hospital) provided immediate and intermediary support in the recovery and assessment phases. Equally important, members of the respective, affected communities were immediately at hand to provide additional support. Collaborative efforts will continue with Home Land Security, state and county civil defense, department of health, and the military in preparation for future disasters. Although this event occurred in October 2006, the recovery aftermath continues.

The five statutorily created, regional Public Health Facility Management Advisory Committees (MACs) provided valuable input to the President and CEO in the first part of this fiscal year on the needs of the communities. *Pursuant to Act 290, SLH 2007, Public Health Facility Management Advisory Committees (MACs) are abolished as Regional System Boards are established in each region.*

The Physicians Advisory Group (PAG) now reconstituted as Physician Leadership Group (PLG) includes physicians throughout the islands who volunteer their time and talents to come together on a periodic basis with the President and CEO to discuss the clinical and medical staff issues facing our hospitals. The PLG represents approximately 1,000 HHSC medical staff members who are essential to operations and success of HHSC. The continuing guidance and support of the PLG is tremendously important to both the successful functioning of the system and establishment of strategic direction for the system.

HHSC management has worked to obtain donations and grants to both enhance services provided and to offset the cost of operating our system under the provisions of State civil service collective bargaining in predominately 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). The HHSF is working in coordination with eight other foundations associated with HHSC facilities to maximize donations and grants for the system and for respective facilities. Nine years ago, there were three foundations supporting HHSC facilities of which only two were active. Today there are nine separate foundations and multiple hospital auxiliaries supporting one or more HHSC hospitals.

C. **Explain how your system intends to meet its objectives within the upcoming fiscal biennium. (Supplemental fiscal year?)**

HHSC hopes to meet FY 08 and FY 09 program and budget objectives by collecting patient revenues to meet approximately 85 percent of expense requirements resulting in minimized general fund requirements. HHSC will execute its operations in the most efficient manner possible to ensure continued provision of access to quality safety-net services to all the communities served by HHSC hospitals, HOWEVER, HHSC will need $25.4 million Emergency appropriation (EA) from either the Legislature or some other source to successfully operate through the full FY 2008.

II. Program Performance Results:

A. Discuss the performance results achieved by each program in FY07 and FY08

Quality "patient safe", accessible and affordable healthcare efficiently provided by HHSC facilities to all communities served. Details available upon request.

B. Explain how these results relate to the program's objectives and department's mission.

Mission accomplished. Successfully fulfilled HHSC Safety-Net mission with quality outcomes.

Program activities were accomplished in the past year (FY07), with 22,240 in-patient admissions and 113,859 acute care patient days, 1,184 long-term care admissions, 283,242 long-term care patient days, 3,790 babies born, and 98,140 emergency room visits.

C. Explain how the effectiveness of the program is measured and discuss the performance results achieved during the past two years.

All 15 HHSC facilities are fully certified and have maintained their licensure by both State & National standards. All HHSC facilities are certified annually by Medicare/Medicaid and all have successfully passed those surveys.

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.

Since its successful system accreditation in 2005, HHSC's four accredited facilities continue to focus its efforts on anticipated changes in the accreditation process and emphasis as it prepares for re-accreditation in 2008.

In relation to the Joint Commission's newly implemented unannounced survey process, HHSC facilities have initiated activities to achieve constant survey readiness. Maui Memorial Medical Center has integrated Joint Commission preparedness and daily readiness that traces the patient from admission to discharge with its routine management practice.

In addition, HHSC annually has a detailed independent third party financial audit conducted for the entire system. HHSC has just received its tenth consecutive "clean" unqualified audit with no material weaknesses and no reportable conditions. Furthermore, 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. Details available upon request. HHSC has hired a second internal auditor to further enhance and ensure our commitment to compliance and quality / financial efficiency throughout our system.

D. Discuss actions taken by each program to improve its performance results.

Facilities have used past survey results and recent changes in survey guidelines to establish monitoring and process improvement initiatives that are actively being managed. The results of these efforts should be seen in the outcomes of CMS licensure surveys and findings. Although there are occasional short term set backs, long term aggregate results are very positive.

E. Please identify all modifications to your system's performance measures and discuss the rationale for these modifications.

As necessary, HHSC internal reporting / performance measures are continually adjusted and revamped to meet the ever-changing needs of today's fluid healthcare environment. Some examples are in annual reporting measures on workers compensation; new revenue enhancing measures; and additional quality measures involving patient safety.

Annually, HHSC focuses on new national patient safety goals most recently approved by Joint Commission as it relates to hospitals and critical access hospitals. Details available upon request.

III. Problems and Issues:

A. Discussion of problems and issues encountered if any.

<u>1. National Health Care Challenges</u>

- Decreasing reimbursements for all providers
- Increasing pressures on physicians
- Increasing charity care/bed debt
- Skilled healthcare labor shortage
- Nice providers skimming profitable services
- Expensive malpractice insurance
- Cost of compliance

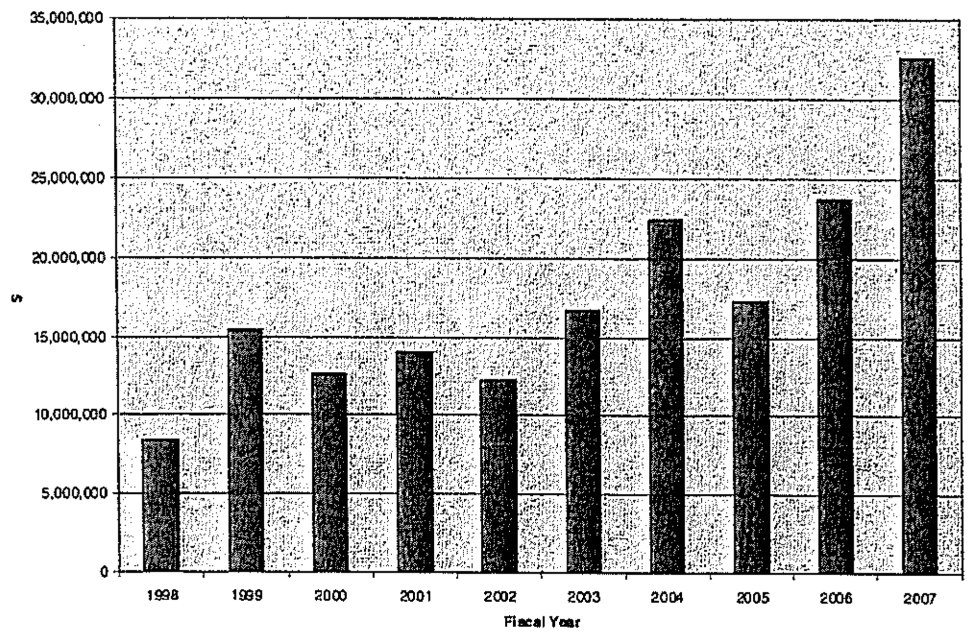
2. Hawaii Healthcare Challenges

- Only state in USA with no regular Medicaid "DSH" payment
- One of only two states in USA that tax (GET) medical services
- Ranked #50 in USA for not keeping up with hospital capital requirements
- Ranked #50 in USA for Average Reimbursement % of Cost
- Long-term care (LTC) crisis

3. HHSC Specific Healthcare Challenges

- High cost of labor and benefits with no corresponding input in collective bargaining negotiations
- Procurement code
- Levels of service mandated by legislature
- Inherited liabilities
- LTC Wait List problem in HHSC acute facilities
- Lack of physician specialists on neighbor islands medical staffs
- No level playing field for third party payer negotiations
- Outdated facilities
- Inadequate investment in Information Technology infrastructure and software
- Medicaid Equity Reimbursement Act 294 will cost HHSC (and ultimately the State) over $13 million per year in lost reimbursement
- Geographically dispersed
- Remote population served
- Diverse community needs
- Labor force shortage exacerbated on neighbor islands
- Housing (not affordable/available) on neighbor islands
- Communities are depending upon HHSC – sometimes no other option

"HHSC Has Provided $175 Million in Free Care From FY 98 - FY 07"



Financial Trends of Hawaii's Hospitals, Nursing Facilities, Home Care and Hospice

Providers have been experiencing losses consistently since 2000

- Total costs exceeded payments for Hawaii's hospitals in 2006 by $150,000,000 ($150 million)
- Contributing to those losses are costs not covered by government payors and community benefits including medical education, community programs, bad debt and charity care, waitlist patients and trauma care
- Investment income and other revenues have helped to reduce the overall losses for some hospitals
- Hospitals without significant investments and other revenue sources operate at an overall loss
- Cumulative losses since the implementation of the Balance Budget Act of 1999, have depleted reserves the hospitals had saved for future capital projects and serving the community

HAH Healthcare Association of Hawaii 26

Payments to Hawaii Hospitals

Hawaii's overall payment as a percentage of costs is the lowest in the United States

- Hawaii payments are primarily from Medicare, Medicaid, commercial payors (HMSA, UHA, HMAA, etc.) and others (Workers' Compensation, No-Fault, etc.)
- Medicare and Medicaid do not pay for the full cost of hospital services provided to beneficiaries in most states
  - Over 50% of all inpatients hospitalizations are covered by Medicare or Medicaid/Quest
  - 2006 Medicare losses for hospitals were approximately $181,200,000
  - 2006 Medicaid/Quest losses for hospitals were approximately $63,500,000
- In many states, private insurance covers the shortfall from the government payors

Calendar Year 2006
Percent of Costs Paid by:

	Medicare	Medicaid/ Quest	Commercial and Other	Overall
Hawaii	79.77 %	80.02 %	111.24 %	92.39 %
Lowest Overall State	66.65 %	32.93 %	101.80 %	92.39 %
Average for US	80.36 %	75.30 %	124.89 %	104.32 %
Highest Overall State	101.03 %	105.46 %	145.94 %	115.62 %

Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC)

Healthcare Association of Hawaii 6

B. Program change recommendations to remedy problems.

The HHSC Board of Directors and management are committed to continuing the transformation of HHSC's structure into a healthcare system that enhances excellent access to highest-quality healthcare for all patients in our communities regardless of their ability to pay. In order to continue being the quality system that our communities deserve, and reduce State's payments for services provided by HHSC, HHSC must be afforded much more autonomy, with support to address concerns beyond HHSC control.

In order to continue to provide the levels of services needed in rural communities and as a necessity for maintaining the essential, emergency room services in rural communities HHSC is seeking an emergency appropriation of $25.4 million to help cover Accounts Payable for this fiscal year. If this level of support is not forthcoming, then HHSC hospitals will be put in jeopardy of being closed by vendors who we can not pay.

FY 2008 Emergency Appropriation $25.4m By Region/Facility

- Oahu Region:
  - Leahi $ 199,000
  - Maluhia $ 482,000
- Kauai Region:
  - WKMC -0-
  - SMMH $ 214,000
- Maui Region:
  - MMMC $ 10,687,000
  - Kula -0-
  - Lanai $ 489,000
- East Hawaii Region:
  - HMC $ 7,934,000
  - HHH -0-
  - Kau $ 6,000
- West Hawaii Region:
  - KCH $ 5,347,000
  - Kohala $ 84,000

1

FY 2009 Supplemental Budget Submission

- Supplemental Operating Budget Submission: $ 57 Million
- Supplemental CIP Budget Submission: $ 99.8 Million

2

FY 2009 Supplemental Operating Budget Submission – Totals by Facility/Region

HMC:	$17, 528	MMMC:	$ 21,735	KCH:	$10,436
HHH:	443	KULA:	318	Kohala:	695
KA'U	358	LANA'I:	728		

East HI: $18,329 Maui Region: $22,781 West HI Region: $11,131

WKMC:	$ 1,684	LEAHI:	$ 975
SMMH:	1,078	MALUHIA:	1,017

Kauai Region: $ 2,762 Oahu Region: $ 1,992

4

FY 2009 Supplemental CIP Budget Submission – Totals by Facility/Region

HMC:	$12,344,841	MMMC:	$28,920,956	KCH:	$18,450,969
HHH:	4,936,012	KULA:	8,177,132	Kohala:	4,420,767
KA'U	4,269,062	LANA'I:	4,709,815		

East HI: $17,381,000 Maui Region: $36,539,000 West HI Region: $20,940,000

WKMC:	$ 2,718,711	LEAHI:	$ 4,487,367
SMMH:	$ 1,709,314	MALUHIA:	4,654,054

Kauai Region: $ 3,010,000 Oahu Region: $ 7,929,000

5

C. **Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Please note that all problems mentioned in paragraph III A do have an impact on implementation of the HHSC program. However the following three points deserve special concern and comment.

- Operating under the State Procurement Code continues to add millions of dollars (approximately $5 million per year) to HHSC operating costs and continues to negatively affect our ability to procure goods and services in timely and appropriate manner. HHSC incurs other non-tangible costs from operating under the procurement code, such as lost opportunity for savings and new revenues because of the limitations imposed by the code and State Procurement Office requirements. While it is not a current HHSC legislative initiative to re-establish HHSC's exemption from the procurement code, it will be necessary, in the long term, to exempt HHSC from the procurement code to provide effective, efficient, cost-effective procurement services and to sustain timely, efficient access to healthcare for the communities we serve.
  According to Act 290, SLH 2007, the regions are not subject to procurement code as well as other state agency laws relating to other contract restrictions and sunshine law, i.e., chapters 103-53, tax clearance, 102 vendor concessions, 92 Part I, public meetings law however, the procurement exemption provision does not take effect until Regional System Boards are "fully" constituted..

- Compensation for Physician On-Call coverage at the HHSC hospitals will greatly increase overall operational costs by a projected amount of approximately $15 million in FY 08 and $16 million in FY 09. HHSC is compensating for the situation by recruiting, hiring and contracting with physician specialists to provide coverage for our Emergency Rooms. This situation has significantly worsened over the past year and been a major factor in necessitating a FY09 Supplemental Request of $57 million (amount includes the FY08 $25.4 m EA).

- Uniform provision of specialty medical care on the Neighbor Islands has been increasingly difficult to maintain. HHSC's engagement with NBBJ master planners is a major initiative that is intended to provide the State with a new comprehensive integrated system master plan. This plan will be developed from the bottom up with input from communities, physicians, nurses and management at the facility, region, and system levels in that order. Part of the concept involves establishing a referral center on Maui focused on quality outcomes serving as a disaster management center and Level II trauma center, with open heart surgery and other specialty services that will interact with robust HHSC Community Hospitals, LTC facilities, Critical Access Hospitals and other partners throughout the State of Hawaii. The master planning process also anticipates establishing level III trauma centers at Kona Community Hospital and Hilo Medical Center plus many other regional initiatives such as a health science center at Hilo Medical Center, some type of chronic/facility in West Hawaii, enhanced surgical capabilities on Kauai, enhanced long term care (LTC) capability on Oahu, and increased physician specialty emergency care capability throughout the system.

IV. Expenditures for Fiscal Year 2007-2008

	Act 213/2007 FY 2008	C/B	Net Allocation	Est. Total Expenditures
(posn count)	(2836.25)		(2836.25)	(2836.25)
Personal Svcs	291,575,000	11,194,015	302,769,015	302,769,015
Current Exp.	141,691,232	-	141,691,232	141,691,232
Equipment		-	-	
Motor Vehicles		-	-	
TOTAL	433,266,232	11,194,015	444,460,247	444,460,247

(posn count)	(2836.25)		(2836.25)	(2836.25)
Special	379,654,000		379,654,000	379,654,000
General	53,612,232	11,194,015	64,806,247	64,806,247
Other			-	
	433,266,232	11,194,015	444,460,247	444,460,247

V. Supplemental Budget Request for Fiscal Year 2008-2009:

	Act 213/2007 FY 2009	Supplemental Request	Est. Total Expenditures
(posn count)	(2836.25)		(2836.25)
Personal Svcs	296,024,763		296,024,763
Current Exp.	161,058,198		161,058,198
Equipment			-
Motor Vehicles			-

TOTAL	457,082,961	-	457,082,961
(posn count)	(2836.25)		(2836.25)
Special	403,460,000		403,460,000
General	53,622,961		53,622,961
	457,082,961	-	457,082,961

Workload or Program Request:

HHSC is not submitting a workload or program request.

VI. Capital Improvement Requests for Fiscal Year 2008-2009

1. X-RAY SYSTEM REPLACEMENT, STATEWIDE

DESIGN, CONSTRUCTION, AND EQUIPMENT TO REPLACE EXISTING X-RAY SYSTEM AT SMMH, MALUHIA, KOHALA, KULA, HALE HO'OLA HAMAKUA, AND KAU HOSPITALS, STATEWIDE

	FY 2009
Design	324 C
Construction	2154 C
Equipment	6 C

Explanation and Scope of Project

To replace the existing x-ray system with a new digital x-ray system.

Justification for the Project

The existing x-ray system uses chemicals to develop the x-ray film and the chemicals are deteriorating the sewer lines. A digital x-ray system at SMMH, Maluhia, Kohala, Kula, Hale Ho'ola Hamakua, and Kau hospitals will eliminate the use of chemicals.

Senate District (Statewide) **House District** (Statewide)

2. LANAI COMMUNITY HOSPITAL, UPGRADE PLUMBING, LANAI

DESIGN AND CONSTRUCTION TO UPGRADE THE PLUMBING IN THE HOSPITAL, LANAI

	FY 2009
Design	151 C
Construction	1167 C

Explanation and Scope of Project

To upgrade the plumbing system at Lanai Community Hospital.

Justification for the Project

The hospital building and plumbing are over 38 years old and many of the fixtures and pipes need to be assessed and upgraded to ensure the health and safety of our patients.

Senate District 004 **House District** 007

3. KULA HOSPITAL, SEWER AND GREASE TRAP SYSTEM UPGRADE, MAUI

DESIGN, CONSTRUCTION, AND EQUIPMENT TO UPGRADE THE SEWER AND GREASE TRAP SYSTEM FOR THE HOSPITAL, MAUI

	FY 2009
Design	1 C
Construction	1298 C
Equipment	1 C

Explanation and Scope of Project

To install a wastewater treatment system to replace the existing large capacity cesspools and replace the dietary grease trap.

Justification for the Project

Federal law requires the elimination of large capacity cesspools by April 2005. The hospital is in non-compliance but has apprised the EPA of our commitment to convert the existing cesspools to a compliant wastewater treatment system. EPA will monitor our progress of the conversion.

Senate District 006 **House District** 012

4. KONA COMMUNITY HOSPITAL, SEISMIC MITIGATION, HAWAII

DESIGN AND CONSTRUCTION TO IMPLEMENT SEISMIC MITIGATION MEASURES, HAWAII

	FY 2009
Design	1 C
Construction	999 C

Explanation and Scope of Project

Seismically anchor all overhead lighting, ceiling grids, overhead plumbing, electrical pipes and conduits, as well as all overhead air handling HVAC units. All equipment over 300 pounds shall be anchored.

Justification for the Project

Following the October 15, 2006 earthquake, items were dislodged and only certain critical items were later anchored. An evaluation was conducted and most of the items listed were identified as not having any seismic supports or anchoring.

Senate District 003 **House District** 005

5. KAUAI REGION, MASTER PLANNING, KAUAI

PLANS TO IMPLEMENT A MASTER PLANNING DOCUMENTATION FOR THE KAUAI REGION HOSPITALS.

	FY 2009
Plans	1000 C

Explanation and Scope of Project

To develop and implement a master plan for the Kauai Region Hospitals.

Justification for the Project

None of the facilities have a master plan to assist them in future planning and development for their campuses.

Senate District 007 **House District** 013 and 014

6. NURSE CALL SYSTEM REPLACEMENT, STATEWIDE

DESIGN, CONSTRUCTION, AND EQUIPMENT TO UPGRADE THE EXISTING NURSE CALL SYSTEMS AT HILO, LEAHI, HALE HO'OLA HAMAKUA, AND KAU HOSPITALS, STATEWIDE

	FY 2009
Design	328 C
Construction	2224 C

Equipment	4 C

Explanation and Scope of Project

To replace the existing nurse call systems as the equipment is old and some replacement parts obsolete.

Justification for the Project

When the nurse call systems are being repaired, some patients are left without a nurse call service, which could endanger the health and safety of our patients.

Senate District (Statewide) **House District** (Statewide)

7. MAUI MEMORIAL MEDICAL CENTER, DIALYSIS UNIT, MAUI

DESIGN FOR A DIALYSIS UNIT AT MAUI MEMORIAL MEDICAL CENTER, MAUI

	FY 2009
Design	400 C

Explanation and Scope of Project

To design a new dialysis unit utilizing existing space in the Surgi-Center department. The new unit will have 8 stations and will be properly designed and built for dialysis.

Justification for the Project

The current dialysis site has been cited by the Department of Health partially due to space constraints. In-patient dialysis is a crtical service Maui Memorial Medical Center must provide for their acute care patients. The hospital provided over 1,700 dialysis treatments per year and the number continues to trend upwards.

Senate District 005 **House District** 009

8. MALUHIA, UPGRADE ELECTRICAL SYSTEM, OAHU

DESIGN AND CONSTRUCTION TO UPGRADE THE ELECTRICAL SYSTEM TO TIE IN THE EMERGENCY POWER TO THE DIETARY DEPARTMENT AND TO ADD EMERGENCY POWER OUTLETS IN EACH PATIENT ROOM, OAHU

FY 2009

Design	112 C
Construction	813 C

Explanation and Scope of Project

To upgrade the electrical system to provide emergency power for areas in the dietary and nursing departments.

Justification for the Project

Currently, when there is an extended power outage, extensions cords are run between rooms to keep critical life support equipment running. The extension cords pose a tripping hazard. For the dietary department, there is a potential for food spoilage if the refrigeration units are not on emergency power.

Senate District 014 **House District** 027

9. LEAHI HOSPITAL, SECURITY RENOVATIONS FOR LONG TERM CARE UNTIS, OAHU

DESIGN AND CONSTRUCTION TO RENOVATE THE LTC UNITS TO SECURE EXITS, OAHU

	FY 2009
Design	45 C
Construction	254 C

Explanation and Scope of Project

To renovate the entrances to the long term care unit to prevent patients from wandering out of the unit.

Justification for the Project

Some of the patients have Alzheimer's and require constant supervision. The existing security system has not worked.

Senate District 010 **House District** 019

VIII. Proposed Lapses of Capital Improvement Program Projects:

None

"Touching Lives Everyday"
HAWAII HEALTH SYSTEMS
CORPORATION

Hawaii Health Systems Corporation, HHSC
Informational Briefing

Supplemental Information

Presented to
The Senate
Committee on Ways and Means
Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair

January 10, 2008, 9:00 AM
Conference Room # 211
Hawaii State Capitol

Program I.D. and Title: HTH 210 – Hawaii Health Systems Corporation

A SPECIAL MESSAGE TO LAWMAKERS:

HHSC REQUIRES AN EMERGENCY APPROPRIATION

1. In the spring of 2007, the Hawaii Health Systems Corporation, after negotiation with the State Budget and Finance Department, presented a biennium budget for approval, which had the support of the regional management and HHSC staff but which required that significant revenue gains were achieved and that costs were held at the level that existed at the time the budget was prepared. It was appreciated by all concerned that it was an aggressive budget.

2. In any event, the revenue gains were not achieved (see attached chart) and a series of unbudgeted costs had to be accommodated (see attached chart) and thus there is an unbudgeted cash deficit in the current fiscal year.

3. HHSC and regional management have reacted by slowing payment to suppliers thus bringing the accounts payable to an unacceptable level and putting basic supplies in jeopardy (see attached chart), cost reductions to the extent possible without reduction in patient care or patient safety and holding off all possible expenditures. However, the ability to manage these costs has now run out and the cash situation for the organization has reached a crisis point. The cash deficit to get accounts payable to an acceptable 30 days level is $25.4 million.

4. The Legislature, the Administration, and HHSC recognized this issue in 2006 and through legislative action, supported by HHSC and the Administration, a new board structure was proposed, planned, and recently executed. The new Corporate and Regional Boards believe this strategic direction and structure will allow the system to have both better control and simpler, transparent reporting, thus allowing the development of an optimum system that would be better able to respond to Hawaii's healthcare needs. However, it is appreciated by all involved that this occurs at a difficult time for health care in Hawaii, the USA, and worldwide. This evolution (of the new system) has commenced but it will take time.

5. In the meantime, Hawaii's public healthcare system, as directed and managed by HHSC, requires an urgent injection of cash ($25.4 million) to allow it to keep operating. There may be some partial options as to the source of these funds (e.g., Maui Loan proposal), but the need is URGENT since the money cannot come from operating revenues.

6. HHSC management, as directed by the new Corporate and Regional Boards, undertakes to complete by June 30, 2008, a Corporate Strategic Plan, which will be supported by respective regional plans and budgets. This plan will be presented to the Administration and the Legislature for review, comment, and approval. The Plan will provide the means to measure results and assess "success/failure." It is apparent that there may be areas where HHSC has limited ability to influence critical issues, but these will be identified and possible approaches to change this will be proposed. It is likely that an "Interim Strategic Plan" may need to be implemented to provide clear direction for the next six months. At the same time, HHSC is assessing its ability to develop this as a matter of urgency.

Hawaii Health Systems Corporation

Summary of Cash Shortfall

After a review of the consolidated balance sheet, income statement and cash flow statement, we offer these comments for your consideration.

The problem with cash, or lack thereof, existed at the end of the prior fiscal year, 6/30/07. At that time, Accounts Payable and Accrued Liabilities account on the balance sheet had a balance of $56,805,000. Of the $56,805,000, Accounts Payable total was $32,293,000. Aging of Accounts Payable was 75 days.

The cash problems were further exacerbated in the subsequent 4 months (through 10/31/07) by a loss of $27.2 million. This loss exceeded budget by $5 million.

At the end of November, HHSC had received $53,612,232 general fund subsidy IN ADVANCE of budget in order to pay down the $72.8 million balance of A/P and Accrued Expenses. After pay-down, the balance in the A/P and Accrued Expense account at 10/31 was $47,052,000 and aging reduced only slightly from that of June, 2007.

HHSC's projected operating cash flow deficit of $49,184,000 indicates there will be a need for an additional cash infusion of $25.4 million.

FY 2008 Emergency Appropriation $25.4 Million By Region/Facility

- Oahu Region:
  - Leahi $ 199,000
  - Maluhia $ 482,000
- Kauai Region:
  - WKMC -0-
  - SMMH $ 214,000
- Maui Region:
  - MMMC $ 10,687,000
  - Kula -0-
  - Lanai $ 489,000
- East Hawaii Region:
  - HMC $ 7,934,000
  - HHH -0-
  - Kau $ 6,000
- West Hawaii Region:
  - KCH $ 5,347,000
  - Kohala $ 84,000

Hawaii Health Systems Corporation
Summary Consolidated Income Statement
Period Ending October 31, 2007

	Approved Accrual Budget Thru 10/31/07	Actual Accrual Results Thru 10/31/07	Variance Thru 10/31/07
Total Revenues	$ 134,184,000	$ 126,865,000	$ 7,319,000)
New Physician Arrivals Delayed			
Total Expenses	$ 156,873,000	$ 154,466,000	$ 2,407,000
Under-budgeted Physician Expenses			
Non Operating Income(Loss)	$ 22,689,000)	$ (27,601,000)	$ (4,912,000)
Interest Expense		$ (1,208,000)	
Other Non-Operating Income		$ 1,602,000	
Income(Loss) Before State Subsidy		$ (27,207,000)	
Needed Emergency Appropriation		$ 25,400,000	
Outstanding A/P as of 06/30/07 Days in A/P at 06/30/07 = 75		$ 32,293,000	

Forecast Outstanding Accounts Payable as of June 30. 2008 = $40,107,000

HAWAII HEALTH SYSTEMS CORPORATION
CASH FLOW SURPLUS/(DEFICIT) BY FACILITY
FISCAL YEAR 2008

	HILO	MAUI	KONA	KVMH	HAMAKUA	KAU	KOHALA	KULA	LANAI	LEAHI	MALUHIA	SMMH	CORP	TOTAL
Annual Cash Collections (Budgeted)	102,176	139,629	51,800	26,482	7,696	3,860	4,031	15,020	1,980	15,160	12,025	14,400	500	394,759
DHS Direct Payments to Hospitals	1,953	2,181	1,500							1,177	889			7,500
Payroll Cash Requirements	(72,791)	(85,332)	(37,475)	(18,376)	(6,326)	(3,564)	(3,496)	(13,076)	(2,028)	(17,550)	(14,165)	(10,140)	(7,256)	(291,575)
Non-Payroll Cash Requirements	(41,282)	(59,748)	(20,916)	(13,763)	(2,580)	(1,651)	(1,329)	(3,133)	(1,500)	(3,839)	(3,235)	(5,796)	(1,096)	(159,868)
Operating Cash Flow Deficit	(9,944)	(3,270)	(5,091)	(5,657)	(1,210)	(1,355)	(794)	(1,189)	(1,548)	(5,052)	(4,686)	(1,536)	(7,852)	(49,184)
Appropriations from State of Hawaii	13,123	7,979	6,892	6,363	2,031	1,396	900	1,618	1,460	5,310	4,823	1,717	-	53,612
Financing of Alii Community Care	(308)	(393)	(161)	(87)	(26)	(14)	(13)	(43)	(9)	(58)	(46)	(42)	-	(1,200)
Noncapital Financing Cash Flow Surplus	12,815	7,586	6,731	6,276	2,005	1,382	887	1,575	1,451	5,252	4,777	1,675	-	52,412
Repayments on Capital Lease Obligations-Current	(2,039)	(4,140)	(2,261)	(702)						(2)	(164)	(191)	(927)	(10,426)
Repayemnts on Capital Lease Obligations-Future	(158)	(277)	(92)	(60)	-	-	-	-	-	(29)	-	-	-	(616)
Capital and Related Cash Flow Deficit	(2,197)	(4,417)	(2,353)	(762)	-	-	-	-	-	(31)	(164)	(191)	(927)	(11,042)
Allocation of Corporate Office Costs	(2,251)	(2,872)	(1,177)	(636)	(193)	(101)	(97)	(315)	(67)	(425)	(339)	(306)	8,779	-
Cash Flow Deficit by Facility	(1,577)	(2,973)	(1,890)	(779)	602	(74)	(4)	71	(164)	(256)	(412)	(358)	-	(7,814)
A/P @ 6/30/07	9,750	12,592	5,179	192	121	68	189	125	441	259	336	307	2,734	32,293
Projected A/P @ 6/30/08	11,327	15,565	7,069	971	(481)	142	193	54	605	515	748	665	2,734	40,107
FY 08 Budgeted Non-Payroll Expenses	41,282	59,351	20,951	13,762	3,216	1,652	1,329	3,133	1,415	3,839	3,239	5,493	1,096	159,758
Divided by 365	365	365	365	365	365	365	365	365	365	365	365	365	365	
FY 08 Budgeted Non-Payroll Exp/Day	113	163	57	38	9	5	4	9	4	11	9	15	3	
Projected A/P @ 30 Days @ 6/30/08	3,393	4,878	1,722	1,131	264	136	109	258	116	316	266	451	90	13,130
FY 08 Emergency Appropriation	7,934	10,687	5,347	-	-	6	84	-	489	199	482	214	-	25,442
Annual Cash Collections (Budgeted)	102,176	139,629	51,800	26,482	7,696	3,860	4,031	15,020	1,980	15,160	12,025	14,400	500	394,759
Annual Cash Collections Projected Based on Collections Experience from Jul 1, 07 to Nov 30, 07	94,142	134,208	46,907	23,592	6,763	4,244	4,608	16,599	2,133	20,139	16,144	12,367	1,806	383,652
Potential FY 08 Cash Collections Shortfall (Surplus)	8,034	5,421	4,893	2,890	933	(384)	(577)	(1,579)	(153)	(4,979)	(4,119)	2,033	(1,306)	11,107

NOTE: Shortfalls in collections could increase HHSC requirements for FY 08 emergency funding by up to $11,107,000.

1/9/2008

HAWAII HEALTH SYSTEMS CORPORATION
CASH FLOW SURPLUS/(DEFICIT) BY FACILITY
FISCAL YEAR 2008

	HILO	MAUI	KONA	KVMH	HAMAKUA	KAU	KOHALA	KULA	LANAI	LEAHI	MALUHIA	SMMH	CORP	HHSC TOTAL
Cash Collections (Budgeted 12/07-6/08)	59,346	75,359	31,300	16,236	4,489	2,242	2,401	8,764	1,145	8,835	7,025	8,400	292	225,834
DHS Direct Payments to Hospitals	930	1,111	619							590	216			3,466
Payroll Cash Requirements (Budgeted 12/07-6/08)	(43,029)	(49,777)	(21,975)	(10,870)	(3,690)	(2,079)	(2,044)	(7,626)	(1,183)	(10,415)	(8,265)	(5,915)	(4,235)	(171,103)
Non-Payroll Cash Requirements (Budgeted 12/07-6/08)	(24,359)	(34,853)	(12,616)	(8,317)	(1,505)	(959)	(769)	(1,827)	(875)	(2,289)	(1,925)	(3,381)	(640)	(94,315)
Operating Cash Flow Deficit	(7,112)	(8,160)	(2,672)	(2,951)	(706)	(796)	(412)	(689)	(913)	(3,279)	(2,949)	(896)	(4,583)	(36,118)
General Fund Appropriations from State of Hawaii	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective Bargaining Funding	1,413	1,770	700	313	122	72	83	285	45	388	291	188	62	5,732
Financing of Alii Community Care	(180)	(229)	(94)	(51)	(15)	(8)	(8)	(25)	(5)	(33)	(27)	(25)	-	(700)
Noncapital Financing Cash Flow Surplus	1,233	1,541	606	262	107	64	75	260	40	355	264	163	62	5,032
Repayments on Capital Lease Obligations-Current	(1,709)	(2,400)	(1,441)	(627)						-	(96)	(111)	(505)	(6,889)
Repayments on Capital Lease Obligations-Future	(92)	(161)	(54)	(35)	-	-	-	-	-	(17)	-	-	-	(359)
Capital and Related Cash Flow Deficit	(1,801)	(2,561)	(1,495)	(662)	-	-	-	-	-	(17)	(96)	(111)	(505)	(7,248)
Allocation of Corporate Office Costs	(1,289)	(1,644)	(674)	(364)	(110)	(58)	(55)	(180)	(39)	(244)	(194)	(175)	5,026	-
Cash Flow Deficit by Facility	(8,969)	(10,824)	(4,235)	(3,715)	(709)	(790)	(392)	(609)	(912)	(3,185)	(2,975)	(1,019)	-	(38,334)
A/P @ 11/30/07	8,705	13,321	5,090	1,188	250	85	52	600	45	135	191	328	2,363	32,353
Projected A/P @ 6/30/08	17,674	24,145	9,325	4,903	959	875	444	1,209	957	3,320	3,166	1,347	2,363	70,687
Projected A/P @ 30 Days @ 6/30/08	3,393	4,878	1,722	1,131	264	136	109	258	116	316	266	451	90	13,130
Projected Days in A/P @ 6/30/08 ($70,687K)	156	148	162	130	109	193	122	141	247	316	357	90	787	161

NOTE:
Change in projection of accounts payable balance at 6/30/08 is due to:
[1] FY 08 budget anticipated receiving $10M from the start of the Maui Cardiovascular program. It does not appear that this program will be able to be implemented prior to the start of fiscal year 2009.
[2] FY 08 budget anticipated receipt of the full $53.6M in general fund appropriations in cash. With HHSC having to pay back $10M out of its FY 08 general fund appropriations to repay an advance made to HHSC in June 2007, FY 08 projected cash flow is short by $10M.
[3] FY 08 operating revenues through November 2007 have been approximately $11M behind budget, which has had a negative impact on cash collections through November 2007 and will continue to be felt through the rest of fiscal year 2008.

1/9/2008

	September and Earlier	October	November	December	January	Total
Corporate	1,514,889.03	98,704.06	40,750.03	(65,888.27)		1,588,454.85
Hamakua	798.67		18,250.84	67,834.91	50,727.53	137,611.95
Hilo	2,540,754.23	2,459,345.02	2,258,695.79	1,359,274.57	129,125.98	8,747,195.59
Kau			12,547.71	78,791.36	24,747.87	116,086.94
Kohala			8,152.86	10,268.28	158.24	18,579.38
Kona	1,547,201.25	1,310,567.10	1,153,938.00	536,061.33	134,620.06	4,682,387.74
Kula	112,138.14	121,655.91	222,814.10	169,249.93	1,927.54	627,785.62
KVMH	3,089.15	64,327.28	36,445.57	199,416.45	13,657.15	316,935.60
Lanai	3,610.42	39,567.85	101,330.37	34,793.13		179,301.77
Leahi	2,388.79	41.71	1,642.51	39,301.16	27,807.00	71,181.17
Maluhia				31,743.57	25,100.99	56,844.56
Maui	3,264,471.70	3,518,623.91	4,204,934.26	3,596,328.85	182,506.58	14,766,865.30
SMMH	626.29	7,948.59	115.60	42,143.85	1,032.00	51,866.33
	8,989,967.67	7,620,781.43	8,059,617.64	6,099,319.12	591,410.94	31,361,096.80

*Invoices that are posted on or after January 9, 2008 (approx. 7:48 a.m.) are not included in the report.

Source: AS 400 - HBOC

"Touching Lives Everyday"
HAWAII HEALTH SYSTEMS
CORPORATION

Hawaii Health Systems Corporation, HHSC
Informational Briefing
Fiscal Year 2009

Presented to the

The House Finance Committee

Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

January 10, 2008, 2:30 PM
Conference Room # 308
Hawaii State Capitol

Program I.D. and Title: HTH 210 – Hawaii Health Systems Corporation

I. Introduction:

A. Summary of program objectives.

To maintain and enhance the levels of accessible service and quality of care for the communities we serve in the most effective and cost-efficient fashion thus providing better healthcare for the people of Hawaii, with emphasis on support for our rural acute and Long Term Care (LTC) facilities.

Hawaii Health Systems Corporation (HHSC) facilities include: Hilo Medical Center, 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) as well as State Veterans Home, Hilo; Roselani Place Assisted Living Center, Maui; and Management control for Kahuku Hospital, Oahu.

B. Description of program objectives.

System. Following direction set by the HHSC Board of Directors, and with advice provided by both the Regional Public Health Facility Management

Advisory Committees and the Physician Advisory Group, as we transition to a structure that includes Regional System Boards, the HHSC President/CEO and staff, in collaboration with our Regional CEO's; coordinate and implement planning, policy formulation, hospital system operation, business development, quality assurance, corporate compliance, coordination, financial management, legal counsel, public affairs, personnel management, materials management, information systems operation and technical services support for regions and their respective community hospitals, as well as interaction with the State administrative government agencies, the Hawaii Legislature, Hawaii's Congressional Delegation, community advisors, labor leaders, employees, medical staff and all other key stakeholders.

Regions and Facilities. HHSC manages and operates, for the State of Hawaii, the largest community hospital system in the State that is the 25th largest business in Hawaii and the 4th largest public health system in the nation. HHSC's Community Hospitals are organized into five regions and the HHSC sole member not-for-profit 501 (c) 3's across five different islands. The major activities and services provided by the five regions and fifteen community facilities constitute the primary hospital acute, long term care (LTC) and rural health care on the Neighbor Islands with a large LTC presence on Oahu.

Essentially, HHSC provides the hospital "safety-net" for community acute and long term care services on the neighbor islands plus additional levels of specialty service in select locations. Collectively, through operations of our eleven emergency departments, HHSC hospitals are the largest provider of emergency services in the State, far surpassing the annual number of ER visits logged by Queen's Medical Center, the State's Trauma Center. Collectively, HHSC hospitals are the single largest provider of LTC services in the State. In this regard, HHSC essentially also serves as the LTC "safety net" for the State of Hawaii. Inpatient services include surgical, medical, critical care, obstetrics, pediatrics, and psychiatric care. Outpatient care services include ambulatory surgery, home health, and emergency room services. Clinical services include nursing, anesthesiology, central supply, radiology, oncology, pathology, cardiology, pediatrics, obstetrics, home health, respiratory therapy, physical and occupational therapy, social services, pharmacy, and dietary. Support services include administration, admitting, business, personnel, data processing, medical records, logistics, housekeeping, and maintenance.

Identification of important system relationships. As a public hospital system, HHSC depends heavily on input and support from our local communities. Over this past year, hundreds of community volunteers Statewide donated over 100,000 service hours to our facilities. Generous benefactors donated many hundreds of thousands of dollars to our nine hospital foundations. This close collaboration between HHSC and community organizations is essential to the long-term success of HHSC.

During the aftermath of the Big Island earthquake disaster on October 15, 2006, maintenance, engineering, and other staff from non-affected HHSC facilities (i.e., Hilo Medical Center, Kauai Veterans Memorial, Leahi Hospital, and Samuel Mahelona Memorial Hospital) provided immediate and intermediary support in the recovery and assessment phases. Equally important, members of the respective, affected communities were immediately at hand to provide additional support. Collaborative efforts will continue with Home Land Security, state and county civil defense, department of health, and the military in preparation for future disasters. Although this event occurred in October 2006, the recovery aftermath continues.

The five statutorily created, regional Public Health Facility Management Advisory Committees (MACs) provided valuable input to the President and CEO in the first part of this fiscal year on the needs of the communities. *Pursuant to Act 290, SLH 2007, Public Health Facility Management Advisory Committees (MACs) are abolished as Regional System Boards are established in each region.*

The Physicians Advisory Group (PAG) now reconstituted as Physician Leadership Group (PLG) includes physicians throughout the islands who volunteer their time and talents to come together on a periodic basis with the President and CEO to discuss the clinical and medical staff issues facing our hospitals. The PLG represents approximately 1,000 HHSC medical staff members who are essential to operations and success of HHSC. The continuing guidance and support of the PLG is tremendously important to both the successful functioning of the system and establishment of strategic direction for the system.

HHSC management has worked to obtain donations and grants to both enhance services provided and to offset the cost of operating our system under the provisions of State civil service collective bargaining in predominately 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). The HHSF is working in coordination with eight other foundations associated with HHSC facilities to maximize donations and grants for the system and for respective facilities. Nine years ago, there were three foundations supporting HHSC facilities of which only two were active. Today there are nine separate foundations and multiple hospital auxiliaries supporting one or more HHSC hospitals.

C. Explain how your system intends to meet its objectives within the upcoming fiscal biennium. (Supplemental fiscal year?)

HHSC hopes to meet FY 08 and FY 09 program and budget objectives by collecting patient revenues to meet approximately 85 percent of expense requirements resulting in minimized general fund requirements. HHSC will execute its operations in the most efficient manner possible to ensure continued provision of access to quality safety-net services to all the communities served by HHSC hospitals, HOWEVER, HHSC will need $25.4 million Emergency appropriation (EA) from either the Legislature or some other source to successfully operate through the full FY 2008.

II. Program Performance Results:

A. Discuss the performance results achieved by each program in FY07 and FY08

Quality "patient safe", accessible and affordable healthcare efficiently provided by HHSC facilities to all communities served. Details available upon request.

B. Explain how these results relate to the program's objectives and department's mission.

Mission accomplished. Successfully fulfilled HHSC Safety-Net mission with quality outcomes.

Program activities were accomplished in the past year (FY07), with 22,240 in-patient admissions and 113,859 acute care patient days, 1,184 long-term care admissions, 283,242 long-term care patient days, 3,790 babies born, and 98,140 emergency room visits.

C. Explain how the effectiveness of the program is measured and discuss the performance results achieved during the past two years.

All 15 HHSC facilities are fully certified and have maintained their licensure by both State & National standards. All HHSC facilities are certified annually by Medicare/Medicaid and all have successfully passed those surveys.

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.

Since its successful system accreditation in 2005, HHSC's four accredited facilities continue to focus its efforts on anticipated changes in the accreditation process and emphasis as it prepares for re-accreditation in 2008.

In relation to the Joint Commission's newly implemented unannounced survey process, HHSC facilities have initiated activities to achieve constant survey readiness. Maui Memorial Medical Center has integrated Joint Commission preparedness and daily readiness that traces the patient from admission to discharge with its routine management practice.

In addition, HHSC annually has a detailed independent third party financial audit conducted for the entire system. HHSC has just received its tenth consecutive "clean" unqualified audit with no material weaknesses and no reportable conditions. Furthermore, 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. Details available upon request. HHSC has hired a second internal auditor to further enhance and ensure our commitment to compliance and quality / financial efficiency throughout our system.

D. Discuss actions taken by each program to improve its performance results.

Facilities have used past survey results and recent changes in survey guidelines to establish monitoring and process improvement initiatives that are actively being managed. The results of these efforts should be seen in the outcomes of CMS licensure surveys and findings. Although there are occasional short term set backs, long term aggregate results are very positive.

E. Please identify all modifications to your system's performance measures and discuss the rationale for these modifications.

As necessary, HHSC internal reporting / performance measures are continually adjusted and revamped to meet the ever-changing needs of today's fluid healthcare environment. Some examples are in annual reporting measures on workers compensation; new revenue enhancing measures; and additional quality measures involving patient safety.

Annually, HHSC focuses on new national patient safety goals most recently approved by Joint Commission as it relates to hospitals and critical access hospitals. Details available upon request.

III. Problems and Issues:

A. Discussion of problems and issues encountered if any.

1. National Health Care Challenges

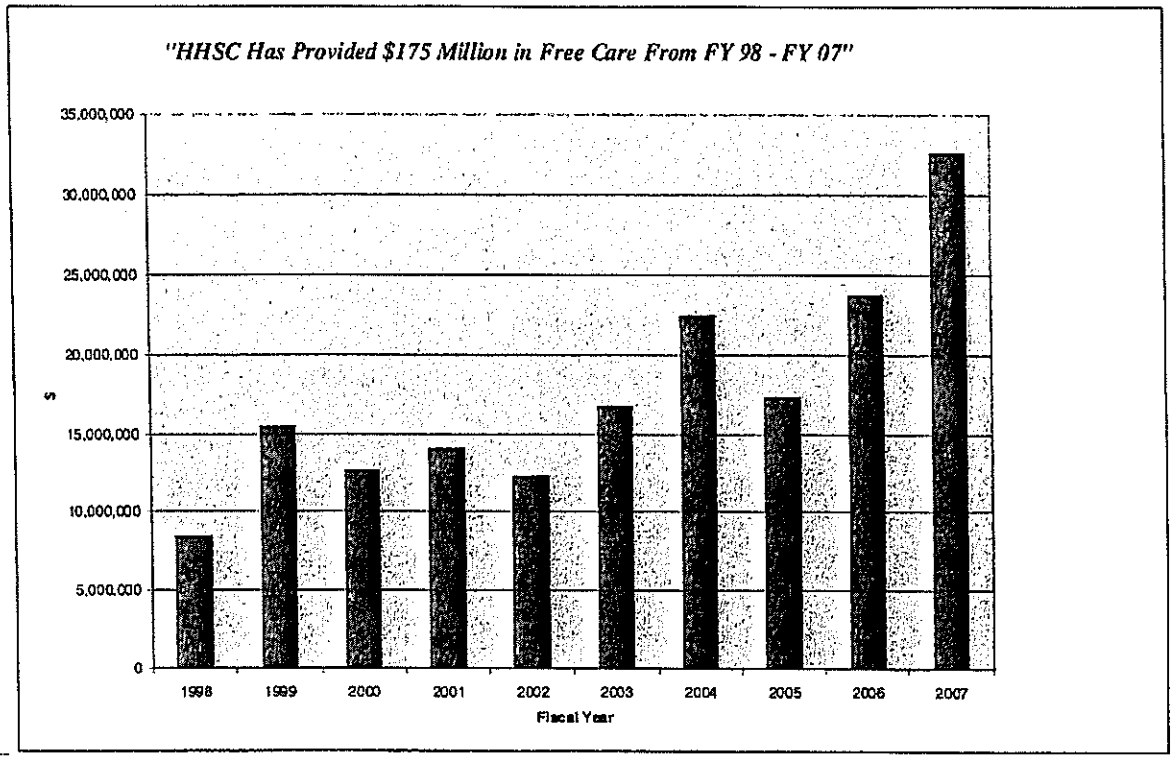
- Decreasing reimbursements for all providers
- Increasing pressures on physicians
- Increasing charity care/bed debt
- Skilled healthcare labor shortage
- Nice providers skimming profitable services
- Expensive malpractice insurance
- Cost of compliance

2. <u>Hawaii Healthcare Challenges</u>

- Only state in USA with no regular Medicaid "DSH" payment
- One of only two states in USA that tax (GET) medical services
- Ranked #50 in USA for not keeping up with hospital capital requirements
- Ranked #50 in USA for Average Reimbursement % of Cost
- Long-term care (LTC) crisis

3. <u>HHSC Specific Healthcare Challenges</u>

- High cost of labor and benefits with no corresponding input in collective bargaining negotiations
- Procurement code
- Levels of service mandated by legislature
- Inherited liabilities
- LTC Wait List problem in HHSC acute facilities
- Lack of physician specialists on neighbor islands medical staffs
- No level playing field for third party payer negotiations
- Outdated facilities
- Inadequate investment in Information Technology infrastructure and software
- Medicaid Equity Reimbursement Act 294 will cost HHSC (and ultimately the State) over $13 million per year in lost reimbursement
- Geographically dispersed
- Remote population served
- Diverse community needs
- Labor force shortage exacerbated on neighbor islands
- Housing (not affordable/available) on neighbor islands
- Communities are depending upon HHSC – sometimes no other option



Financial Trends of Hawaii's Hospitals, Nursing Facilities, Home Care and Hospice

Providers have been experiencing losses consistently since 2000

- Total costs exceeded payments for Hawaii's hospitals in 2006 by $150,000,000 ($150 million)
- Contributing to those losses are costs not covered by government payors and community benefits including medical education, community programs, bad debt and charity care, waitlist patients and trauma care
- Investment income and other revenues have helped to reduce the overall losses for some hospitals
- Hospitals without significant investments and other revenue sources operate at an overall loss
- Cumulative losses since the implementation of the Balance Budget Act of 1999, have depleted reserves the hospitals had saved for future capital projects and serving the community

HAH Healthcare Association 26

Payments to Hawaii Hospitals

Hawaii's overall payment as a percentage of costs is the lowest in the United States

- Hawaii payments are primarily from Medicare, Medicaid, commercial payors (HMSA, UHA, HMAA, etc.) and others (Workers' Compensation, No-Fault, etc.)
- Medicare and Medicaid do not pay for the full cost of hospital services provided to beneficiaries in most states
  - Over 50% of all inpatients hospitalizations are covered by Medicare or Medicaid/Quest
  - 2006 Medicare losses for hospitals were approximately $181,200,000
  - 2006 Medicaid/Quest losses for hospitals were approximately $63,500,000
- In many states, private insurance covers the shortfall from the government payors

Calendar Year 2006
Percent of Costs Paid by:

	Medicare	Medicaid/ Quest	Commercial and Other	Overall
Hawaii	79.77 %	80.02 %	111.24 %	92.39 %
Lowest Overall State	66.65 %	32.93 %	101.80 %	92.39 %
Average for US	80.36 %	75.30 %	124.89 %	104.32 %
Highest Overall State	101.03 %	105.46 %	145.94 %	115.62 %

Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC)

HAH Healthcare Association of Hawaii 6

B. Program change recommendations to remedy problems.

The HHSC Board of Directors and management are committed to continuing the transformation of HHSC's structure into a healthcare system that enhances excellent access to highest-quality healthcare for all patients in our communities regardless of their ability to pay. In order to continue being the quality system that our communities deserve, and reduce State's payments for services provided by HHSC, HHSC must be afforded much more autonomy, with support to address concerns beyond HHSC control.

In order to continue to provide the levels of services needed in rural communities and as a necessity for maintaining the essential, emergency room services in rural communities HHSC is seeking an emergency appropriation of $25.4 million to help cover Accounts Payable for this fiscal year. If this level of support is not forthcoming, then HHSC hospitals will be put in jeopardy of being closed by vendors who we can not pay.

FY 2008 Emergency Appropriation $25.4m By Region/Facility

- Oahu Region:
  - Leahi $ 199,000
  - Maluhia $ 482,000
- Kauai Region:
  - WKMC -0-
  - SMMH $ 214,000
- Maui Region:
  - MMMC $ 10,687,000
  - Kula -0-
  - Lanai $ 489,000
- East Hawaii Region:
  - HMC $ 7,934,000
  - HHH -0-
  - Kau $ 6,000
- West Hawaii Region:
  - KCH $ 5,347,000
  - Kohala $ 84,000

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FY 2009 Supplemental Budget Submission

- Supplemental Operating Budget Submission: $ 57 Million
- Supplemental CIP Budget Submission: $ 99.8 Million

2

FY 2009 Supplemental Operating Budget Submission – Totals by Facility/Region

HMC:	$17, 528	MMMC:	$ 21,735	KCH:	$10,436
HHH:	443	KULA:	318	Kohala:	695
KA'U	358	LANA'I:	728		

East HI: $18,329 Maui Region: $22,781 West HI Region: $11,131

WKMC:	$ 1,684	LEAHI:	$ 975
SMMH:	1,078	MALUHIA:	1,017

Kauai Region: $ 2,762 Oahu Region: $ 1,992

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FY 2009 Supplemental CIP Budget Submission – Totals by Facility/Region

HMC:	$12,344,841	MMMC:	$28,920,956	KCH:	$18,450,969
HHH:	4,936,012	KULA:	8,177,132	Kohala:	4,420,767
KA'U	4,269,062	LANA'I:	4,709,815		

East HI: $17,381,000 Maui Region: $36,539,000 West HI Region: $20,940,000

WKMC:	$ 2,718,711	LEAHI:	$ 4,487,367
SMMH:	$ 1,709,314	MALUHIA:	4,654,054

Kauai Region: $ 3,010,000 Oahu Region: $ 7,929,000

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C. **Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Please note that all problems mentioned in paragraph III A do have an impact on implementation of the HHSC program. However the following three points deserve special concern and comment.

- Operating under the State Procurement Code continues to add millions of dollars (approximately $5 million per year) to HHSC operating costs and continues to negatively affect our ability to procure goods and services in timely and appropriate manner. HHSC incurs other non-tangible costs from operating under the procurement code, such as lost opportunity for savings and new revenues because of the limitations imposed by the code and State Procurement Office requirements. While it is not a current HHSC legislative initiative to re-establish HHSC's exemption from the procurement code, it will be necessary, in the long term, to exempt HHSC from the procurement code to provide effective, efficient, cost-effective procurement services and to sustain timely, efficient access to healthcare for the communities we serve.
  According to Act 290, SLH 2007, the regions are not subject to procurement code as well as other state agency laws relating to other contract restrictions and sunshine law, i.e., chapters 103-53, tax clearance, 102 vendor concessions, 92 Part I, public meetings law however, the procurement exemption provision does not take effect until Regional System Boards are "fully" constituted..

- Compensation for Physician On-Call coverage at the HHSC hospitals will greatly increase overall operational costs by a projected amount of approximately $15 million in FY 08 and $16 million in FY 09. HHSC is compensating for the situation by recruiting, hiring and contracting with physician specialists to provide coverage for our Emergency Rooms. This situation has significantly worsened over the past year and been a major factor in necessitating a FY09 Supplemental Request of $57 million (amount includes the FY08 $25.4 m EA).

- Uniform provision of specialty medical care on the Neighbor Islands has been increasingly difficult to maintain. HHSC's engagement with NBBJ master planners is a major initiative that is intended to provide the State with a new comprehensive integrated system master plan. This plan will be developed from the bottom up with input from communities, physicians, nurses and management at the facility, region, and system levels in that order. Part of the concept involves establishing a referral center on Maui focused on quality outcomes serving as a disaster management center and Level II trauma center, with open heart surgery and other specialty services that will interact with robust HHSC Community Hospitals, LTC facilities, Critical Access Hospitals and other partners throughout the State of Hawaii. The master planning process also anticipates establishing level III trauma centers at Kona Community Hospital and Hilo Medical Center plus many other regional initiatives such as a health science center at Hilo Medical Center, some type of chronic/facility in West Hawaii, enhanced surgical capabilities on Kauai, enhanced long term care (LTC) capability on Oahu, and increased physician specialty emergency care capability throughout the system.

IV. Expenditures for Fiscal Year 2007-2008

	Act 213/2007 FY 2008	C/B	Net Allocation	Est. Total Expenditures
(posn count)	(2836.25)		(2836.25)	(2836.25)
Personal Svcs	291,575,000	11,194,015	302,769,015	302,769,015
Current Exp.	141,691,232	-	141,691,232	141,691,232
Equipment		-	-	
Motor Vehicles		-	-	
TOTAL	433,266,232	11,194,015	444,460,247	444,460,247

(posn count)	(2836.25)		(2836.25)	(2836.25)
Special	379,654,000		379,654,000	379,654,000
General	53,612,232	11,194,015	64,806,247	64,806,247
Other			-	
	433,266,232	11,194,015	444,460,247	444,460,247

V. Supplemental Budget Request for Fiscal Year 2008-2009:

	Act 213/2007 FY 2009	Supplemental Request	Est. Total Expenditures
(posn count)	(2836.25)		(2836.25)
Personal Svcs	296,024,763		296,024,763
Current Exp.	161,058,198		161,058,198
Equipment			-
Motor Vehicles			-

TOTAL	457,082,961	-	457,082,961
(posn count)	(2836.25)		(2836.25)
Special	403,460,000		403,460,000
General	53,622,961		53,622,961
	457,082,961	-	457,082,961

Workload or Program Request:

HHSC is not submitting a workload or program request.

VI. Capital Improvement Requests for Fiscal Year 2008-2009

1. X-RAY SYSTEM REPLACEMENT, STATEWIDE

DESIGN, CONSTRUCTION, AND EQUIPMENT TO REPLACE EXISTING X-RAY SYSTEM AT SMMH, MALUHIA, KOHALA, KULA, HALE HO'OLA HAMAKUA, AND KAU HOSPITALS, STATEWIDE

	FY 2009
Design	324 C
Construction	2154 C
Equipment	6 C

Explanation and Scope of Project

To replace the existing x-ray system with a new digital x-ray system.

Justification for the Project

The existing x-ray system uses chemicals to develop the x-ray film and the chemicals are deteriorating the sewer lines. A digital x-ray system at SMMH, Maluhia, Kohala, Kula, Hale Ho'ola Hamakua, and Kau hospitals will eliminate the use of chemicals.

Senate District (Statewide) **House District** (Statewide)

2. LANAI COMMUNITY HOSPITAL, UPGRADE PLUMBING, LANAI

DESIGN AND CONSTRUCTION TO UPGRADE THE PLUMBING IN THE HOSPITAL, LANAI

	FY 2009
Design	151 C
Construction	1167 C

Explanation and Scope of Project

To upgrade the plumbing system at Lanai Community Hospital.

Justification for the Project

The hospital building and plumbing are over 38 years old and many of the fixtures and pipes need to be assessed and upgraded to ensure the health and safety of our patients.

Senate District 004 **House District** 007

3. KULA HOSPITAL, SEWER AND GREASE TRAP SYSTEM UPGRADE, MAUI

DESIGN, CONSTRUCTION, AND EQUIPMENT TO UPGRADE THE SEWER AND GREASE TRAP SYSTEM FOR THE HOSPITAL, MAUI

	FY 2009
Design	1 C
Construction	1298 C
Equipment	1 C

Explanation and Scope of Project

To install a wastewater treatment system to replace the existing large capacity cesspools and replace the dietary grease trap.

Justification for the Project

Federal law requires the elimination of large capacity cesspools by April 2005. The hospital is in non-compliance but has apprised the EPA of our commitment to convert the existing cesspools to a compliant wastewater treatment system. EPA will monitor our progress of the conversion.

Senate District 006 **House District** 012

4. KONA COMMUNITY HOSPITAL, SEISMIC MITIGATION, HAWAII

DESIGN AND CONSTRUCTION TO IMPLEMENT SEISMIC MITIGATION MEASURES, HAWAII

	FY 2009
Design	1 C
Construction	999 C

Explanation and Scope of Project

Seismically anchor all overhead lighting, ceiling grids, overhead plumbing, electrical pipes and conduits, as well as all overhead air handling HVAC units. All equipment over 300 pounds shall be anchored.

Justification for the Project

Following the October 15, 2006 earthquake, items were dislodged and only certain critical items were later anchored. An evaluation was conducted and most of the items listed were identified as not having any seismic supports or anchoring.

Senate District 003 **House District** 005

5. KAUAI REGION, MASTER PLANNING, KAUAI

PLANS TO IMPLEMENT A MASTER PLANNING DOCUMENTATION FOR THE KAUAI REGION HOSPITALS.

	FY 2009
Plans	1000 C

Explanation and Scope of Project

To develop and implement a master plan for the Kauai Region Hospitals.

Justification for the Project

None of the facilities have a master plan to assist them in future planning and development for their campuses.

Senate District 007 **House District** 013 and 014

6. NURSE CALL SYSTEM REPLACEMENT, STATEWIDE

DESIGN, CONSTRUCTION, AND EQUIPMENT TO UPGRADE THE EXISTING NURSE CALL SYSTEMS AT HILO, LEAHI, HALE HO'OLA HAMAKUA, AND KAU HOSPITALS, STATEWIDE

	FY 2009
Design	328 C
Construction	2224 C

Equipment 4 C

Explanation and Scope of Project

To replace the existing nurse call systems as the equipment is old and some replacement parts obsolete.

Justification for the Project

When the nurse call systems are being repaired, some patients are left without a nurse call service, which could endanger the health and safety of our patients.

Senate District (Statewide) **House District** (Statewide)

7. MAUI MEMORIAL MEDICAL CENTER, DIALYSIS UNIT, MAUI

DESIGN FOR A DIALYSIS UNIT AT MAUI MEMORIAL MEDICAL CENTER, MAUI

	FY 2009
Design	400 C

Explanation and Scope of Project

To design a new dialysis unit utilizing existing space in the Surgi-Center department. The new unit will have 8 stations and will be properly designed and built for dialysis.

Justification for the Project

The current dialysis site has been cited by the Department of Health partially due to space constraints. In-patient dialysis is a crtical service Maui Memorial Medical Center must provide for their acute care patients. The hospital provided over 1,700 dialysis treatments per year and the number continues to trend upwards.

Senate District 005 **House District** 009

8. MALUHIA, UPGRADE ELECTRICAL SYSTEM, OAHU

DESIGN AND CONSTRUCTION TO UPGRADE THE ELECTRICAL SYSTEM TO TIE IN THE EMERGENCY POWER TO THE DIETARY DEPARTMENT AND TO ADD EMERGENCY POWER OUTLETS IN EACH PATIENT ROOM, OAHU

FY 2009

Design	112 C
Construction	813 C

Explanation and Scope of Project

To upgrade the electrical system to provide emergency power for areas in the dietary and nursing departments.

Justification for the Project

Currently, when there is an extended power outage, extensions cords are run between rooms to keep critical life support equipment running. The extension cords pose a tripping hazard. For the dietary department, there is a potential for food spoilage if the refrigeration units are not on emergency power.

Senate District 014 **House District** 027

9. LEAHI HOSPITAL, SECURITY RENOVATIONS FOR LONG TERM CARE UNTIS, OAHU

DESIGN AND CONSTRUCTION TO RENOVATE THE LTC UNITS TO SECURE EXITS, OAHU

	FY 2009
Design	45 C
Construction	254 C

Explanation and Scope of Project

To renovate the entrances to the long term care unit to prevent patients from wandering out of the unit.

Justification for the Project

Some of the patients have Alzheimer's and require constant supervision. The existing security system has not worked.

Senate District 010 **House District** 019

VIII. Proposed Lapses of Capital Improvement Program Projects:

None

"Touching Lives Everyday."
HAWAII HEALTH SYSTEMS
CORPORATION

Hawaii Health Systems Corporation, HHSC
Informational Briefing

Supplemental Information

Presented to

The House
Committee on Finance

Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

January 10, 2008, 2:30 PM
Conference Room # 308
Hawaii State Capitol

Program I.D. and Title: HTH 210 – Hawaii Health Systems Corporation

A SPECIAL MESSAGE TO LAWMAKERS:

HHSC REQUIRES AN EMERGENCY APPROPRIATION

1. In the spring of 2007, the Hawaii Health Systems Corporation, after negotiation with the State Budget and Finance Department, presented a biennium budget for approval, which had the support of the regional management and HHSC staff but which required that significant revenue gains were achieved and that costs were held at the level that existed at the time the budget was prepared. It was appreciated by all concerned that it was an aggressive budget.

2. In any event, the revenue gains were not achieved (see attached chart) and a series of unbudgeted costs had to be accommodated (see attached chart) and thus there is an unbudgeted cash deficit in the current fiscal year.

3. HHSC and regional management have reacted by slowing payment to suppliers thus bringing the accounts payable to an unacceptable level and putting basic supplies in jeopardy (see attached chart), cost reductions to the extent possible without reduction in patient care or patient safety and holding off all possible expenditures. However, the ability to manage these costs has now run out and the cash situation for the organization has reached a crisis point. The cash deficit to get accounts payable to an acceptable 30 days level is $25.4 million.

4. The Legislature, the Administration, and HHSC recognized this issue in 2006 and through legislative action, supported by HHSC and the Administration, a new board structure was proposed, planned, and recently executed. The new Corporate and Regional Boards believe this strategic direction and structure will allow the system to have both better control and simpler, transparent reporting, thus allowing the development of an optimum system that would be better able to respond to Hawaii's healthcare needs. However, it is appreciated by all involved that this occurs at a difficult time for health care in Hawaii, the USA, and worldwide. This evolution (of the new system) has commenced but it will take time.

5. In the meantime, Hawaii's public healthcare system, as directed and managed by HHSC, requires an urgent injection of cash ($25.4 million) to allow it to keep operating. There may be some partial options as to the source of these funds (e.g., Maui Loan proposal), but the need is URGENT since the money cannot come from operating revenues.

6. HHSC management, as directed by the new Corporate and Regional Boards, undertakes to complete by June 30, 2008, a Corporate Strategic Plan, which will be supported by respective regional plans and budgets. This plan will be presented to the Administration and the Legislature for review, comment, and approval. The Plan will provide the means to measure results and assess "success/failure." It is apparent that there may be areas where HHSC has limited ability to influence critical issues, but these will be identified and possible approaches to change this will be proposed. It is likely that an "Interim Strategic Plan" may need to be implemented to provide clear direction for the next six months. At the same time, HHSC is assessing its ability to develop this as a matter of urgency.

Hawaii Health Systems Corporation

Summary of Cash Shortfall

After a review of the consolidated balance sheet, income statement and cash flow statement, we offer these comments for your consideration.

The problem with cash, or lack thereof, existed at the end of the prior fiscal year, 6/30/07. At that time, Accounts Payable and Accrued Liabilities account on the balance sheet had a balance of $56,805,000. Of the $56,805,000, Accounts Payable total was $32,293,000. Aging of Accounts Payable was 75 days.

The cash problems were further exacerbated in the subsequent 4 months (through 10/31/07) by a loss of $27.2 million. This loss exceeded budget by $5 million.

At the end of November, HHSC had received $53,612,232 general fund subsidy IN ADVANCE of budget in order to pay down the $72.8 million balance of A/P and Accrued Expenses. After pay-down, the balance in the A/P and Accrued Expense account at 10/31 was $47,052,000 and aging reduced only slightly from that of June, 2007.

HHSC's projected operating cash flow deficit of $49,184,000 indicates there will be a need for an additional cash infusion of $25.4 million.

FY 2008 Emergency Appropriation $25.4 Million By Region/Facility

- Oahu Region:
  - Leahi $ 199,000
  - Maluhia $ 482,000
- Kauai Region:
  - WKMC -0-
  - SMMH $ 214,000
- Maui Region:
  - MMMC $ 10,687,000
  - Kula -0-
  - Lanai $ 489,000
- East Hawaii Region:
  - HMC $ 7,934,000
  - HHH -0-
  - Kau $ 6,000
- West Hawaii Region:
  - KCH $ 5,347,000
  - Kohala $ 84,000

Hawaii Health Systems Corporation
Summary Consolidated Income Statement
Period Ending October 31, 2007

	Approved Accrual Budget Thru 10/31/07	Actual Accrual Results Thru 10/31/07	Variance Thru 10/31/07
Total Revenues	$ 134,184,000	$ 126,865,000	$ 7,319,000)
New Physician Arrivals Delayed			
Total Expenses	$ 156,873,000	$ 154,466,000	$ 2,407,000
Under-budgeted Physician Expenses			
Non Operating Income(Loss)	$ 22,689,000)	$ (27,601,000)	$ (4,912,000)
Interest Expense		$ (1,208,000)	
Other Non-Operating Income		$ 1,602,000	
Income(Loss) Before State Subsidy		$ (27,207,000)	
Needed Emergency Appropriation		$ 25,400,000	
Outstanding A/P as of 06/30/07 Days in A/P at 06/30/07 = 75		$ 32,293,000	

Forecast Outstanding Accounts Payable as of June 30. 2008 = $40,107,000

HAWAII HEALTH SYSTEMS CORPORATION
CASH FLOW SURPLUS/(DEFICIT) BY FACILITY
FISCAL YEAR 2008

	HILO	MAUI	KONA	KVMH	HAMAKUA	KAU	KOHALA	KULA	LANAI	LEAHI	MALUHIA	SMMH	CORP	TOTAL
Annual Cash Collections (Budgeted)	102,176	139,629	51,800	26,482	7,696	3,860	4,031	15,020	1,980	15,160	12,025	14,400	500	394,759
DHS Direct Payments to Hospitals	1,953	2,181	1,500							1,177	689			7,500
Payroll Cash Requirements	(72,791)	(85,332)	(37,475)	(18,376)	(6,326)	(3,564)	(3,496)	(13,076)	(2,028)	(17,550)	(14,165)	(10,140)	(7,256)	(291,575)
Non-Payroll Cash Requirements	(41,282)	(59,748)	(20,916)	(13,763)	(2,580)	(1,651)	(1,329)	(3,133)	(1,500)	(3,839)	(3,235)	(5,796)	(1,096)	(159,868)
Operating Cash Flow Deficit	(9,944)	(3,270)	(5,091)	(5,657)	(1,210)	(1,355)	(794)	(1,189)	(1,548)	(5,052)	(4,686)	(1,536)	(7,852)	(49,184)
Appropriations from State of Hawaii	13,123	7,979	6,892	6,363	2,031	1,396	900	1,618	1,460	5,310	4,823	1,717	-	53,612
Financing of Alii Community Care	(308)	(393)	(161)	(87)	(26)	(14)	(13)	(43)	(9)	(58)	(46)	(42)	-	(1,200)
Noncapital Financing Cash Flow Surplus	12,815	7,586	6,731	6,276	2,005	1,382	887	1,575	1,451	5,252	4,777	1,675	-	52,412
Repayments on Capital Lease Obligations-Current	(2,039)	(4,140)	(2,261)	(702)						(2)	(164)	(191)	(927)	(10,426)
Repayemnts on Capital Lease Obligations-Future	(158)	(277)	(92)	(60)	-	-	-	-	-	(29)	-	-	-	(616)
Capital and Related Cash Flow Deficit	(2,197)	(4,417)	(2,353)	(762)	-	-	-	-	-	(31)	(164)	(191)	(927)	(11,042)
Allocation of Corporate Office Costs	(2,251)	(2,872)	(1,177)	(636)	(193)	(101)	(97)	(315)	(67)	(425)	(339)	(306)	8,779	-
Cash Flow Deficit by Facility	(1,577)	(2,973)	(1,890)	(779)	602	(74)	(4)	71	(164)	(256)	(412)	(358)	-	(7,814)
A/P @ 6/30/07	9,750	12,592	5,179	192	121	68	189	125	441	259	336	307	2,734	32,293
Projected A/P @ 6/30/08	11,327	15,565	7,069	971	(481)	142	193	54	605	515	748	665	2,734	40,107
FY 08 Budgeted Non-Payroll Expenses	41,282	59,351	20,951	13,762	3,216	1,652	1,329	3,133	1,415	3,839	3,239	5,493	1,096	159,758
Divided by 365	365	365	365	365	365	365	365	365	365	365	365	365	365	
FY 08 Budgeted Non-Payroll Exp/Day	113	163	57	38	9	5	4	9	4	11	9	15	3	
Projected A/P @ 30 Days @ 6/30/08	3,393	4,878	1,722	1,131	264	136	109	258	116	316	266	451	90	13,130
FY 08 Emergency Appropriation	7,934	10,687	5,347	-	-	6	84	-	489	199	482	214	-	25,442
Annual Cash Collections (Budgeted)	102,176	139,629	51,800	26,482	7,696	3,860	4,031	15,020	1,980	15,160	12,025	14,400	500	394,759
Annual Cash Collections Projected Based on Collections Experience from Jul 1, 07 to Nov 30, 07	94,142	134,208	46,907	23,592	6,763	4,244	4,608	16,599	2,133	20,139	16,144	12,367	1,806	383,652
Potential FY 08 Cash Collections Shortfall (Surplus)	8,034	5,421	4,893	2,890	933	(384)	(577)	(1,579)	(153)	(4,979)	(4,119)	2,033	(1,306)	11,107

NOTE: Shortfalls in collections could increase HHSC requirements for FY 08 emergency funding by up to $11,107,000.

HAWAII HEALTH SYSTEMS CORPORATION
CASH FLOW SURPLUS/(DEFICIT) BY FACILITY
FISCAL YEAR 2008

	HILO	MAUI	KONA	KVMH	HAMAKUA	KAU	KOHALA	KULA	LANAI	LEAHI	MALUHIA	SMMH	CORP	HHSC TOTAL
Cash Collections (Budgeted 12/07-6/08)	59,346	75,359	31,300	16,236	4,489	2,242	2,401	8,764	1,145	8,835	7,025	8,400	292	225,834
DHS Direct Payments to Hospitals	930	1,111	619							590	216			3,466
Payroll Cash Requirements (Budgeted 12/07-6/08)	(43,029)	(49,777)	(21,975)	(10,870)	(3,690)	(2,079)	(2,044)	(7,626)	(1,183)	(10,415)	(8,265)	(5,915)	(4,235)	(171,103)
Non-Payroll Cash Requirements (Budgeted 12/07-6/08)	(24,359)	(34,853)	(12,616)	(8,317)	(1,505)	(959)	(769)	(1,827)	(875)	(2,289)	(1,925)	(3,381)	(640)	(94,315)
Operating Cash Flow Deficit	(7,112)	(8,160)	(2,672)	(2,951)	(706)	(796)	(412)	(689)	(913)	(3,279)	(2,949)	(896)	(4,583)	(36,118)
General Fund Appropriations from State of Hawaii	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective Bargaining Funding	1,413	1,770	700	313	122	72	83	285	45	388	291	188	62	5,732
Financing of Alii Community Care	(180)	(229)	(94)	(51)	(15)	(8)	(8)	(25)	(5)	(33)	(27)	(25)	-	(700)
Noncapital Financing Cash Flow Surplus	1,233	1,541	606	262	107	64	75	260	40	355	264	163	62	5,032
Repayments on Capital Lease Obligations-Current	(1,709)	(2,400)	(1,441)	(627)						-	(96)	(111)	(505)	(6,889)
Repayments on Capital Lease Obligations-Future	(92)	(161)	(54)	(35)	-	-	-	-	-	(17)	-	-	-	(359)
Capital and Related Cash Flow Deficit	(1,801)	(2,561)	(1,495)	(662)	-	-	-	-	-	(17)	(96)	(111)	(505)	(7,248)
Allocation of Corporate Office Costs	(1,289)	(1,644)	(674)	(364)	(110)	(58)	(55)	(180)	(39)	(244)	(194)	(175)	5,026	-
Cash Flow Deficit by Facility	(8,969)	(10,824)	(4,235)	(3,715)	(709)	(790)	(392)	(609)	(912)	(3,185)	(2,975)	(1,019)	-	(38,334)
A/P @ 11/30/07	8,705	13,321	5,090	1,188	250	85	52	600	45	135	191	328	2,363	32,353
Projected A/P @ 6/30/08	17,674	24,145	9,325	4,903	959	875	444	1,209	957	3,320	3,166	1,347	2,363	70,687
Projected A/P @ 30 Days @ 6/30/08	3,393	4,878	1,722	1,131	264	136	109	258	116	316	266	451	90	13,130
Projected Days in A/P @ 6/30/08 ($70,687K)	156	148	162	130	109	193	122	141	247	316	357	90	787	161

NOTE:
Change in projection of accounts payable balance at 6/30/08 is due to:
[1] FY 08 budget anticipated receiving $10M from the start of the Maui Cardiovascular program. It does not appear that this program will be able to be implemented prior to the start of fiscal year 2009.
[2] FY 08 budget anticipated receipt of the full $53.6M in general fund appropriations in cash. With HHSC having to pay back $10M out of its FY 08 general fund appropriations to repay an advance made to HHSC in June 2007, FY 08 projected cash flow is short by $10M.
[3] FY 08 operating revenues through November 2007 have been approximately $11M behind budget, which has had a negative impact on cash collections through November 2007 and will continue to be felt through the rest of fiscal year 2008.

1/9/2008

	September and Earlier	October	November	December	January	Total
Corporate	1,514,889.03	98,704.06	40,750.03	(65,888.27)		1,588,454.85
Hamakua	798.67		18,250.84	67,834.91	50,727.53	137,611.95
Hilo	2,540,754.23	2,459,345.02	2,258,695.79	1,359,274.57	129,125.98	8,747,195.59
Kau			12,547.71	78,791.36	24,747.87	116,086.94
Kohala			8,152.86	10,268.28	158.24	18,579.38
Kona	1,547,201.25	1,310,567.10	1,153,938.00	536,061.33	134,620.06	4,682,387.74
Kula	112,138.14	121,655.91	222,814.10	169,249.93	1,927.54	627,785.62
KVMH	3,089.15	64,327.28	36,445.57	199,416.45	13,657.15	316,935.60
Lanai	3,610.42	39,567.85	101,330.37	34,793.13		179,301.77
Leahi	2,388.79	41.71	1,642.51	39,301.16	27,807.00	71,181.17
Maluhia				31,743.57	25,100.99	56,844.56
Maui	3,264,471.70	3,518,623.91	4,204,934.26	3,596,328.85	182,506.58	14,766,865.30
SMMH	626.29	7,948.59	115.60	42,143.85	1,032.00	51,866.33
	8,989,967.67	7,620,781.43	8,059,617.64	6,099,319.12	591,410.94	31,361,096.80

*Invoices that are posted on or after January 9, 2008 (approx. 7:48 a.m.) are not included in the report.

Source: AS 400 - HBOC

Attachment 7

"Touching Lives Everyday"
HAWAII HEALTH SYSTEMS
CORPORATION

The House Committee on Health
Representative Josh Green, M.D., Chair
Representative John Mizuno, Vice Chair

The House Committee on Human Services
Representative Maile S.L. Shimabukuro, Chair
Representative Karl Rhoads, Vice Chair

January 25, 2008, 8:30 a.m.
Conference Room # 329
Hawaii State Capitol

Joint Informational Briefing

A Legislative Update on Problems Relating to Access to Healthcare and What is Being Done to Address Problems

Testimony by
Thomas M. Driskill, Jr., President and Chief Executive Officer

A. Problems and Issues:

1. National Health Care Challenges

- Decreasing reimbursements for all providers
- Increasing pressures on physicians
- Increasing charity care/bed debt
- Skilled healthcare labor shortage
- Nice providers skimming profitable services
- Expensive malpractice insurance
- Cost of compliance

2. Hawaii Healthcare Challenges

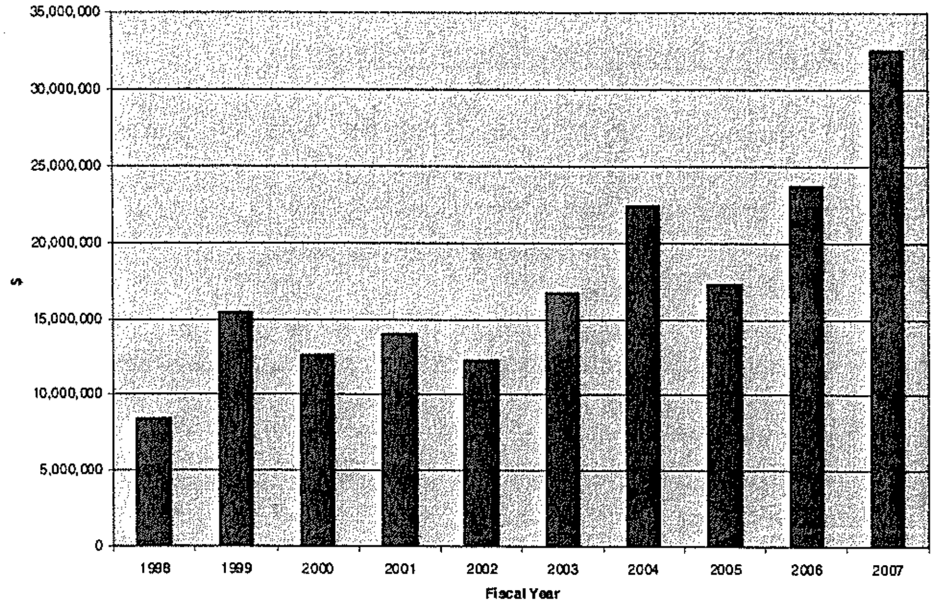
- Only state in USA with no regular Medicaid "DSH" payment
- One of only two states in USA that tax (GET) medical services

- Ranked #50 in USA for not keeping up with hospital capital requirements
- Ranked #50 in USA for Average Reimbursement % of Cost
- Long-term care (LTC) crisis

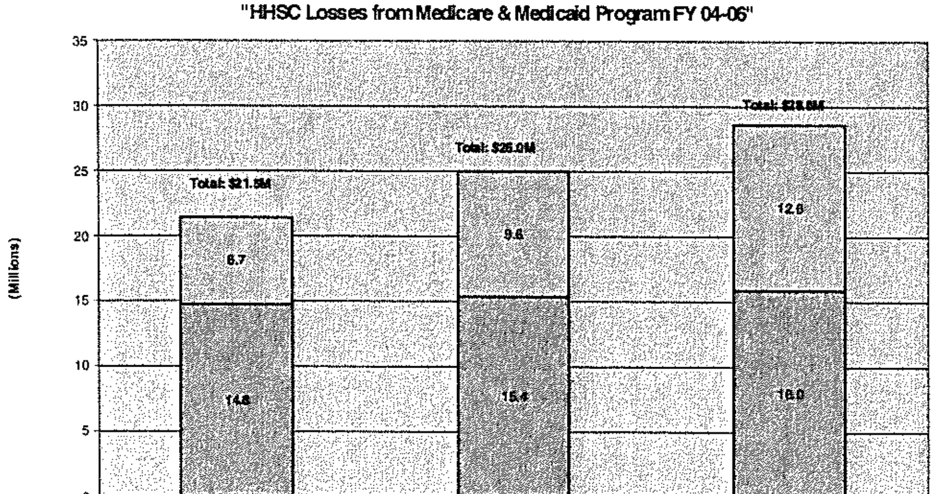
3. HHSC Specific Healthcare Challenges

- High cost of labor and benefits with no corresponding input in collective bargaining negotiations
- Procurement code
- Levels of service mandated by legislature
- Inherited liabilities
- LTC Wait List problem in HHSC acute facilities
- Lack of physician specialists on neighbor islands medical staffs
- No level playing field for third party payer negotiations
- Outdated facilities
- Inadequate investment in Information Technology infrastructure and software
- Medicaid Equity Reimbursement Act 294 will cost HHSC (and ultimately the State) over $13 million per year in lost reimbursement
- Geographically dispersed
- Remote population served
- Diverse community needs
- Labor force shortage exacerbated on neighbor islands
- Housing (not affordable/available) on neighbor islands
- Communities are depending upon HHSC – sometimes no other option

"HHSC Has Provided $175 Million in Free Care From FY 98 - FY 07"



"HHSC Losses from Medicare & Medicaid Program FY 04-06"



	FY 2004	FY 2005	FY 2006
Medicare	6.7	9.6	12.6
Medicaid	14.8	15.4	16.0

Financial Trends of Hawaii's Hospitals, Nursing Facilities, Home Care and Hospice

Providers have been experiencing losses consistently since 2000

- Total costs exceeded payments for Hawaii's hospitals in 2006 by $150,000,000 ($150 million)
- Contributing to those losses are costs not covered by government payors and community benefits including medical education, community programs, bad debt and charity care, waitlist patients and trauma care
- Investment income and other revenues have helped to reduce the overall losses for some hospitals
- Hospitals without significant investments and other revenue sources operate at an overall loss
- Cumulative losses since the implementation of the Balance Budget Act of 1999, have depleted reserves the hospitals had saved for future capital projects and serving the community

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Payments to Hawaii Hospitals

Hawaii's overall payment as a percentage of costs is the lowest in the United States

- Hawaii payments are primarily from Medicare, Medicaid, commercial payors (HMSA, UHA, HMAA, etc.) and others (Workers' Compensation, No-Fault, etc.)
- Medicare and Medicaid do not pay for the full cost of hospital services provided to beneficiaries in most states
  - Over 50% of all inpatients hospitalizations are covered by Medicare or Medicaid/Quest
  - 2006 Medicare losses for hospitals were approximately $181,200,000
  - 2006 Medicaid/Quest losses for hospitals were approximately $63,500,000
- In many states, private insurance covers the shortfall from the government payors

Calendar Year 2006
Percent of Costs Paid by:

	Medicare	Medicaid/ Quest	Commercial and Other	Overall
Hawaii	79.77 %	80.02 %	111.24 %	92.39 %
Lowest Overall State	66.65 %	32.93 %	101.80 %	92.39 %
Average for US	80.36 %	75.30 %	124.89 %	104.32 %
Highest Overall State	101.03 %	105.46 %	145.94 %	115.62 %

Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC)

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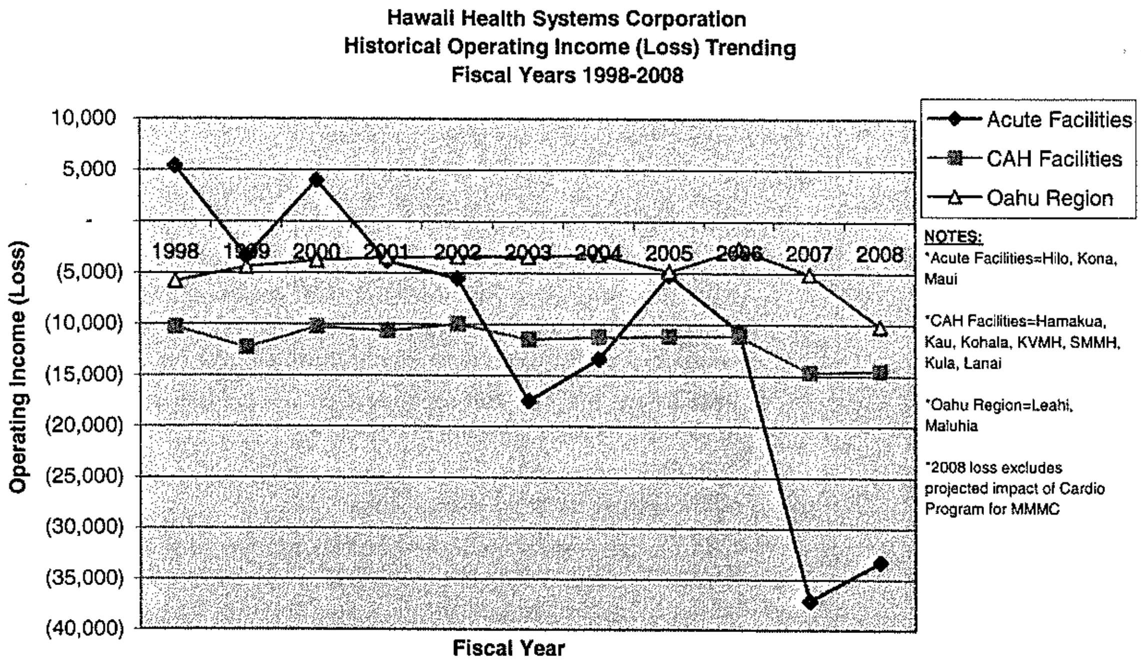
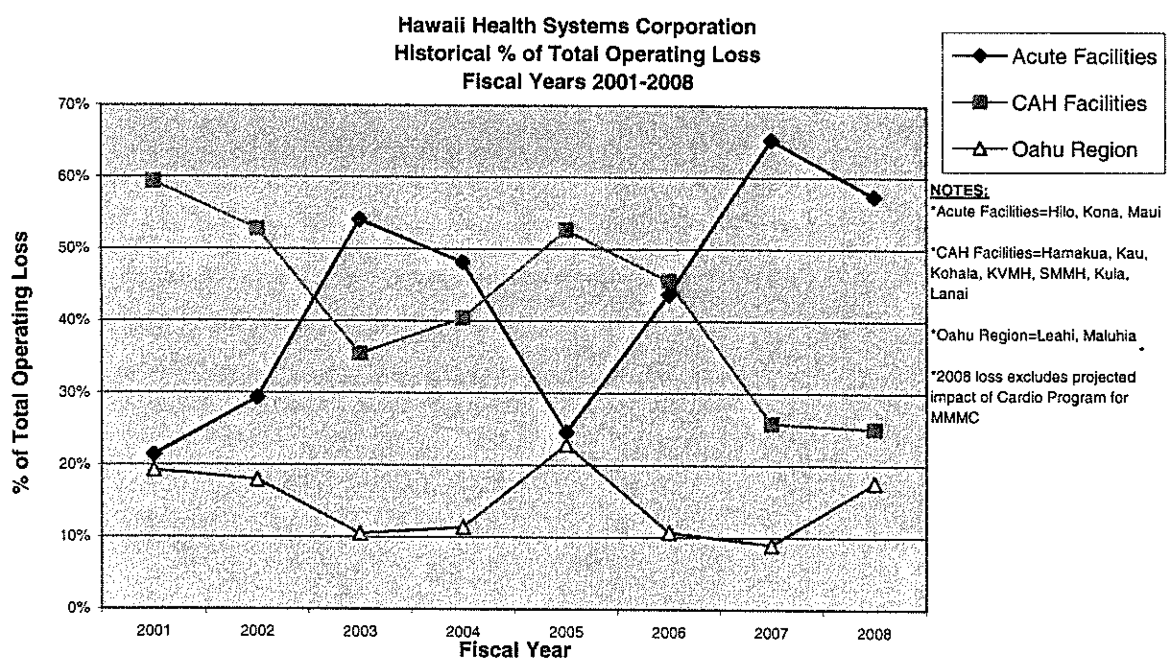

Hawaii Health Systems Corporation
Historical Operating Income (Loss) Trending
Fiscal Years 1998-2008
10,000
5,000
-
(5,000)
(10,000)
(15,000)
(20,000)
(25,000)
(30,000)
(35,000)
(40,000)
Operating Income (Loss)
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Fiscal Year
Acute Facilities
CAH Facilities
Oahu Region
NOTES:
*Acute Facilities=Hilo, Kona, Maui
*CAH Facilities=Hamakua, Kau, Kohala, KVMH, SMMH, Kula, Lanai
*Oahu Region=Leahi, Maluhia
*2008 loss excludes projected impact of Cardio Program for MMMC


Hawaii Health Systems Corporation
Historical % of Total Operating Loss
Fiscal Years 2001-2008
70%
60%
50%
40%
30%
20%
10%
0%
% of Total Operating Loss
2001 2002 2003 2004 2005 2006 2007 2008
Fiscal Year
Acute Facilities
CAH Facilities
Oahu Region
NOTES:
*Acute Facilities=Hilo, Kona, Maui
*CAH Facilities=Hamakua, Kau, Kohala, KVMH, SMMH, Kula, Lanai
*Oahu Region=Leahi, Maluhia
*2008 loss excludes projected impact of Cardio Program for MMMC

B. Actions to address problems:

- Passage of CAH Medicaid bill
- HHSC has eight CAH designated hospitals
- Working with congressional delegation to increase FMAP (Medicaid increase)
- HHSC working with federal agencies and DHS in attaining disproportionate share payments
- Implemented telemedicine and telehealth system
- Disaster preparedness
- Laboratory joint venture
- Use of group purchasing organization (GPO)
- Co-generation energy saving contract
- Constructed and opened State Veterans Home
- Assimilated Kahuku Hospital as an HHSC affiliate
- Opened dialysis in multiple rural areas
- MMMC new wing
- Initiated HMC Residency Program
- Added inpatient psychiatric at Kona
- Reopened OB/GYN care in West Kauai
- Opened two neighbor island cancer centers with linear accelerators
- Portable lithotripter on Big Island
- Multiple new hospitalists programs
- Hiring/contracting physicians to provide coverage
- Continuous successful accreditation and certification of all facilities
- Co-located two FQHCs on Kauai
- Implemented state of the art home health digital technology
- Established rural health clinic at Kau

HAWAII HEALTH SYSTEMS
C O R P O R A T I O N
"Touching Lives Everyday"

AMENDED TESTIMONY

THE SENATE COMMITTEE ON WAYS AND MEANS
Senator Rosalyn H. Baker, M.D., Chair
Senator Shan S. Tsutsui, Vice Chair

March 27, 2008, 9:30 a.m.
Conference Room #211
Hawaii State Capitol

Testimony on HB 2500, HD1
Relating to the State Budget

Testimony By:
Thomas M. Driskill, Jr.
President & Chief Executive Officer

The Hawaii Health Systems Corporation (HHSC) is in a critical financial condition and respectfully requests supplemental budget appropriations reductions in HB 2500 HD1 be re-instated with significant supplemental support added for FY09 in order to continue to provide current levels of services in our system of acute care, long-term care and rural health services.

Due to external healthcare pressures beyond our control and our mandate to meet our safety net mission for the State of Hawaii, HHSC is in the most critical financial situation we have experienced since the corporation was formed.

A FY08 Emergency Appropriation of $25 million is currently under consideration by the Senate and the House. The emergency appropriation will provide a desperately needed infusion of cash now in order to pay vendors as several facilities are approaching situations in which we may soon lose control of the operations because of inability to pay vendors, but it does not address HHSC's FY09 Supplemental request.

The FY08 Emergency Appropriation measure, in sync with the initial HHSC FY09 Supplemental request of $57 million, will reduce accounts payable days and insure provision of current levels of service in HHSC facilities while affording new HHSC Corporate and Regional Governance time to gain an understanding of this situation and work with management leadership to develop a long range plan to minimize the operational cost of HHSC while continuing to provide essential healthcare services.

HB 2500 HD1 has made adjustments (reductions) to the Operating and CIP portions of HTH 210 (HHSC). Your consideration is requested to re-instate these reductions by amending HB 2500, HD1 as follows:

1) Supplemental Operating Budget appropriation (FY09 of Fiscal Biennium 07-09)
HB 2500, HD1 imposed a four percent reduction to most departments' general fund discretionary budgets. A reduction of $2,204,918 was made to the $53,622,961 general fund appropriation to HHSC (HTH210). We respectfully request that this amount be re-instated.

2) Capital Improvement Project Budget appropriation:
HB 2500, HD1 reduced general obligation (G.O.) bond-funded CIP projects for HHSC by $8,298,000 by deleting 10 of 17 life safety projects. Furthermore, no G.O. bond-funded projects were approved for HHSC in FY09 in the 2007 legislature. We request that at a minimum, the $8,298,000 re-instated in the CIP budget.

3) Additional Supplemental Operating Budget appropriation (FY09 of Fiscal Biennium 07-09):
Additionally, a supplemental request of $57 million was made to the administration for FY09 but was not included in the executive budget. Initially this $57 million was based upon the assumption that the FY08 EA was not forthcoming, however, as we have begun to decentralize the final FY09 HHSC budgeting process, we now anticipate that the entire $57 million or more will be required as a FY09 supplemental request to sustain all regions in addition to the FY08 EA. HHSC is in the first round of our three round final FY09 budget preparation process. In this early stage of our final FY09 budget preparation our regions have initially identified a FY09 cash flow need of $83 million over appropriation (see attached). As we continue through our final FY09 budget preparation process, the numbers will continue to change moderately, but at this point the best projection we have for cash flow shortfall above appropriation is $83 million. Thus, making up this $83 million shortfall is necessary to maintain an adequate level of funding to continue operation of facilities at current levels of services during FY09.

Low levels of reimbursement from insurance companies and health plans, growing cost of uninsured, increasing physician costs, increasing employee payroll costs and increased required contributions to the Employee Retiree System plus state employee health for life are factors that contribute to the shortfall. The continuing physician recruitment challenge particularly in rural communities is especially problematic for HHSC because it decreases health care services in any given area, thereby decreasing revenue while increasing additional professional cost for hospitals.

We respectively request amendments to HB 2500 HD1 to enable continued operations of HHSC facilities and to prevent detrimental impacts on the communities we serve. Both HHSC governance and management recognize the magnitude of this supplemental request for FY09 and are committed to transitioning new structure in accordance with Act 290 and developing strategies to minimize cost of the hospital system future requests for state support necessary to continue to provide essential services to the communities in the regional systems statewide. Thank you.

Attachment: Draft FY2009 Supplemental Budget Requirements By Region (Rev-1)

HAWAII HEALTH SYSTEMS CORPORATION

DRAFT

FY 2009 Supplemental Budget Requirements By Region

- Leahi $ 4,636K
- Maluhia $ 1,802K

Oahu Region: $ 6,438K

- WKMC $ 12,058K
- SMMH 3, 257K

Kauai Region: $ 15,315K

- MMMC $ 21,545K
- Kula 2,830K
- Lanai 907K

Maui Region: $ 25,282K

- HMC $ 24,365K
- HHH 975K
- Kau 1,301K

East HI Region Total: $ 26,641K

- KCH $ 9,413K
- Kohala 615K

West HI Region Total: $ 10,028K

(Rev-1)