EXECUTIVE CHAMBERS

DAVID IGE
GOVERNOR

HONOLULU

January 20, 2015

The Honorable Donna Mercado Kim,
President
and Members of the Senate
Twenty-Eighth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Joseph M. Souki, Speaker
and Members of the House of
Representatives
Twenty-Eighth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kim, Speaker Souki and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Hawaii Health Systems Corporation Annual Report and financial statement for FY 2014, as required by section 323F-22(b) and (c), Hawaii Revised Statutes (HRS). In accordance with Section 93-16, HRS, a copy of this report has been transmitted to the Legislative Reference Bureau and the report may be viewed electronically at http://www.hhsc.org/About-Us/HHSC-Reports.

Sincerely,

DAVID IGE
Governor, State of Hawaii

Enclosure

HAWAII HEALTH SYSTEMS
C O R P O R A T I O N
Quality Healthcare For All

PCEO-14-059

Report To The Legislature

Hawaii Health Systems Corporation Annual Audit and Report for FY2014;

Pursuant to HRS Section 323F-22(a) and (b)

Hawaii Health Systems Corporation (HHSC) is pleased to submit this report to the legislature in accordance with Hawaii Revised Statutes, Section 323F-22, relating to Hawaii Health Systems Corporation Annual Audit and Report. This report includes (a) projected revenues for each health care facility for FY2015 and a list of capital improvement projects planned for implementation in FY2016; and (b) regional system board reports.

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

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

In Fiscal Year 2014, HHSC hospitals provided a total of the following: 22,354 acute care admissions and 1,219 long-term admissions; 114,807 acute care patient days and 243,620 long-term care patient days; and 118,743 emergency room visits. A total of 1,253 licensed beds are operated in HHSC's twelve facilities, of which over 800 are designated long-term care. The system employed a total of 4,201 FTE (full time equivalent) personnel.

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

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

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

- For Hawaii county residents, HHSC facilities provided the care for almost 68% of all acute care discharges and 84% of all emergency room visits;

- For Maui county residents, HHSC facilities provided the care for approximately 80% of all acute care discharges and almost 86% of all emergency room visits; and

- For Kauai county residents, HHSC facilities provided the care for almost 21% of all acute care discharges and 35% of all emergency room visits.

HHSC provides accessible and affordable high quality healthcare in all communities we serve. We have continued to develop and improve our clinical and non-clinical quality programs consistently putting into practice our mantra that "Quality is Job One." HHSC quality 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 recent surveys. HHSC completed its sixth hospital accreditation survey by the Joint Commission of Healthcare Organization in 2014, and was designated a full 3-year accreditation for the 4 hospitals that participate. HHSC also continues its long-standing participation with Hawaii Medical Services Association (HMSA) Hospital Quality and Service Recognition program that offers financial incentives for meeting performance indicators related to patient care quality.

At the same time, with the on-going support of the Legislature and the Abercrombie administration, HHSC continues to implement an advanced electronic health record (EHR) system. This year, Maui Memorial Medical Center completed a successful implementation effort, and the HHSC West Hawaii Region (which implemented the system in 2013) continued to make advances in its use of the system. This collaborative effort, brings state-of-the-art technology to HHSC in a manner that will drive excellence in our operations and improve patient safety and the quality of care for our patients. At this point, the HHSC EMeRGE (Electronic Medical Record Gaining Efficiency) Project is advancing full-steam ahead with our next Go-Live for Kula Hospital and Lanai Hospital scheduled for March 1, 2015. We will continue to keep the administration and legislature updated on the progress of the implementation of the EHR system.

In the spirit of our enabling legislation (Act 263, 1996), the HHSC regions and the corporate office continue to aggressively pursue opportunities to improve quality healthcare services while collaboratively examining and implementing best practices to improve the system's efficiency and effectiveness. HHSC's FY2014 milestones include the following:

East Hawaii region

- Welcomed the 1st class of four residents for HHSC Primary Care Training Program at Hilo;
- All of the HHSC East Hawaii Region's facilities successfully attested to the American Recovery and Reinvestment Act (ARRA) Meaningful Use Stage 2;
- HHSC East Hawaii Region also achieved the Healthcare Information and Management Systems Society's (HIMSS) Analytics *Electronic Medical Record Adoption Model Stage 7;* only 1.9% of hospitals had achieved this status in 2013;
- Hilo Medical Center received the American Heart Association's Get with the Guidelines' Silver Award for treatment of heart failure;
- Hilo Medical Center's Trauma Program was recertified as a Level III Trauma Cente;
- Received American Health Care Association's *2014 Three Tier Level Quality Initiative Recognition Program Award* for its achievement in safely reducing hospital readmissions;
- Contracted with Hawaii Life Flight to secure a medically equipped, over-water helicopter;
- Ka'u Hospital, through the state's capital improvement project funding, finalized major renovations to improve the hospital's air quality and infrastructure.

West Hawaii region

- West Hawaii Region successfully attested to Year 1, Stage 1 Meaningful Use requirements for the CMS Incentive Program;
- Launched myHealth Patient Portal, as required by CMS allowing patients online access to their medical records;
- Successfully completed recertification for a Level III Trauma Center designation;
- Implemented the American Heart Association's evidence-based Mission Lifeline: STEMI and Cardiac resuscitation system to improve survival rates for heart attack patients;
- Voted Best Hospital in West Hawaii in the 2014 West Hawaii Today "Best Of" Poll;
- Kohala Hospital received an overall 5.0 Star Overall and Quality Rating on Medicare's Nursing Home Compare;
- Continued advancement of cardio-vascular service partnership with Maui Memorial Medical Center; and
- Continued contract with Hawaii Life Flight to operate a medically equipped, over-water helicopter.

Maui region

- Get With The Guidelines Gold Plus – Stroke and Heart Failure;
- Joint Commission - 2013 Top Performer on Key Quality Measures;
- Mission Lifeline Award;
- Electronic Medical Records (EMR);
- Dialysis Unit Expansion;

- Student Art Contest;
- LCH Auxiliary.

Oahu region

- Establishment of the following subcommittees to facilitate Board business and direction: Funding Priorities, Public Awareness, Alliance with Leahi and Maluhia Auxiliaries;
- Approval by the State of Hawaii Historical preservation Division of the Department of Land and Natural Resources was received for the removal of the old Children's Building/ former Young Building at Leahi Hospital. The structure is now removed, with plans to utilize stones from the rock foundation as part of a walking path for residents and families; and
- Continued approval to participate in the Aloha United Way's Donor Choice program. This area continues to be a challenge since the Foundation has not been able to meet the $25,000 fund raising limit and has been grandfathered into the program in the past.

Kauai region

- Transitioned to new executive leadership team including new CEO and COO/CFO;
- Developed a new Living Strategic Plan for high quality health outcomes and fiscally sustainable operations;
- Increased long term care census at Samuel Mahelona Memorial Hospital by 10 residents; and
- Stabilized and normalized regional cash collections by implementing new billing processes and systems.

At the same time**,** during Fiscal Year 2014, HHSC struggled to maintain its financial stability in the midst of reductions in reimbursements as a result of federal health care reform and federal deficit reduction legislation, as well as increases in costs due to collective bargaining raises negotiated by the State of Hawaii on HHSC's behalf that were not fully-funded by the Legislature. During Fiscal Year 2014, HHSC recorded $108,540,000 in general funds for operations (including $22,300,000 in emergency appropriations), $12,000,000 in general funds for collective bargaining raises, and $46,715,795 in capital contributions from the State of Hawaii. Despite the increase in general fund appropriations, HHSC's facilities ended fiscal year 2014 with only 31 days cash on hand, as compared to the median for other state government hospitals of 98 days cash on hand. Kauai Region only had 9 days cash on hand at the end of fiscal year 2014. HHSC as a whole also ended fiscal year 2014 with 65 days in accounts payable, as compared to the median for other state government hospitals of 43 days in accounts payable. These measures indicate that HHSC is in a vulnerable liquidity position, and must collect all it earns just to survive from month to month.

HHSC annually has a detailed independent financial audit conducted for the entire system. Additionally, HHSC has a myriad of internal reporting/performance measures that are utilized by the board of directors and management to insure compliance, quality, and financial efficiency in all system work. We have continued to focus on improving our financial management and accounting systems throughout the years. HHSC has received our thirteenth consecutive "clean" unqualified consolidated audit for every fiscal year from FY 1998 through FY2014. The FY2014 audit will be submitted under separate cover in January, 2015.

The following information is attached pursuant to HRS Section 323F-22: (1) Projected revenues for each facility for FY2015, (2) List of proposed capital improvement projects during FY2016; and (3) Hawaii Health Systems Corporation, Regional System Board Reports.

Foundations

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

Respectfully submitted,

Alice M. Hall

Alice M. Hall
Acting President and Chief Executive Officer

Edward N. Chu

Edward N. Chu
Chief Financial Officer

Attachments:

1. Projected FY2015 Revenues
2. CIP Expenditures FY2016
3. HHSC Consolidated Audited Financial Statement, FY 2014
4. Regional Board Reports, FY2014.

HAWAII HEALTH SYSTEMS CORPORATION
PROJECTED REVENUES BY FACILITY
FISCAL YEAR 2015

NOTE: These amounts represents projected cash collections, not accrual basis revenues.

Facility	**Amount ($ 000's)**
Hilo Medical Center	$ 152,344
Hale Ho'ola Hamakua	13,371
Kau Hospital	5,520
Kona Community Hospital	67,740
Kohala Hospital	6,684
Maui Memorial Medical Center	210,529
Kula Hospital	20,502
Lanai Community Hospital	3,385
Kauai Veterans Memorial Hospital	32,427
Samuel Mahelona Memorial Hospital	14,749
Leahi Hospital	16,542
Maluhia	15,429
HHSC Total	**$ 559,222**

Attachment 2

FB 2015-2017 Capital Improvement Projects Requested

REQ CAT	DEPT PRIORITY	PROJECT	FY 16	FY 17
E	1	East HI Region, Photovoltaic Array	8,000,000	3,000,000
HS	2	Kohala Hospital, Renovations	1,000,000	1,000,000
HS	3	Maui Memorial Medical Center, Replace chillers	2,000,000	
HS	4	Samuel Mahelona Memorial Hospital, Endoscopy Suite	300,000	
HS	5	Leahi Hospital, Relocate TB Unit	150,000	
HS	6	Leahi Hospital, Renovate vacant spaces in Young	1,000,000	
HS	7	Samuel Mahelona Memorial Hospital, Psychiatric Unit Renovations	600,000	
HS	8	Samuel Mahelona Memorial Hospital, Nursing Stations in LTC & Acute	250,000	
HS	9	Kona Community Hospital, Electrical Improvements	1,500,000	
HS	10	Leahi Hospital, Construct accessible walkways	600,000	
HS	11	Samuel Mahelona Memorial Hospital, Emergency Generator	500,000	
E	12	Kauai Veterans Memorial Hospital, LED Parking lot light conversion	400,000	
HS	13	Kauai Veterans Memorial Hospital, Medical Air System	50,000	
HS	14	Kauai Veterans Memorial Hospital, Electrical upgrades	600,000	500,000
HS	15	Leahi Hospital, Spalling repair and repainting Atherton	600,000	
HS	16	Maui Memorial Medical Center, Clinical equipment	500,000	
HS	17	Leahi Hospital, Reroof porte cochere	150,000	
HS	18	Maluhia, Spalling repair and repaint	600,000	
HS	19	Kona Community Hospital, Waste Water Treatment Plant, PH. II	3,000,000	
HS	20	Maui Memorial Medical Center, Repairs to facility	1,000,000	
HS	21	Kauai Veterans Memorial Hospital, Nursing facility renovation	250,000	
HS	22	Maluhia, Relocate gas line and repair cmu wall	100,000	
HS	23	Maluhia, Install roof over sundeck	500,000	300,000
HS	24	Maui Memorial Medical Center, Plumbing and fire safety upgrades	3,000,000	
HS	25	Leahi Hospital, Upgrade Atherton, Trotter and Sinclair Elevs	900,000	
HS	26	Leahi Hospital, Upgrade patient rooms	600,000	600,000
HS	27	Maluhia, Upgrade patient rooms	500,000	500,000
HS	28	Kona Community Hospital, Patient shower and bathroom renovations	750,000	
HS	29	Maluhia, Renovate hospital spaces	500,000	500,000
HS	30	Leahi Hospital, New patient drop off and parking lot for N. Trotter	550,000	
HS	31	Kona Community Hospital, Hospital renovations	1,250,000	1,250,000
E	32	Maui Memorial Medical Center, Energy efficiency	2,000,000	
HS	33	Leahi Hospital, Correct leakage problems at Trotter basement	365,000	
HS	34	Leahi Hospital, Reroof spiral staircase at Sinclair	200,000	
HS	35	Leahi Hospital, Remove boilers and piping	200,000	
O	36	Leahi Hospital, Construct patient pavilion	500,000	400,000
HS	37	Hilo Medical Center, Residency Program Renovation	1,600,000	
HS	39	Maluhia, Resurface and restripe parking lot	250,000	
HS	40	Leahi Hospital, Demolition of vacant structures	250,000	
E	41	Kula Hospital, Energy efficiency	500,000	
HS	42	Kula Hospital, AC improvements	400,000	
O	43	Maui Memorial Medical Center, Bed replacement	700,000	
HS	44	Hilo Medical Center, MRI renovation and replacement	3,000,000	
HS	45	Maui Memorial Medical Center, IT infrastructure, security systems and patient care upgrades	2,000,000	
HS	46	Lanai Community Hospital, Plumbing and facility improvements	1,600,000	
HS	47	Hilo Medical Center, Outpatient expansion	1,500,000	750,000
HS	48	Kula Hospital, Exterior and Ward room repairs	3,500,000	
HS	49	Maui Memorial Medical Center, Life safety improvements	1,680,000	
HS	50	Samuel Mahelona Memorial Hospital, Dental office equipment replacement		30,000
HS	51	Samuel Mahelona Memorial Hospital, Resurface parking lot		250,000
O	52	Kauai Veterans Memorial Hospital, Irrigation system upgrade		250,000
HS	53	Kona Community Hospital, Kitchen renovation		750,000
O	54	Leahi Hospital, Relocate Dietary to Young Building		5,000,000
O	55	Maluhia, Demolish Maintenance cottage to increase parking		500,000
HS	56	Hilo Medical Center, Radiology renovation and replacement		1,500,000
HS	57	Maui Memorial Medical Center, Repaving, lighting and security improvements		2,500,000
HS	58	Hilo Medical Center, Nuclear Medicine renovation and replacement		2,500,000
O	59	Hilo Medical Center, Master Planning		750,000
M	60	Hilo Medical Center, New LTC Facility		40,000,000
HS	61	Lanai, Clinic space and patient therapy area		1,148,000
M	62	Kula Hospital, Storage facility		150,000
M	63	Maui Memorial Medical Center, Construction shop		2,000,000
HS	64	Kula Hospital, Repairs to Hale Makamae		2,150,000
HS	65	Lanai Community Hospital, Cottage and staff housing renovation and repairs		1,000,000
HS	66	Maui Memorial Medical Center, Auditorium improvements		1,980,000
O	67	Kula Hospital, Master Plan		500,000
HS	68	Lanai Community Hospital, Access road and site improvements		1,200,000
O	69	Kau Hospital, Master Plan		500,000
O	70	Hale Ho'ola Hamakua, Master Plan		500,000
O	71	Hale Ho'ola Hamakua, Equipment for new addition		500,000
M	72	Hilo Medical Center, Clinical Academic Center		1,975,000
		HHSC Total	**51,945,000**	**76,433,000**

Attachment 3

Hawaii Health Systems Corporation

Financial Report
with Other Supplemental Information
June 30, 2014

Contents

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Independent Auditor's Report

To the Board of Directors
Hawaii Health Systems Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Health Systems Corporation (HHSC), a component unit of the State of Hawaii, as of and for the years ended June 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise HHSC's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
Hawaii Health Systems Corporation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of HHSC as of June 30, 2014 and 2013 and the respective changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only HHSC (a component unit of the State of Hawaii) and do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2014 and 2013 or the changes in its financial position or its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

As described in Note 2 to the financial statements, HHSC has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

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

To the Board of Directors
Hawaii Health Systems Corporation

Required Supplemental Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014 on our consideration of HHSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HHSC's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 8, 2014

This discussion and analysis of Hawaii Health Systems Corporation's (HHSC or the "Corporation") financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2014, 2013, and 2012. Please read it in conjunction with the Corporation's financial statements, which begin on page 18.

Using this Annual Report

The Corporation's financial statements consist of three statements: (a) a statement of position, (b) a statement of revenue, expenses, and changes in net position, and (c) a statement of cash flows. These financial statements and related notes provide information about the activities of the Corporation, including resources held by the Corporation but restricted for specific purposes.

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

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

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

The Statement of Cash Flows

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

The Corporation's Net Position

The Corporation's net position is the difference between its assets and liabilities reported in the statement of net position. The Corporation's net position increased by $6,647,575 (15 percent) in 2014, decreased by $45,311,432 (51 percent) in 2013, and decreased by $40,719,703 (32 percent) in 2012, as you can see from the following table.

Assets, Liabilities, and Net Position

Summarized financial information of HHSC's statement of net position as of June 30, 2014, 2013, and 2012 is as follows:

	2014	2013	2012
Assets			
Current assets	$ 255,840,029	$ 239,227,989	$ 226,346,844
Capital assets - Net	354,422,174	340,290,684	309,561,477
Other assets	23,384,323	4,673,601	12,011,753
Total assets	**$ 633,646,526**	**$ 584,192,274**	**$ 547,920,074**
Liabilities			
Current liabilities	$ 157,464,327	$ 149,032,679	$ 127,641,898
Other postemployment liability	302,156,349	267,115,426	196,718,378
Due to the State of Hawaii	34,122,507	36,622,507	42,122,507
Other liabilities	90,223,606	88,389,500	93,093,697
Total liabilities	583,966,789	541,160,112	459,576,480
Net Position (Deficit)			
Invested in capital assets - Net of related debt	307,727,450	287,829,340	250,810,573
Restricted	979,985	349,241	663,192
Unrestricted	(259,027,698)	(245,146,419)	(163,130,171)
Total net position	49,679,737	43,032,162	88,343,594
Total liabilities and net position	**$ 633,646,526**	**$ 584,192,274**	**$ 547,920,074**

At June 30, 2014, 2013, and 2012, HHSC's current assets approximated 40, 41, and 41 percent of total assets, respectively. Current assets increased approximately $16.6 million in 2014 due to increases in cash of $21.4 million and Due from State of Hawaii CIP funds of $6.9 million. These increases are offset by a decrease in third-party payor settlements of $13.9 million. The increases in cash are primarily due to various factors, as reflected in the statement of cash flows. The increase in due from State of Hawaii CIP funds is due to additional unexpended appropriations from the State of Hawaii for capital improvements. The decrease in estimated third-party payor settlements can be primarily attributable to a decrease in the uncompensated care receivable balance in 2014 versus 2013 due to the receipt of substantially all of the outstanding uncompensated care funds remaining from fiscal year 2013 during fiscal year 2014. The reasons for this change are discussed in the operating results and changes in net position section below.

Current assets increased approximately $12.8 million in 2013 due to increases in estimated third-party payor settlements from Medicare and Medicaid of $19.3 million, which were partially offset by the decrease in cash and cash equivalents of $3.3 million and accounts receivable of $3.7 million. The increase in settlements expected from Medicare and Medicaid of $19.3 million is primarily due to the timing of the Medicaid uncompensated care payment. The decrease in cash and cash equivalents of $3.3 million is primarily due to various factors, as reflected in the statement of cash flows. The decrease in patient accounts receivable was due to recovering from the increase in 2012 related to implementation of an electronic medical records (EMR) system whereby billing and collection staff were reallocated to the EMR project.

At June 30, 2014, 2013, and 2012, HHSC's current liabilities were approximately 27, 28, and 28 percent of total liabilities, respectively. The primary reason for the increase in current liabilities in 2014 of $8.4 million is due to an increase in the current portion of long-term debt and capital lease obligations of $13.5 million, which was partially offset by a decrease in accounts payable and accrued expenses of $5.8 million. The increase in the current portion of long-term debt and capital leases is primarily driven by Maui Memorial Medical Center's (MMMC) series 2013 bond issuance of $12.6 million. The decrease in accounts payable and accrued expenses is a result of emergency appropriations received from the State of Hawaii of $22.3 million in addition to the receipt of 2013 uncompensated care receivables during fiscal year 2014, which enabled the facilities to decrease their payables. The primary reason for the increase in current liabilities in 2013 of $21.4 million is due to the increase in accounts payable and accrued expenses of $26.8 million, which was partially offset by the decrease in current portion of long-term debt of $7.6 million. The increase in accounts payable and accrued expenses continues to be a result of the efforts related to the EMR.

At June 30, 2014, 2013, and 2012, HHSC's net position is reflected as its investment in capital assets, net of related debt, of approximately $308 million, $288 million, and $251 million, respectively. Total net position was approximately $50 million in 2014, $43 million in 2013, and $88 million in 2012.

Capital Assets

At June 30, 2014, 2013, and 2012, HHSC's capital assets, net of accumulated depreciation, comprised approximately 56, 58, and 56 percent of its total assets, respectively. These assets consist mainly of land, hospital buildings, and equipment that are used in HHSC's operations. The increase of approximately $14.1 million in 2014, $30.7 million in 2013, and $18.5 million in 2012 is due primarily to ongoing construction projects, particularly the EMR project.

A summary of HHSC's capital assets as of June 30, 2014, 2013, and 2012 is as follows:

	2014	2013	2012
Land and land improvements	$ 7,492,341	$ 6,534,782	$ 6,456,524
Building and improvements	435,797,063	410,515,944	392,899,001
Equipment	222,277,212	182,756,658	174,780,856
Construction in progress	34,784,628	56,417,845	31,402,877
Total capital assets	700,351,244	656,225,229	605,539,258
Less accumulated depreciation and amortization	(345,929,070)	(315,934,545)	(295,977,781)
Capital assets - Net	**$ 354,422,174**	**$ 340,290,684**	**$ 309,561,477**

Long-term Debt and Capital Lease Obligations

At June 30, 2014, 2013, and 2012, HHSC had long-term debt and capital lease obligations totaling approximately $77.0 million, $61.5 million, and $66.8 million, respectively. The increase of $15.5 million in 2014 was primarily due to the issuance of series 2013 bonds by MMMC of $12.64 million and additional capital leases for equipment of $2 million. The decrease of $5.3 million in 2013 was primarily due to repayments of both long-term debt and capital leases. More detailed information about HHSC's long-term debt and capital lease obligations is presented in the notes to the financial statements.

Operating Results and Changes in Net Position

Summarized financial information of HHSC's statement of revenue, expenses, and changes in net position for the years ended June 30, 2014, 2013, and 2012 is as follows:

	2014	2013	2012
Operating revenue	$ 576,459,900	$ 550,004,762	$ 524,674,715
Operating expenses:			
Salaries and benefits	463,553,806	458,914,797	419,534,023
Purchased services and professional fees	97,244,873	84,251,648	81,190,116
Medical supplies and drugs	76,151,543	73,513,302	70,171,139
Depreciation and amortization	31,965,968	27,960,208	27,261,446
Insurance	4,315,721	5,401,503	5,465,887
Other	63,857,888	63,881,780	64,514,649
Total operating expenses	737,089,799	713,923,238	668,137,260
Operating loss	(160,629,899)	(163,918,476)	(143,462,545)
Nonoperating revenue:			
General appropriations from the State of Hawaii	108,540,395	79,999,224	73,375,585
Other nonoperating income - Net	12,021,284	7,109,677	1,183,211
Total nonoperating revenue	120,561,679	87,108,901	74,558,796
Excess of expenses over revenue before capital contributions	(40,068,220)	(76,809,575)	(68,903,749)
Capital contributions	46,715,795	31,498,143	28,184,046
Increase (decrease) in net position	**$ 6,647,575**	**$ (45,311,432)**	**$ (40,719,703)**

For the years ended June 30, 2014, 2013, and 2012, HHSC's operating expenses exceeded its operating revenues by $160.6 million, $163.9 million, and $143.5 million, respectively. General appropriations from the State of Hawaii totaled $108.5 million, $80.0 million, and $73.4 million, respectively. In addition, the appropriations from the State of Hawaii for capital contributions totaled $46.7 million, $31.5 million, and $28.2 million, respectively. These items, along with the other nonoperating revenue, contributed to an increase in net position of $6.6 million in 2014 and a decrease of $45.3 million and $40.7 million in 2013 and 2012, respectively.

Operating expenses for the fiscal year ended June 30, 2014 were approximately 3.2 percent higher than 2013. Operating expenses for the fiscal year ended June 30, 2014 increased $23.2 million from fiscal year 2013, which was primarily due to increases in payroll expenses of $4.6 million and nonpayroll expenses of $18.6 million. The increase in payroll and benefits expense is the result of a $21.8 million increase in payroll which was largely offset by a $17.1 million decrease in benefits. The increase in payroll is due to pay increases as stipulated under bargaining unit contracts. The primary driver for the decrease in benefits is the postemployment healthcare benefit which decreased from the prior year by $35 million due to a revision in the allocation methodology of total costs by DAGS. The increase in nonpayroll expense is primarily due to increases at Hilo Medical Center (HMC) of $2.7 million, Maui Memorial Medical Center (MMMC) of $8.2 million, and Kona Community Hospital (KCH) of $4.9 million. At HMC, the increase was due to increase of medical supplies and drugs of $2.4 million which was a result of higher drug costs, the shortage of some drug items, and the much higher cost for chemotherapy drugs. At MMMC, the increase was primarily due to increases in purchased services and professional fees of $7 million and depreciation and amortization of $1.7 million. Both of these increases are a result of the EMR implementation which occurred in March 2014. At KCH, the increase can be primarily attributed to increases in purchased services and professional fees of $3.4 million and increases in depreciation and amortization of $1.7 million. The increase in professional fees and purchased services occurred with services provided from Huron Consulting Services for the review of KCH operations, and for various nursing agencies for the shortage of nursing positions. The increase in depreciation and amortization was due to the completion of various CIP projects funded by the State of Hawaii specific to the upgrade of the CT scanner, chiller upgrade, Seismic mitigation upgrade, security doors upgrade, and the EMR being operational for a full year.

Operating revenues for the fiscal year ended June 30, 2014 were approximately 4.8 percent higher than 2013. The increase in operating revenues is primarily due to a 1.7 percent increase in acute patient days from fiscal year 2013, an increase of 2.7 percent in emergency room visits from fiscal year 2013, and $5 million in additional revenue as a result of the uncompensated care payments earned from the State Department of Human Services.

Operating expenses for the fiscal year ended June 30, 2013 were approximately 6.9 percent higher than 2012. Operating expenses for the fiscal year ended June 30, 2013 increased $45.8 million from fiscal year 2012, which was primarily due to increases in payroll expenses of $39.4 million and nonpayroll expenses of $6.4 million. The increase in payroll expenses is the result of the increase of $70.4 million in the postemployment health care and life insurance benefit liability as well as the reinstatement of the wage concessions made under bargaining unit contracts.

The increase in nonpayroll expenses is due primarily to increases at Hilo Medical Center (HMC) of $1.6 million, Maui Memorial Medical Center (MMMC) of $2.8 million, and Kona Community Hospital (KCH) of $2.8 million. At HMC, the increase was due to increases of $1.3 million in purchased services and professional fees due to the increased usage of registry nurses to fill vacant positions and for on-call pay to physicians. At MMMC, the increase was primarily due to an increase of $2.4 million in medical supplies and drugs which is consistent with the increased admissions, patient days, and ER visits of 5.5, 3.5, and 9.1 percent respectively, resulting in increased medical supplies and drugs dispensed. Additionally, an increase in purchased services at MMMC of $300K is attributed to costs for EMR backfill in 2013 which did not occur in 2012. At KCH, the increase of $2.8 million is primarily attributed to increased purchased services of $1.3 million for additional physicians on-call, increased repairs and maintenance of $924K for additional renovation projects in the hospital, and an increase in medical supplies and drugs of $508K attributed to much higher patient revenues and volume in 2013 compared to 2012.

Operating expenses for the fiscal year ended June 30, 2012 were approximately 11.3 percent higher than 2011. Operating expenses for the fiscal year ended June 30, 2012 increased $67.9 million from fiscal year 2011, which was primarily due to increases in payroll expenses of $41.8 million and nonpayroll expenses of $26.1 million. The increase in payroll expenses is the result of the increase of $14.1 million in the postemployment health care and life insurance benefit liability as well as the reinstatement of the wage concessions made under bargaining unit contracts. The increase in nonpayroll expenses is due primarily to increases at Hilo Medical Center (HMC) of $11.3 million and at Maui Memorial Medical Center (MMMC) of $7.7 million. At HMC, the increase was due to increases of $4.0 million in purchased services and professional fees due to the increased usage of registry nurses to fill vacant positions and for on-call pay to physicians and $3.0 million in medical supplies and drugs due to the increase in volume. At MMMC, the increase was primarily due to other operating expenses of $2.9 million and the increase of $2.8 million in medical supplies and drugs and was mainly the result of the cardiovascular program commencing in 2012.

HHSC's management believes that the significant excess of operating expenses over operating revenues in both fiscal years 2014 and 2013, as well as the cumulative net losses, is due to several factors which are outlined below.

First, HHSC's payor mix is made up of predominantly government-type payors. For fiscal year 2014, 66 percent of HHSC's total gross revenues were from government-type payors (approximately 38 percent from Medicare and approximately 28 percent from Medicaid and Med-Quest). In fact, government-type payors (of which the overwhelming amount is Medicaid) account for 90 percent of HHSC's long-term care revenues. Reimbursements from government-type payors has not kept up with the increasing costs of healthcare providers since the Balanced Budget Act of 1997 was passed, which dramatically reduced the level of reimbursements from government-type payors. Information compiled by the Hawaii Health Information Corporation shows that, for all Hawaii hospitals, Medicare paid only 87 percent of cost and Medicaid paid only 66 percent of cost in 2013. In fact, Hawaii had the lowest overall payment to cost ratio of any state in the U.S.A. in 2013.

Further, when the State of Hawaii implemented the QUEST program in 1994, the federal funds provided to the State of Hawaii for Medicaid Disproportionate Share Hospital (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' "America's Safety Net Hospitals and Health Systems, 2010" published in June 2012 states that "Medicaid disproportionate share hospital (DSH) funding represented 8 percent of total revenue and financed 24 percent of the unreimbursed care provided by NAPH members in 2010. Additional federal, state, and local payments financed 30 percent of unreimbursed care." During the 2012 Legislative Session, management worked with the State Department of Human Services (DHS), the Healthcare Association of Hawaii (HAH), the Hawaii Long-Term Care Association, and certain key legislators to pass a nursing home and a hospital sustainability fee bill, which was effective on July 1, 2012. The bills allow the State to impose a fee on hospital and nursing home revenues in order to draw down federal funds from the federal Medicaid program to provide additional funding to private hospitals and nursing homes. The bills established that HHSC would be able to utilize more of its compensated care losses to draw down federal funds for its own use. HHSC received approximately $34.7 million and $39.9 million in supplemental uncompensated care payments in fiscal years 2013 and 2014, respectively, which was approximately $16-$21 million more than what HHSC received in uncompensated care payments in fiscal year 2012. Management will continue to work with DHS, the State of Hawaii Legislature, and HAH to explore other long-term reimbursement enhancements that could reduce HHSC's reliance on general fund appropriations.

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 "waitlist" 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. Medicare does not pay any additional money to hospitals for the additional days spent by the patient in the hospital while the patient waits for a long-term care placement. Medicaid pays approximately 20-30 percent of the cost of those additional waitlisted days to Hawaii hospitals. A 2013 Hawaii Health Information Corporation report titled "Acute Care Waitlisted Patients in Hawaii: Hospital Level Data" reported that Maui Memorial lost $15.5 million on waitlisted patients in 2011, which represents a loss of $13,918 per patient. The report indicated that Maui Memorial had the second highest amount of waitlisted patients in Hawaii next to Queen's Medical Center. In addition, Hilo Medical Center lost $4.0 million on waitlisted patients in 2011 and Kona Community Hospital lost $869,000 on waitlisted patients in 2011. Combined, HMC and MMMC have an average census of approximately 45-55 waitlist patients per day. Management expects the waitlist 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.

HHSC's salaries and benefits expenses represent approximately 63 percent of its total operating expense whereas the industry median for nonprofit hospitals and health systems is approximately 50 percent, 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. HHSC is also bound to fund certain benefits such as retiree health insurance and defined benefit pension plans which are mandated by law for all state agencies. Management believes that such arrangements do not allow HHSC to manage its resources as effectively as other healthcare systems. In September 2014, HHSC learned that the State of Hawaii Administration is projecting the fringe benefit rate assessed to state agencies is anticipated to rise from 42 to 52 percent in fiscal years 2016 and 2017 and remain at a 50 percent plus level for years beyond that. This change is due to a law passed in the 2013 Legislative Session that requires the State to prefund its retiree health insurance liability by 20 percent increases each year until full funding of the annual required contribution is achieved in 2019. This level of fringe benefits is far above the 25-27 percent level that most private hospitals pay, and that equates to an annual cost difference between HHSC and other private hospitals of approximately $81 million.

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 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 nationwide shortage of healthcare 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. Another issue compounding HHSC's staffing costs situation is the fact that the vast majority 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 have great difficulty in decreasing 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 for which 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, approximately 75 percent of Hawaii County residents were discharged for either orthopedic surgeries or cardiovascular 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 $7.8 million in fiscal year 2006 to $26.3 million in fiscal year 2014. 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 $15.1 million in fiscal year 2013 and $14.4 million in fiscal year 2014.

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 healthcare 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 healthcare technology that allow hospitals to improve the quality of care for their patients. As a result, HHSC's average age of plant in fiscal year 2014 and 2013 was 10.8 years and 10.9 years, respectively, whereas the median average age of plant for all U.S. nonprofit hospitals and health systems is approximately 10 years. Management has identified almost $1 billion in capital improvement projects that need to be funded in the next 10 years in order to have HHSC's facilities continue to deliver quality care to its patients.

Finally, HHSC is a significant provider of health care for the State of Hawaii. HHSC's facilities account for approximately 21 percent of all acute care discharges and approximately 27 percent of all emergency room visits 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 hospital services 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, approximately 80 percent 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 approximately 68 percent of all residents in the county of Hawaii received medical services from HHSC's five facilities on the island 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 who 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.

HHSC believes that there are four significant challenges facing HHSC in the near future: 1) the impact of federal healthcare reform on HHSC's facilities, 2) the implementation of an electronic medical record/health information system, 3) the federal mandate to implement the ICD-10 coding standard, and 4) federal deficit reduction legislation.

The Patient Protection and Affordable Health Care Act (PPACA) was signed into law on March 23, 2010. On March 30, 2010, the President enacted the Health Care and Education Reconciliation Act, which made a number of changes to the PPACA. Management believes that the implementation of the PPACA will result in little to no increases in Medicare rates from year to year while the cost of providing care to Medicare recipients continues to grow at much higher rates, which will result in much higher losses in providing care to Medicare patients. Medicare costs per enrollee in the State of Hawaii are already the lowest in the nation based on 2012 data, so there is logically not much more that the PPACA programs can do that will save the Medicare program funds without reducing access to care for those patients. One of the major tenets of the PPACA is to change the delivery of care from a fee-for-service business where each provider operates separately to a true healthcare delivery system which covers the gamut of care from primary care through post-acute care. Management believes that HHSC has neither the capital nor the physician base to transform itself into a true healthcare delivery system. Without those two things, HHSC will find itself continually losing more and more money on Medicare patients due to its inability to adapt to the changing healthcare landscape.

In July 2011, HHSC entered into a contract with Siemens Healthcare to implement its Soarian Electronic Medical Records (EMR) and Health Information Systems. The system has been implemented at Kona Community Hospital, Kohala Hospital, and Maui Memorial Medical Center, with the remainder of the facilities to be implemented in a phased approach through calendar year 2015. Management believes that the installation of an EMR system is a key step in the creation of an integrated health network with real-time access to patient information across the system. Unleashing new efficiencies and capturing quality improvement are examples of the many opportunities that will be enabled through the utilization of contemporary information technology. Driving-out manual intervention, modernizing workflow across the HHSC continuum of care, hard-wiring change, and proactively monitoring performance through near real-time analytics are just a few of the essential elements sought by HHSC in pursuit of meaningful use as designated by the Centers for Medicare and Medicaid Services.

The U.S. Department of Health and Human Services and the Centers for Medicare and Medicaid Services (CMS) mandated that HIPAA-covered hospitals transition from ICD-9 to ICD-10 diagnosis codes by October 1, 2015. This mandate includes all Hawaii Health Systems Corporation (HHSC) facilities. The extent of this transition is far reaching with the potential to impact not only IT systems but also business and clinical processes. The transition to ICD-10 represents a desire to better communicate patient conditions and the nature of services delivered, thus improving the ability to monitor quality of care. ICD-10-CM will be used to define all inpatient and outpatient diagnoses and ICD-10-PCS will be used to define inpatient procedures. CPT coding will remain in place to define procedures in the outpatient and physician practice settings. There are several impacts of this federal mandate to HHSC:

- HHSC, like hospitals across the country, will require additional coder resources to successfully transition to ICD-10 while minimizing impact to accurate, timely coding. In addition to the current workforce, it is estimated that an additional 11.2 coder FTEs will be needed in total across HHSC for the year-1 post ICD-10 transition in order to support timely and accurate coding, maintain low DNFC, and prevent decelerated cash flow.

- There is inherent revenue risk as a result from the transition to ICD-10 as it relates to denials and payment errors. It is anticipated that medical necessity/authorization denials may increase by as much as 10-25 percent upon the transition. In addition, Medicaid payment error rates are expected to increase by 3 percent. While this is not necessarily lost revenue, it is a risk for delayed revenue, requiring additional resources to rework and recover at risk dollars. Management estimates that this will result in a year-1 post ICD-10 transition revenue risk of $28.7M on the low end to $57.4M on the high end for HHSC.

- Given the brand new coding system and what will be a steep learning curve for even experienced coders, it is anticipated that organizations' unbilled receivables may increase by as much as 50-100 percent across the first year of the transition, with the largest impact felt across the first six months post-transition.

- Across the country, it is anticipated that payers will adjudicate claims more slowly upon the transition to ICD-10. The increase in denials will also increase AR. As such, it is anticipated that billed accounts receivable may increase by as much as 25-50 percent upon the first year of the transition. Management estimates that the total anticipated payment delays as a result of the ICD-10 transition will range between $34M on the low end to $52M on the high end for HHSC.

Management will work with the state administration and the third-party payors to insure that plans are in place to address the potential negative cash flow and revenue impacts to HHSC of this issue.

Federal Deficit Reduction legislation has already had a significant impact on HHSC. In 2012, the Congress passed federal deficit reduction legislation that imposed a reduction in Medicare reimbursements for MS-DRG coding adjustments (among other spending cuts) to prevent the "fiscal cliff." It is anticipated that the impact of this adjustment will be an annual loss of Medicare reimbursements of $2.6 million beginning October 1, 2013. The breakdown of the loss by facility is $939,000 for Hilo Medical Center, $1,376,000 for Maui Memorial Medical Center, and $242,000 for Kona Community Hospital. In addition, in February 2013, the sequestration provisions of the Budget Control Act of 2011 were triggered, which resulted in automatic 2 percent cuts to all federal programs, including the Medicare program. Such costs will result in a loss of approximately $2 million in Medicare reimbursements. In addition, recent proposals to reduce the federal deficits have included reductions in reimbursements to critical access hospitals and reductions in the number of critical access hospitals. Given that 10 of HHSC's facilities are critical access hospitals, such actions would have a devastating impact on the continuing financial viability of those hospitals. As Congress and the president continue to struggle to deal with the federal budget deficit, management anticipates that further action could be taken to reduce reimbursements to healthcare providers in future years.

Contacting the Corporation's Financial Management

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

Hawaii Health Systems Corporation

Statement of Net Position

		June 30, 2014		June 30, 2013
Assets				
Current Assets				
Cash and cash equivalents - State of Hawaii (Note 2)	$	6,566,848	$	10,324,365
Cash and cash equivalents		49,120,330		23,984,217
Patient accounts receivable - Less allowances for doubtful accounts of $31,791,192 and $37,660,961 for the years ended June 30, 2014 and 2013, respectively (Note 2)		87,460,061		84,029,495
Investments (Note 3)		5,179,696		7,071,193
Supplies and other current assets		19,377,599		18,676,965
Due from the State of Hawaii (Note 5)		70,406,885		63,479,395
Estimated third-party payor settlements		17,728,610		31,662,359
Total current assets		255,840,029		239,227,989
Capital Assets - Net (Note 4)		354,422,174		340,290,684
Assets Limited as to Use (Note 2)		22,388,002		3,190,852
Other Assets		996,321		1,482,749
Total assets	**$**	**633,646,526**	**$**	**584,192,274**
Liabilities and Net Position (Deficit)				
Current Liabilities				
Current portion of long-term debt (Note 8)	$	14,260,236	$	1,589,257
Current portion of capital lease obligations (Note 8)		9,324,240		8,512,172
Accounts payable and accrued expenses		104,532,682		110,326,251
Current portion of accrued workers' compensation (Note 9)		3,407,000		3,315,000
Current portion of accrued vacation (Note 6)		16,915,092		16,142,893
Current portion due to the State of Hawaii (Note 5)		2,000,000		2,000,000
Other current liabilities		7,025,077		7,147,106
Total current liabilities		157,464,327		149,032,679
Long-term Debt - Less current portion (Note 8)		32,173,597		33,347,606
Capital Lease Obligation - Less current portion (Note 8)		21,169,159		18,013,309
Other Liabilities				
Accrued vacation - Less current portion (Note 6)		25,303,390		24,198,774
Accrued workers' compensation - Less current portion (Note 9)		10,324,000		10,424,000
Other postemployment benefit liability (Note 7)		302,156,349		267,115,426
Due to the State of Hawaii - Less current portion (Note 5)		34,122,507		36,622,507
Patients' safekeeping deposits		299,830		319,932
Other liabilities		953,630		2,085,879
Total liabilities		583,966,789		541,160,112
Net Position (Deficit)				
Invested in capital assets - Net of related debt		307,727,450		287,829,340
Restricted for capital purchases (Note 2)		979,985		349,241
Unrestricted		(259,027,698)		(245,146,419)
Total net position		49,679,737		43,032,162
Total liabilities and net position	**$**	**633,646,526**	**$**	**584,192,274**

Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended	
	June 30, 2014	June 30, 2013
Operating Revenue		
Net patient service revenue (net of provision for doubtful accounts of $30,129,182 and $38,374,547 for the years ended June 30, 2014 and 2013, respectively)	$ 565,015,564	$ 541,629,368
Other revenue	11,444,336	8,375,394
Total operating revenue	576,459,900	550,004,762
Operating Expenses		
Salaries	294,619,025	272,862,687
Employee benefits	168,934,781	186,052,110
Medical supplies and drugs	76,151,543	73,513,302
Depreciation and amortization	31,965,968	27,960,208
Utilities	17,864,442	17,338,634
Repairs and maintenance	11,809,325	12,261,640
Other supplies	17,475,307	19,026,868
Purchased services	77,237,833	69,850,438
Professional fees	20,007,040	14,401,210
Insurance	4,315,721	5,401,503
Rent and lease	8,407,378	7,886,572
Other	8,301,436	7,368,066
Total operating expenses	737,089,799	713,923,238
Operating Loss	(160,629,899)	(163,918,476)
Nonoperating Revenue (Expenses)		
General appropriations from the State of Hawaii	108,540,395	79,999,224
Collective bargaining pay raise appropriation from the State of Hawaii	12,000,000	6,040,807
Loss on disposal of capital assets	(213,296)	(450,070)
Restricted contributions	2,638,294	3,055,335
Interest expense	(4,684,626)	(3,793,882)
Interest and dividend income	251,787	309,239
Other nonoperating revenue - Net	2,029,125	1,948,248
Total nonoperating revenue	120,561,679	87,108,901
Excess of Expenses Over Revenue Before Capital Contributions	(40,068,220)	(76,809,575)
Capital Contributions	46,715,795	31,498,143
Increase (Decrease) in Net Position	6,647,575	(45,311,432)
Net Position - Beginning of year	43,032,162	88,343,594
Net Position - End of year	$ **49,679,737**	$ **43,032,162**

See Notes to Financial Statements.

Hawaii Health Systems Corporation

Statement of Cash Flows

	Year Ended June 30, 2014	Year Ended June 30, 2013
Cash Flows from Operating Activities		
Cash received from government, patients, and third-party payors	$ 575,518,747	$ 528,300,914
Cash payments to employees for services	(427,518,635)	(386,900,020)
Cash payments to suppliers for services and goods	(248,005,340)	(206,184,415)
Other receipts from operations	11,444,336	8,375,394
Net cash used in operating activities	(88,560,892)	(56,408,127)
Cash Flows from Noncapital Financing Activities		
Appropriations from the State of Hawaii	108,540,395	79,999,224
Collective bargaining funding from the State of Hawaii	12,000,000	6,040,807
Other nonoperating revenue - Net	4,667,419	5,003,583
Repayment of advance from the State of Hawaii	(2,500,000)	(5,500,000)
Net cash provided by noncapital financing activities	122,707,814	85,543,614
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(4,753,911)	(29,338,437)
Interest paid	(4,684,626)	(3,793,882)
Repayments on long-term debt	(1,808,030)	(9,161,670)
Repayments on capital lease obligations	(9,268,576)	(7,286,082)
Proceeds from issuance of long-term debt	24,800,683	9,533,857
Net cash provided by (used in) capital and related financing activities	4,285,540	(40,046,214)
Cash Flows from Investing Activities		
Interest income	251,787	309,239
(Increase) decrease in short-term investments and assets limited as to use	(17,305,653)	7,285,365
Net cash (used in) provided by investing activities	(17,053,866)	7,594,604
Net Increase (Decrease) in Cash and Cash Equivalents	21,378,596	(3,316,123)
Cash and Cash Equivalents - Beginning of year	34,308,582	37,624,705
Cash and Cash Equivalents - End of year	**$ 55,687,178**	**$ 34,308,582**
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents - State of Hawaii	$ 6,566,848	$ 10,324,365
Cash and cash equivalents	49,120,330	23,984,217
Total cash and cash equivalents	**$ 55,687,178**	**$ 34,308,582**

Statement of Cash Flows (Continued)

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

	Year Ended June 30, 2014	Year Ended June 30, 2013
Cash Flows from Operating Activities		
Operating loss	$ (160,629,899)	$ (163,918,476)
Adjustments to reconcile operating loss to net cash from operating activities:		
Provision for doubtful accounts	30,129,182	38,374,547
Depreciation and amortization	31,965,968	27,960,208
Changes in assets and liabilities:		
Patient accounts receivable	(33,559,748)	(32,384,919)
Supplies and other assets	(241,933)	506,402
Accounts payable, accrued expenses, and other liabilities	(7,067,949)	27,603,976
Accrued workers' compensation liability	(8,000)	(1,155,000)
Postemployment benefit liability	35,040,923	70,397,048
Estimated third-party payor settlements	13,933,749	(19,318,082)
Accrued vacation	1,876,815	(4,473,831)
Net cash used in operating activities	**$ (88,560,892)**	**$ (56,408,127)**
Noncash Financing and Investing Activities		
Assets acquired under capital leases and debt	$ 1,740,811	$ 1,625,333
Capital assets contributed by the State of Hawaii and others	39,788,305	28,147,803
Loss on disposal of capital assets	213,296	450,070
Change in due from the State of Hawaii	6,927,490	3,350,340

Note 1 - Organization

Structure - Hawaii Health Systems Corporation (HHSC or the "Corporation") is a public body corporate and politic and an instrumentality and agency of the State of Hawaii (the "State"). HHSC is managed by a chief executive officer under the control of a 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
  (Yukio is not included in the East Hawaii Region audited financial statements)

West Hawaii Region:
- Kona Community Hospital
- Kohala Hospital

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

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

Oahu Region:
- Leahi Hospital
- Maluhia

Kahuku Medical Center

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

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

Negotiations between HHSC and the State relating to the transfer of assets and assumption of liabilities pursuant to Act 262 had not been finalized as of June 30, 2014. Accordingly, the assets, liabilities, and net assets of HHSC reflected in the accompanying statement of revenue, expenses, and changes in net assets may be significantly different from those eventually included in the final settlement.

Note 1 - Organization (Continued)

The financial statements are being presented for HHSC, Hawaii Health Systems Foundation (HHSF), 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 healthcare facilities in the state.

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

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

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

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

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

Note 1 - Organization (Continued)

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

Liquidity - During the year ended June 30, 2014, HHSC incurred losses from operations of approximately $160 million and had negative cash flows from operations of $88 million. Overall, days in accounts payable have decreased 13.7 days as compared to June 30, 2013 due to receipt of the backlog of uncompensated care funds from fiscal year 2013, which allowed facilities to pay previously extended vendor payables. Days in accounts receivable have increased as compared to June 30, 2013 due primarily to the backlogs in billings as a result of the Maui Memorial Medical Center go-live on the Soarian electronic medical records system in March 2014. Downward pressure on reimbursements were due to federal healthcare reform and federal deficit legislation. Although improvements continue to be seen by HHSC, management believes maintaining the current levels of service provided by HHSC will require continued funding by the State of Hawaii.

Note 2 - Summary of Significant Accounting Policies

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2014 and 2013 is indicated in the accompanying statement of net position 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 $59,879,000 and $30,046,000 at June 30, 2014 and 2013, 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 might not be returned to it. HHSC believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, HHSC evaluates each financial institution with which it deposits funds; only those institutions with an acceptable estimated risk level are used as depositories.

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

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

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

Assets Limited as to Use - Assets limited as to use are restricted net position, patients' safekeeping deposits, restricted deferred contributions, restricted cash, and cash in escrow accounts related to future lease draws. Such restrictions have been externally imposed by contributors or by collateral agreements. Restricted resources are applied before unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Patients' safekeeping deposits represent funds received or property belonging to the patients that are held by HHSC in a fiduciary capacity as custodian. Receipts and disbursements of these funds are not reflected in HHSC's operations.

At June 30, 2014 and 2013, assets limited as to use consisted of restricted cash of $22,388,002 and $3,190,852, respectively.

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

Postemployment Benefits - HHSC records an expense for postemployment benefits expense, such as retiree medical and dental costs, over the years of service on an accrual basis based on an allocation from the State of Hawaii primarily based on full-time equivalents in 2014 and payroll in 2013.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Net Patient Service Revenue - Net patient service revenue is recorded on an accrual basis in the period in which the related services are provided at established rates, less contractual adjustments and provision for doubtful accounts. HHSC, as a safety net provider, provides charity care to certain patients; the specific cost of such care for the years ended June 30, 2014 and 2013 was approximately $2,979,000 and $5,046,000, 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 revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The adjustments to the final settlements did not have a significant impact on the fiscal year 2014 and 2013 financial statements.

The estimated third-party payor settlements are based on estimates because complete information is not currently available to determine the final settlement amounts for certain cost report years. Management has used its best effort, judgment, and certain methodologies to estimate the anticipated final outcome.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

All Medicare-certified hospitals and skilled nursing facilities are required to file annual Medicare cost reports. HHSC facilities required to file Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2007.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 may be reviewed by contractors for validity, accuracy, and proper documentation. HHSC has been contacted by the RAC auditors and is currently unable to determine the extent of liability for overpayments, if any.

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Bond Interest - HHSC is allocated an amount for interest paid by the State of general obligation bonds whose proceeds were used for hospital construction. A corresponding contribution from the State is also allocated to HHSC. The bonds are obligations for the State, to be paid by the State's General Fund, and are not reported as liabilities of HHSC. For the years ended June 30, 2014 and 2013, interest expense totaled approximately $7,150,000 and $6,544,000, 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 9.

Accounting Changes - In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. The Corporation has adopted this standard as of June 30, 2014.

Upcoming Accounting Changes - In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The statement will be effective for the 2015 fiscal year.

Note 2 - Summary of Significant Accounting Policies (Continued)

HHSC is currently evaluating the impact this standard will have on the financial statements when adopted.

Reclassification - Certain 2013 amounts were reclassified to conform to the 2014 presentation, including $5,397,247 previously classified as accounts payable and accrued expenses to other current liabilities and $12,615 previously classified as other nonoperating revenue - net to collective bargaining pay raise appropriation from the State of Hawaii.

Concentration of Credit Risk - Patient accounts receivable consist of amounts due from insurance companies and patients for services rendered by the facilities. The facilities grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables from patients and third-party payors as of June 30, 2014 and 2013 was as follows:

	Percentage	
	2014	2013
Medicare	31 %	27 %
Medicaid	24	24
HMSA	9	11
Other third-party payors	24	24
Patient and other	12	14
Total	100 %	100 %

Note 3 - Investments

HHSC's investment options are limited to investments listed in the Hawaii Revised Statutes. At June 30, 2014, HHSC held investments in U.S. Treasury obligations, U.S. government agencies, and money market funds. At June 30, 2014, the fair value of these investments was $3,392,980, $1,663,956, and $122,760, respectively. At June 30, 2013, HHSC held investments in U.S. Treasury obligations, U.S. government agencies, and certificates of deposit. At June 30, 2013, the fair value of these investments was $3,355,206, $1,632,909, and $2,083,078, respectively.

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

<u>**Custodial Credit Risk of Investments**</u>

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

Note 3 - Investments (Continued)

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, HHSC's investment policy generally limits maturities on investments to not more than five years from the date of investment. All of HHSC's investments at June 30, 2014 and 2013 have an original maturity date within five years from the date of investment.

Credit Risk

HHSC's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating. As of June 30, 2014 and 2013, HHSC held investments in U.S. Treasury securities and U.S. government agencies.

Concentration of Credit Risk

HHSC's investment policy provides guidelines for portfolio diversification by placing limits on the amount that may be invested in any one issuer, types of investment instruments, and position limits per issue of an investment instrument. There were no investments that individually exceed 5 percent of HHSC's total investments at June 30, 2014 and 2013.

Note 4 - Capital Assets

Transactions in the capital asset accounts for the year ended June 30, 2014 were as follows:

	Beginning of Year	Additions	Retirements	Transfers and Adjustments	End of Year
Assets not subject to depreciation:					
Land and land improvements	$ 6,534,782	$ 957,559	$ -	$ -	$ 7,492,341
Construction in progress	56,417,845	41,831,669	(143,779)	(63,321,107)	34,784,628
Assets subject to depreciation:					
Buildings and improvements	410,515,944	275,596	-	25,005,523	435,797,063
Equipment	182,756,658	3,254,134	(2,049,164)	38,315,584	222,277,212
Total	656,225,229	46,318,958	(2,192,943)	-	700,351,244
Less accumulated depreciation:					
Buildings and improvements	(181,226,636)	(14,950,802)	-	23,304	(196,154,134)
Equipment	(134,707,909)	(16,987,439)	1,943,716	(23,304)	(149,774,936)
Total	(315,934,545)	(31,938,241)	1,943,716	-	(345,929,070)
Capital assets - Net	$ 340,290,684	$ 14,380,717	$ (249,227)	$ -	$ 354,422,174

Note 4 - Capital Assets (Continued)

Transactions in the capital asset accounts for the year ended June 30, 2013 were as follows:

	Beginning of Year	Additions	Retirements	Transfers and Adjustments	End of Year
Assets not subject to depreciation:					
Land and land improvements	$ 6,456,524	$ -	$ (10,907)	$ 89,165	$ 6,534,782
Construction in progress	31,402,877	47,469,566	-	(22,454,598)	56,417,845
Assets subject to depreciation:					
Buildings and improvements	392,899,001	723,662	(761,102)	17,654,383	410,515,944
Equipment	174,780,856	10,951,461	(7,686,709)	4,711,050	182,756,658
Total	605,539,258	59,144,689	(8,458,718)	-	656,225,229
Less accumulated depreciation:					
Buildings and improvements	(167,013,410)	(14,018,605)	388,325	(582,946)	(181,226,636)
Equipment	(128,964,371)	(13,913,423)	7,586,939	582,946	(134,707,909)
Total	(295,977,781)	(27,932,028)	7,975,264	-	(315,934,545)
Capital assets - Net	$ 309,561,477	$ 31,212,661	$ (483,454)	$ -	$ 340,290,684

The State Department of Accounting and General Services and others transferred capital assets, including construction in progress, aggregating approximately $39,788,000 and $26,939,000 to HHSC as a contribution of capital for June 30, 2014 and 2013, respectively.

HHSC may enter into capital leases on behalf of the facilities. In that situation, the capital lease obligation is recorded in Corporate's 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.

The facilities may also enter into capital leases individually. In that situation, the capital lease obligation is recorded in the facility's accounting records. While the assets are being constructed, the amounts are recorded as construction in progress in the accounting records of the facility. The facility makes the capital lease payments and incurs the interest expense, as well as the depreciation on the capital asset.

In July 2011, HHSC entered into a $28.7 million contract with Siemens Healthcare to implement its Soarian Electronic Medical Records and Health Information Systems. West Hawaii Region and Corporate implemented the system in February 2013. Maui Memorial Medical Center implemented the system in March 2014 and the other HHSC facilities will be implementing the system in a phased approach.

Note 5 - State of Hawaii Advances and Receivable

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2014 and 2013, 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 2015. Accordingly, the advance is classified as a noncurrent liability at June 30, 2014 and 2013. The amount due to the State of $36,122,507 and $38,622,507 at June 30, 2014 and 2013, respectively, includes 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, and $4.5 million in advances from the State. Of the $4.5 million in advances, $2.5 million was repaid in fiscal year 2014 and a $2 million advance is due in fiscal year 2015.

At June 30, 2014 and 2013, $70,406,885 and $63,479,395, respectively, was due from the State for allotments made to HHSC before June 30, 2014 and 2013.

Note 6 - Accrued Vacation

Transactions in this account during the year ended June 30, 2014 were as follows:

	Beginning of Year	Additions	Reductions	End of Year	Current Portion	Noncurrent Portion
Accrued vacation	$ 40,341,667	$ 19,317,222	$ (17,440,407)	$ 42,218,482	$ 16,915,092	$ 25,303,390

Transactions in this account during the year ended June 30, 2013 were as follows:

	Beginning of Year	Additions	Reductions	End of Year	Current Portion	Noncurrent Portion
Accrued vacation	$ 44,815,498	$ 14,406,858	$ (18,880,689)	$ 40,341,667	$ 16,142,893	$ 24,198,774

Note 7 - Employee Benefits

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

Note 7 - Employee Benefits (Continued)

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

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

HHSC's contribution to the ERS for the years ended June 30, 2014, 2013, and 2012 was approximately $44.7 million, $39.5 million, and $36.7 million, respectively, equal to the required contribution.

The ERS issues a publicly available financial report that includes financial statements and required supplemental 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.

Note 7 - Employee Benefits (Continued)

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

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

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

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

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

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

Note 7 - Employee Benefits (Continued)

For cost allocation purposes, the State allocates the full accrual ARC expense among its component units, including HHSC, based on respective percentages of full-time equivalents in 2014 and covered payroll in 2013, respectively. The State requires HHSC to contribute to the plan at a rate of covered payroll necessary to fund its share of the annual "pay-as-you-go contributions," which is significantly less than the actuarially determined contribution rate. HHSC then allocates its full accrual ARC expense among its various regions based on their respective percentages of full-time equivalents for 2014 and covered payroll for 2013. The cumulative difference between the amounts the State requires HHSC to contribute and HHSC's allocation of the total plan ARC expense is recorded as other postretirement benefit liability on the balance sheet of each region. HHSC's actual cash contributions for postretirement benefits approximated $29.5 million, $26.5 million, and $19.8 million for the years ended June 30, 2014, 2013, and 2012, respectively.

	2014	2013
Beginning of year	$ 267,115,426	$ 196,718,378
Required contributions	64,575,221	96,885,417
Actual contributions	(29,534,298)	(26,488,369)
End of year	$ 302,156,349	$ 267,115,426

Sick Leave - Accumulated sick leave as of June 30, 2014 and 2013 was approximately $82,008,000 and $78,534,000, 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 financial statements.

Note 8 - Long-term Liabilities

Long-term liability activity for the year ended June 30, 2014 was as follows:

	2013	Current Year Additions	Current Year Reductions	2014	Amounts Due Within One Year
Long-term debt	$ 34,936,863	$ 13,305,000	$ (1,808,030)	$ 46,433,833	$ 14,260,236
Capital lease obligations	$ 26,525,481	$ 13,236,494	$ (9,268,576)	$ 30,493,399	$ 9,324,240

Note 8 - Long-term Liabilities (Continued)

Long-term liability activity for the year ended June 30, 2013 was as follows:

	2012	Current Year Additions	Current Year Reductions	2013	Amounts Due Within One Year
Long-term debt	$ 34,564,675	$ 9,533,857	$ (9,161,669)	$ 34,936,863	$ 1,589,257
Capital lease obligations	$ 32,186,230	$ 1,625,333	$ (7,286,082)	$ 26,525,481	$ 8,512,172

The long-term debt obligations are summarized as follows:

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

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

The note payable requires monthly payments of $126,433 including interest at 5.9 percent, through October 2027. The note is collateralized by certain property and equipment. At June 30, 2014 and 2013, the balance payable was $13,984,305 and $14,654,668, respectively.

Note 8 - Long-term Liabilities (Continued)

Maui Bonds

In 2012, Maui Memorial Medical Center (MMMC) issued general obligation bonds. These bonds were executed in two parts, series 2012A and series 2012B. The series 2012A bonds were issued to refinance MMMC's existing $8 million loan which had been held with Bank of Montreal. Total borrowing under the first agreement was $8,100,000. These bonds carry an interest rate of 4.05 percent. The series 2012A bonds are secured by a loan note guarantee issued by the United States Department of Agriculture (USDA) through its Rural Development division. The series 2012B bonds provided initial funding for the purposes of construction of a physician clinic adjacent to the hospital, partially funding a building renovation, and equipment associated with imaging services. Total borrowing costs under the second agreement were $901,000. These bonds carry a variable interest rate that starts at 5 percent until September 1, 2017, at which point the rate shall reset on each September 1, occurring every five years thereafter at a rate equal to 3.75 percent over the prevailing five-year FHLB bulled rate (Seattle). In the event that such rate is no longer available or practicable, a similar index, as mutually agreed upon by the issuer and holders of the bonds, will be used. The series 2012B bonds are unsecured. The bonds are payable in annual installments ranging from $172,000 to $978,000. In connection with the series 2012A and series 2012B bond issuance, MMMC is subject to certain financial covenants.

In October 2013, MMMC closed on the final issuance under its agreement with the USDA (series 2013). The issuance consisted of an additional $12.64 million of bonds. These bonds carry an interest rate of 2.25 percent. The series 2013 bonds are secured by a Direct Loan issued by the United States Department of Agriculture (USDA) through its Rural Development division. The 2013 bonds provided the remaining funding for the construction of a physician clinic adjacent to the hospital and also for building renovations and equipment associated with imaging services. These bonds are classified as current debt. MMMC is in the process of refinancing the debt with an expected completion of refinancing in January 2015. Total estimated cost of construction is approximately $16.9 million. The remaining funding for the project came from State appropriations and building improvement allowances.

Note 8 - Long-term Liabilities (Continued)

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.

The note payable requires monthly payments, including interest, totaling $64,069 through September 2032. The note payable is secured by certain assets of Hilo Medical Center (HMC). At June 30, 2014 and 2013, the balance payable was $8,579,584 and $8,834,012, respectively.

Yukio Okutsu Veterans' Home - In May 2008, the Yukio Okutsu Veterans' Home entered into a line of credit for $1.8 million, which calls for monthly interest-only payments at an interest rate of 5 percent. In November 2014, the Yukio Okutsu Veterans' Home signed an extension, which extended the balloon principal payment due from December 2014 to December 2015. At June 30, 2014 and 2013, the balance payable was $830,989 and $1,303,831, respectively.

KVMH's Port Allen Clinic - In April 2008, HHSC - Corporate entered into a promissory note with a bank to finance the leasehold improvements for KVMH's Port Allen Clinic. The note requires monthly principal and interest payments of $16,207 through maturity at November 23, 2017. The note is secured by a security interest in the leasehold improvements of the clinic. At June 30, 2014 and 2013, the balance payable was $524,844 and $671,121, respectively.

Kahuku Medical Center - In July 2012, Kahuku Medical Center entered into a purchase and maintenance services agreement with Holden Hospital Supply, Inc. to finance the purchase and maintenance of an oxygen generator. The note requires monthly payments of $4,188 through maturity on June 30, 2019. The agreement also includes the financing of electrical and additional charges related to the oxygen generator. Interest is not a component of the agreement. At June 30, 2014 and 2013, the balance of the loan was $201,048 and $267,964, respectively.

Note 8 - Long-term Liabilities (Continued)

In April 2014, Kahuku Medical Center entered into a loan, secured by a mortgage, to finance the purchase of land. The agreement required monthly principal and interest payments of $12,475 through maturity at April 2019. At June 30, 2014, the balance payable was $642,311.

The capital lease obligations are summarized as follows:

Corporate - HHSC entered into capital leases on behalf of the facilities. The capital lease obligation is recorded in HHSC - Corporate's 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 assets. 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, 2014 and 2013, capitalized interest was not material. Capital lease obligations recorded on Corporate's accounting records at June 30, 2014 and 2013 were $28,563,820 and $25,739,557, respectively.

Corporate entered into a capital lease with Siemens for the financing of an electronic medical records system that is currently being installed.

Maui Memorial Medical Center - In September 2009, MMMC entered into a capital lease for the acquisition of equipment for $780,000. The lease requires monthly payments over 48 months with a bargain purchase option at the end of the term. On November 30, 2009, MMMC entered into a capital lease for the acquisition of equipment for $830,000. The lease requires monthly payments over 60 months and is collateralized by the equipment. At June 30, 2014 and 2013, the balance payable on these leases was $77,669 and $277,165, respectively.

Kahuku Medical Center - Kahuku Medical Center has entered into various capital lease obligations. The leases require monthly payments and are collateralized by the equipment. During 2014, Kahuku Medical Center entered into a capital lease for electronic medical records. Monthly payments are approximately $25,000, including interest at 7.8 percent. At June 30, 2014 and 2013, the balance payable was $1,585,004 and $55,930, respectively.

Note 8 - Long-term Liabilities (Continued)

Kauai Veterans Memorial Hospital - In August 2009, Kauai Veterans Memorial Hospital (KVMH) entered into a capital lease for the acquisition of a mammography machine. The lease term is 60 months, with a monthly payment of $12,748, including interest at a rate of 8.5 percent. The lease is collateralized by the equipment. In October 2009, KVMH entered into a capital lease for the acquisition of an MRI machine. The lease term is 60 months, with a monthly payment of $13,676, including interest at a rate of 8.5 percent. The lease is collateralized by the equipment. At June 30, 2014 and 2013, the balance payable on the leases was $82,147 and $353,998, respectively.

Alii Health Center - Kona - During 2013, Alii Health Center - Kona entered into a capital lease for equipment for $125,921. The lease term is 60 months, with a monthly payment of $2,099, including interest. The lease is collateralized by the equipment. At June 30, 2014 and 2013, the balance payable was $73,647 and $98,831, respectively.

Hilo Medical Center - In March 2014, Hilo Medical Center entered into a capital lease for a time-keeping system and related support for $125,000. The lease term is 36 months with a monthly payment of $3,472. There is no interest included in the capital payments. The lease is collateralized by the equipment. At June 30, 2014, the balance payable was $111,111.

The following is a schedule by year of principal and interest as of June 30, 2014:

Years Ending June 30	Long-term Debt Principal	Long-term Debt Interest	Capital Lease Obligation Principal	Capital Lease Obligation Interest
2015	$ 14,260,236	$ 1,992,519	$ 9,324,240	$ 1,003,980
2016	2,414,288	1,628,659	8,759,271	670,032
2017	1,630,271	1,585,718	5,567,700	389,777
2018	1,541,146	1,460,941	3,694,346	223,599
2019	1,532,581	1,382,671	963,917	142,927
2020-2024	8,384,739	5,572,336	1,487,497	432,361
2025-2029	8,579,892	2,918,248	696,428	57,103
2030-2034	3,821,680	1,281,183	-	-
Thereafter	4,269,000	918,823	-	-
Total payments	$ 46,433,833	$ 18,741,098	$ 30,493,399	$ 2,919,779

Note 9 - Commitments and Contingencies

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

Workers' Compensation Liability - HHSC is self-insured for workers' compensation claims. HHSC pays a portion of wages for injured workers (as required by law), medical bills, judgments as stipulated by the State's Department of Labor, and other costs. HHSC also directly provides treatment for injured workers. The estimated liability is based on actuarial projections of costs using historical claims-paid data. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. HHSC has accrued a liability of $13,731,000 and $13,739,000 for unpaid claims as of June 30, 2014 and 2013, respectively.

	2014	2013
Estimated liability - Beginning of year	$ 13,739,000	$ 14,894,000
Estimated claims incurred - Including changes in estimates	3,425,000	2,180,300
Claim payments	(3,433,000)	(3,335,300)
Estimated liability - End of year	$ 13,731,000	$ 13,739,000

Operating Leases - HMC, MMMC, and Alii entered into various operating leases and related sublease agreements. Future minimum lease payments and sublease receipts at June 30, 2014 are as follows:

Years Ending June 30	Lease Payments	Sublease Receipts
2015	$ 1,745,152	$ 106,294
2016	1,774,208	106,294
2017	1,804,128	106,294
2018	1,058,060	-
2019	1,007,152	-
Thereafter	4,414,812	-
Total	$ 11,803,512	$ 318,882

Note 9 - Commitments and Contingencies (Continued)

Ceded Lands - The Office of Hawaiian Affairs (OHA) and the State are presently in litigation involving the State's alleged failure to properly account for and pay to OHA monies due to OHA under the provisions of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes for use by the State of certain ceded lands.

During the 2006 legislative session, the State of Hawaii Legislature enacted Act 178, which provided interim measures to ensure that a certain amount of proceeds was made available to OHA from the 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 revenue to pay OHA for underpayments of the State's use of lands in the public land trust for the period from July 1, 2001 to June 30, 2005.

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

For the years ended June 30, 2014 and 2013, there were no payments made to OHA.

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

Other Supplemental Information

Hawaii Health Systems Corporation

Supplemental Schedule of Reconciliation of Cash on Deposit and Assets Limited as to Use with the State of Hawaii
June 30, 2014

	Appropriation Symbol	
Cash and cash equivalents - State of Hawaii		
Special funds:		
	S-14-303-H	$ 602,477
	S-14-359-H	56,399
	S-93-359-H	2,818
	S-96-359-H	2,007
	S-97-359-H	3,556
	S-12-350-H	16,568
	S-12-351-H	3,543
	S-12-352-H	3
	S-12-353-H	29,499
	S-11-354-H	183,266
	S-10-355-H	5,599,144
	S-10-371-H	23,126
	S-10-358-H	12,372
	S-14-365-H	17,118
	S-14-312-H	3
	S-13-373-H	58
Trust funds:	T-04-918-H	1,273
	T-04-921-H	6,679
Total per State		6,559,909
Reconciling items		6,939
Total per HHSC		**$ 6,566,848**
Assets limited as to use - Patient trust funds:		
	T-04-911-H	$ 22,912
	T-04-919-H	1,044
	T-04-923-H	4,129
	T-11-909-H	8,984
	T-11-925-H	70,440
Total per State		107,509
Reconciling items:		
Patients' safekeeping deposits held by financial institutions		138,501
Restricted assets held by financial institutions		22,141,992
Total per HHSC		**$ 22,388,002**

Hawaii Health Systems Corporation

Statement of Net Position (Deficit) of Facilities
June 30, 2014

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
Assets								
Current Assets								
Cash and cash equivalents - State of Hawaii	$ 16,568	$ 4,816	$ 13,621	$ -	$ 183,266	$ 29,499	$ 5,599,144	$ 23,126
Cash and cash equivalents	4,302,044	448,631	326,341	700	7,898,198	1,063,083	13,927,423	1,739,098
Patient accounts receivable - Less allowances for doubtful accounts	18,498,654	1,649,045	579,182	1,564,805	12,057,102	982,958	35,511,583	3,627,873
Investments	5,179,696	-	-	-	-	-	-	-
Supplies and other current assets	4,445,056	262,672	347,886	11,914	2,456,095	50,479	8,369,317	300,847
Due from the State of Hawaii	10,464,000	1,000	691,000	-	5,461,000	1,256,000	24,639,000	2,658,000
Estimated third-party payor settlements	6,141,028	274,734	395,866	-	2,238,086	211,773	4,669,688	188,904
Total current assets	49,047,046	2,640,898	2,353,896	1,577,419	30,293,747	3,593,792	92,716,155	8,537,848
Due from Affiliates - Net	-	-	-	-	-	-	3,798,447	-
Capital Assets - Net	45,311,305	18,582,836	6,336,333	23,686,733	30,376,030	1,863,340	146,404,589	13,939,954
Assets Limited as to Use	34,620	35,532	4,440	-	81,739	-	13,047,248	67,943
Other Assets	257,112	-	-	1,406	343,945	8,280	346,041	-
Total assets	$ 94,650,083	$ 21,259,266	$ 8,694,669	$ 25,265,558	$ 61,095,461	$ 5,465,412	$ 256,312,480	$ 22,545,745
Liabilities and Net Position (Deficit)								
Current Liabilities								
Current portion of long-term debt	$ 269,852	$ -	$ -	$ -	$ -	$ -	$ 12,785,000	$ -
Current portion of capital lease obligations	41,667	-	-	-	-	-	77,670	-
Accounts payable and accrued expenses	29,298,677	1,209,777	591,222	631,287	11,802,063	623,126	39,515,343	2,156,150
Current portion of accrued workers' compensation liability	687,000	102,000	7,000	-	514,000	119,000	845,000	223,000
Current portion of accrued vacation	4,262,284	363,142	235,739	29,666	2,062,538	158,102	4,856,368	803,595
Current portion of due to State of Hawaii	-	-	-	-	-	-	2,000,000	-
Other current liabilities	363,593	29,490	-	16,149	-	-	624,239	2,284
Total current liabilities	34,923,073	1,704,409	833,961	677,102	14,378,601	900,228	60,703,620	3,185,029
Long-term Debt - Less current portion	8,309,732	-	-	830,989	-	-	8,717,000	-
Capital Lease Obligations - Less current portion	69,444	-	-	-	-	-	-	-
Other Liabilities								
Accrued vacation - Less current portion	5,865,672	298,158	245,977	-	2,397,066	410,415	6,927,689	1,146,339
Accrued workers' compensation - Less current portion	2,842,000	425,000	170,000	-	910,000	39,000	3,197,000	618,000
Other postemployment benefit liability	75,673,925	6,626,467	3,798,164	-	32,098,867	3,466,100	100,024,102	12,838,139
Due to affiliates - Net	75,629,482	(284,154)	8,909,754	525,461	47,077,497	8,442,631	-	26,773,344
Due to the State of Hawaii - Less current portion	-	506,153	-	-	7,605,205	528,149	-	1,114,264
Patients' safekeeping deposits	34,620	35,532	4,440	-	-	-	-	67,943
Other liabilities	19,663	500	-	894,408	3,833	-	-	-
Total liabilities	203,367,611	9,312,065	13,962,296	2,927,960	104,471,069	13,786,523	179,569,411	45,743,058
Net Position (Deficit)								
Invested in capital assets - Net of related debt	36,620,610	18,582,836	6,336,333	22,855,744	30,376,030	1,863,340	132,806,919	13,939,954
Restricted for capital purchases	-	-	-	-	81,739	-	12,695	-
Unrestricted	(145,338,138)	(6,635,635)	(11,603,960)	(518,146)	(73,833,377)	(10,184,451)	(56,076,545)	(37,137,267)
Total net position (deficit)	(108,717,528)	11,947,201	(5,267,627)	22,337,598	(43,375,608)	(8,321,111)	76,743,069	(23,197,313)
Total liabilities and net position (deficit)	$ 94,650,083	$ 21,259,266	$ 8,694,669	$ 25,265,558	$ 61,095,461	$ 5,465,412	$ 256,312,480	$ 22,545,745

	Lanai Community Hospital	Leahi Hospital	Maluhia	Kahuku Medical Center	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Total Facilities
Assets							
Current Assets							
Cash and cash equivalents - State of Hawaii	$ 12,372	$ 3	$ 17,118	$ -	$ 64,780	$ 58	$ 5,964,371
Cash and cash equivalents	299,107	853,423	2,709,702	886,033	1,951,576	313,776	36,719,135
Patient accounts receivable - Less allowances for doubtful accounts	696,597	2,093,276	1,933,752	2,818,323	2,853,534	2,130,165	86,996,849
Investments	-	-	-	-	-	-	5,179,696
Supplies and other current assets	111,750	160,271	1,292,830	354,914	723,968	298,548	19,186,547
Due from the State of Hawaii	1,800,000	5,103,000	6,962,000	2,829,000	2,730,037	3,726,848	68,320,885
Estimated third-party payor settlements	48,032	813,631	508,511	-	1,810,773	427,584	17,728,610
Total current assets	2,967,858	9,023,604	13,423,913	6,888,270	10,134,668	6,896,979	240,096,093
Due from Affiliates - Net	-	-	-	-	-	-	3,798,447
Capital Assets - Net	2,943,173	7,073,370	6,065,838	7,544,453	11,339,720	6,311,170	327,778,844
Assets Limited as to Use	4,215	93,610	71,155	1,480	4,123	21,352	13,467,457
Other Assets	-	-	-	-	12,150	-	968,934
Total assets	$ 5,915,246	$ 16,190,584	$ 19,560,906	$ 14,434,203	$ 21,490,661	$ 13,229,501	$ 586,109,775
Liabilities and Net Position (Deficit)							
Current Liabilities							
Current portion of long-term debt	$ -	$ -	$ -	$ 171,938	$ 155,773	$ -	$ 13,382,563
Current portion of capital lease obligations	-	-	-	535,533	65,681	-	720,551
Accounts payable and accrued expenses	600,868	2,345,772	1,517,952	1,485,134	5,184,645	1,433,872	98,395,888
Current portion of accrued workers' compensation liability	7,000	468,000	194,000	-	115,000	126,000	3,407,000
Current portion of accrued vacation	81,917	1,072,493	787,000	256,656	877,342	559,419	16,406,261
Current portion of due to State of Hawaii	-	-	-	-	-	-	2,000,000
Other current liabilities	10,000	-	-	521,501	20,000	10,000	1,597,256
Total current liabilities	699,785	3,886,265	2,498,952	2,970,762	6,418,441	2,129,291	135,909,519
Long-term Debt - Less current portion	-	-	-	671,421	369,071	-	18,898,213
Capital Lease Obligations - Less current portion	-	-	-	1,049,471	16,466	-	1,135,381
Other Liabilities							
Accrued vacation - Less current portion	116,857	1,691,129	1,155,825	-	2,835,257	1,159,206	24,249,590
Accrued workers' compensation - Less current portion	81,000	420,000	368,000	-	737,000	310,000	10,117,000
Other postemployment benefit liability	1,689,158	13,371,012	11,123,716	-	24,200,236	8,603,374	293,513,260
Due to affiliates - Net	15,739,232	18,050,274	27,971,716	392,990	55,499,214	16,497,201	301,224,642
Due to the State of Hawaii - Less current portion	-	6,416,791	491,450	-	1,043,345	2,417,150	20,122,507
Patients' safekeeping deposits	4,215	84,627	45,805	2,340	-	20,308	299,830
Other liabilities	-	-	-	-	25,683	9,543	953,630
Total liabilities	18,330,247	43,920,098	43,655,464	5,086,984	91,144,713	31,146,073	806,423,572
Net Position (Deficit)							
Invested in capital assets - Net of related debt	2,943,173	7,073,370	6,065,838	5,116,090	10,732,729	6,311,170	301,624,136
Restricted for capital purchases	-	8,984	24,535	-	850,988	1,044	979,985
Unrestricted	(15,358,174)	(34,811,868)	(30,184,931)	4,231,129	(81,237,769)	(24,228,786)	(522,917,918)
Total net position (deficit)	(12,415,001)	(27,729,514)	(24,094,558)	9,347,219	(69,654,052)	(17,916,572)	(220,313,797)
Total liabilities and net position (deficit)	$ 5,915,246	$ 16,190,584	$ 19,560,906	$ 14,434,203	$ 21,490,661	$ 13,229,501	$ 586,109,775

	Corporate	Reclassifications and Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Reclassifications and Eliminations	HHSC Consolidated
Assets								
Current Assets								
Cash and cash equivalents - State of Hawaii	$ 602,477	$ -	$ 6,566,848	$ -	$ -	$ -	$ -	$ 6,566,848
Cash and cash equivalents	12,121,860	-	48,840,995	42,434	157,215	79,686	-	49,120,330
Patient accounts receivable - Less allowances for doubtful accounts	-	-	86,996,849	-	1,719	461,493	-	87,460,061
Investments	-	-	5,179,696	-	-	-	-	5,179,696
Supplies and other current assets	116,979	-	19,303,526	-	23,109	50,964	-	19,377,599
Due from the State of Hawaii	2,086,000	-	70,406,885	-	-	-	-	70,406,885
Estimated third-party payor settlements	-	-	17,728,610	-	-	-	-	17,728,610
Total current assets	14,927,316	-	255,023,409	42,434	182,043	592,143	-	255,840,029
Due from Affiliates - Net	313,848,832	(301,224,642)	16,422,637	-	-	-	(16,422,637)	-
Capital Assets - Net	15,550,749	-	343,329,593	-	10,933,061	159,520	-	354,422,174
Assets Limited as to Use	8,920,545	-	22,388,002	-	-	-	-	22,388,002
Other Assets	-	-	968,934	-	-	27,387	-	996,321
Total assets	$ 353,247,442	$ (301,224,642)	$ 638,132,575	$ 42,434	$ 11,115,104	$ 779,050	$ (16,422,637)	$ 633,646,526
Liabilities and Net Position (Deficit)								
Current Liabilities								
Current portion of long-term debt	$ -	$ -	$ 13,382,563	$ -	$ 711,289	$ 166,384	$ -	$ 14,260,236
Current portion of capital lease obligations	8,580,801	-	9,301,352	-	-	22,888	-	9,324,240
Accounts payable and accrued expenses	5,513,706	-	103,909,594	-	233,039	370,056	19,993	104,532,682
Current portion of accrued workers' compensation liability	-	-	3,407,000	-	-	-	-	3,407,000
Current portion of accrued vacation	508,831	-	16,915,092	-	-	-	-	16,915,092
Current portion of due to State of Hawaii	-	-	2,000,000	-	-	-	-	2,000,000
Other current liabilities	5,000,917	-	6,598,173	-	426,904	-	-	7,025,077
Total current liabilities	19,604,255	-	155,513,774	-	1,371,232	559,328	19,993	157,464,327
Long-term Debt - Less current portion	-	-	18,898,213	-	13,272,746	2,638	-	32,173,597
Capital Lease Obligations - Less current portion	19,983,019	-	21,118,400	-	-	50,759	-	21,169,159
Other Liabilities								
Accrued vacation - Less current portion	965,663	-	25,215,253	-	-	88,137	-	25,303,390
Accrued workers' compensation - Less current portion	207,000	-	10,324,000	-	-	-	-	10,324,000
Other postemployment benefit liability	8,643,089	-	302,156,349	-	-	-	-	302,156,349
Due to affiliates - Net	-	(301,224,642)	-	-	16,442,630	-	(16,442,630)	-
Due to the State of Hawaii - Less current portion	14,000,000	-	34,122,507	-	-	-	-	34,122,507
Patients' safekeeping deposits	-	-	299,830	-	-	-	-	299,830
Other liabilities	-	-	953,630	-	-	-	-	953,630
Total liabilities	63,403,026	(301,224,642)	568,601,956	-	31,086,608	700,862	(16,422,637)	583,966,789
Net Position (Deficit)								
Invested in capital assets - Net of related debt	1,438,196	-	303,062,332	-	(3,050,974)	(83,149)	7,799,241	307,727,450
Restricted for capital purchases	-	-	979,985	-	-	-	-	979,985
Unrestricted	288,406,220	-	(234,511,698)	42,434	(16,920,530)	161,337	(7,799,241)	(259,027,698)
Total net position (deficit)	289,844,416	-	69,530,619	42,434	(19,971,504)	78,188	-	49,679,737
Total liabilities and net position (deficit)	$ 353,247,442	$ (301,224,642)	$ 638,132,575	$ 42,434	$ 11,115,104	$ 779,050	$ (16,422,637)	$ 633,646,526

Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position (Deficit) of Facilities
Year Ended June 30, 2014

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
Operating Revenue									
Net patient service revenue - Net of provision for doubtful accounts	$ 142,861,476	$ 12,054,562	$ 6,818,927	$ 12,228,489	$ 64,978,280	$ 6,830,924	$ 204,005,507	$ 18,590,310	$ 3,551,338
Other revenue	1,638,049	429,575	60,948	-	567,196	33,430	3,119,153	205,010	65,878
Total operating revenue	144,499,525	12,484,137	6,879,875	12,228,489	65,545,476	6,864,354	207,124,660	18,795,320	3,617,216
Operating Expenses									
Salaries	71,477,413	6,960,618	3,830,242	4,244,614	32,299,933	3,729,192	87,945,324	12,037,286	1,949,011
Employee benefits	43,153,476	3,970,099	1,852,779	1,231,279	16,286,406	1,775,896	59,248,600	6,978,917	793,272
Medical supplies and drugs	21,153,245	461,686	138,258	469,624	8,593,889	41,649	40,196,813	663,743	283,741
Depreciation and amortization	6,932,251	1,021,336	451,067	780,527	5,218,405	312,469	10,684,765	986,372	202,524
Utilities	3,477,794	717,189	268,596	1,001,784	1,750,627	178,717	5,075,902	345,516	168,687
Repairs and maintenance	3,355,876	261,761	108,927	87,369	2,150,448	167,774	2,833,482	223,225	108,155
Other supplies	3,969,002	608,561	225,848	447,834	1,266,639	286,955	6,000,648	768,119	167,938
Purchased services	22,042,942	1,745,720	1,087,991	1,480,289	13,192,286	1,195,561	25,789,900	1,421,210	1,666,076
Professional fees	6,820,016	43,240	29,680	26,026	1,127,643	153,000	6,038,151	131,233	14,045
Insurance	550,991	34,544	80,808	1,032,578	367,238	35,412	993,590	123,399	(7,685)
Rent and lease	2,993,642	10,533	31,949	70,518	789,086	45,930	3,113,682	105,502	7,749
Other	1,916,122	270,121	90,128	892,081	1,103,974	49,521	2,121,356	46,599	58,527
Total operating expenses	187,842,770	16,105,408	8,196,273	11,764,523	84,146,574	7,972,076	250,042,213	23,831,121	5,412,040
Operating Loss	(43,343,245)	(3,621,271)	(1,316,398)	463,966	(18,601,098)	(1,107,722)	(42,917,553)	(5,035,801)	(1,794,824)
Nonoperating Revenue (Expenses)									
General appropriations from the State of Hawaii	23,441,245	3,399,903	1,791,091	-	12,506,058	1,420,527	33,559,177	3,026,168	1,756,540
Collective bargaining pay raise appropriations	3,139,257	245,168	115,058	-	1,599,123	136,565	4,409,028	452,395	72,957
Loss on disposal of capital assets	(13,177)	-	-	-	-	-	(49,616)	-	(6,724)
Restricted contributions	1,016,706	225	29,668	-	350,000	10,000	887,114	-	-
Interest expense	(514,400)	-	(26)	(55,580)	(126,356)	(52)	(1,730,782)	(8,381)	(34)
Interest and dividend income	58,891	-	4,719	-	7,223	6,674	24,570	51,542	210
Corporate allocation expense	(2,688,748)	(225,098)	(116,547)	-	(1,546,168)	(149,493)	(4,664,124)	(436,054)	(105,735)
Other nonoperating revenue (expenses) - Net	563,915	420,837	(24,034)	105,686	(1,762,329)	4,507	294,777	79,909	35,237
Total nonoperating revenue (expenses)	25,003,689	3,841,035	1,799,929	50,106	11,027,551	1,428,728	32,730,144	3,165,579	1,752,451
Excess of Revenue (Under) Over Expenses	(18,339,556)	219,764	483,531	514,072	(7,573,547)	321,006	(10,187,409)	(1,870,222)	(42,373)
Capital Contributions	7,097,000	-	(76,000)	-	5,549,154	-	6,740,440	1,170,429	529,810
Transfer from (to) Affiliate	-	-	-	-	2,411,621	155,499	12,895,936	-	-
(Decrease) Increase in Net Position	$ (11,242,556)	$ 219,764	$ 407,531	$ 514,072	$ 387,228	$ 476,505	$ 9,448,967	$ (699,793)	$ 487,437

	Leahi Hospital	Maluhia	Kahuku Medical Center	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Total Facilities	Corporate	Reclassifications and Eliminations
Operating Revenue								
Net patient service revenue - Net of provision for doubtful accounts	$ 16,087,303	$ 15,845,466	$ 10,619,481	$ 33,207,619	$ 14,092,735	$ 561,772,417	$ -	$ -
Other revenue	211,774	41,736	234,391	321,408	21,584	6,950,132	-	(357,638)
Total operating revenue	16,299,077	15,887,202	10,853,872	33,529,027	14,114,319	568,722,549	-	(357,638)
Operating Expenses								
Salaries	12,703,857	11,625,418	4,221,918	22,768,396	10,084,313	285,877,535	5,232,696	-
Employee benefits	6,902,569	5,771,232	1,634,320	10,531,770	4,677,017	164,807,632	3,126,069	
Medical supplies and drugs	561,414	403,121	690,966	1,955,565	282,935	75,896,649	-	-
Depreciation and amortization	627,226	523,211	460,149	1,644,144	647,907	30,492,353	454,057	-
Utilities	1,182,924	814,422	423,177	1,221,583	539,099	17,166,017	311,727	-
Repairs and maintenance	344,556	297,922	424,175	801,990	89,101	11,254,761	416,951	-
Other supplies	748,616	767,576	313,353	786,790	517,943	16,875,822	147,433	-
Purchased services	607,639	613,604	1,244,674	3,591,381	1,213,282	76,892,555	363,625	(357,638)
Professional fees	65,109	103,370	1,209,883	562,297	327,088	16,650,781	1,068,408	-
Insurance	184,236	86,371	98,328	361,443	88,679	4,029,932	25,862	-
Rent and lease	21,601	1,642	145,080	446,581	59,499	7,842,994	76,978	-
Other	59,884	57,694	164,369	482,057	47,316	7,359,749	605,073	-
Total operating expenses	24,009,631	21,065,583	11,030,392	45,153,997	18,574,179	715,146,780	11,828,879	(357,638)
Operating Loss	(7,710,554)	(5,178,381)	(176,520)	(11,624,970)	(4,459,860)	(146,424,231)	(11,828,879)	-
Nonoperating Revenue (Expenses)								
General appropriations from the State of Hawaii	5,389,481	3,331,334	1,500,397	13,654,551	3,763,923	108,540,395	-	-
Collective bargaining pay raise appropriations	471,746	382,904	-	671,911	257,385	11,953,497	46,503	-
Loss on disposal of capital assets	(143,779)	-	-	-	-	(213,296)	-	-
Restricted contributions	-	-	-	-	-	2,293,713	-	-
Interest expense	(26,890)	(185)	(60,929)	(140,201)	-	(2,663,816)	(1,173,786)	-
Interest and dividend income	11,345	10,330	-	20,799	20,756	217,059	32,854	-
Corporate allocation expense	(454,558)	(396,160)	-	(837,582)	(343,557)	(11,963,824)	11,963,824	-
Other nonoperating revenue (expenses) - Net	13,451	-	-	328,856	173,274	234,086	643,919	-
Total nonoperating revenue (expenses)	5,260,796	3,328,223	1,439,468	13,698,334	3,871,781	108,397,814	11,513,314	-
Excess of Revenue (Under) Over Expenses	(2,449,758)	(1,850,158)	1,262,948	2,073,364	(588,079)	(38,026,417)	(315,565)	-
Capital Contributions	3,611,716	3,300,378	-	2,680,000	2,246,000	32,848,927	13,866,868	-
Transfer from (to) Affiliate	-	-	-	-	-	15,463,056	(15,463,056)	-
(Decrease) Increase in Net Position	$ 1,161,958	$ 1,450,220	$ 1,262,948	$ 4,753,364	$ 1,657,921	$ 10,285,566	$ (1,911,753)	$ -

	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Reclassifications and Eliminations	HHSC Consolidated
Operating Revenue						
Net patient service revenue - Net of provision for doubtful accounts	$ 561,772,417	$ -	$ -	$ 3,243,147	$ -	$ 565,015,564
Other revenue	6,592,494	-	3,863,487	988,355	-	11,444,336
Total operating revenue	568,364,911	-	3,863,487	4,231,502	-	576,459,900
Operating Expenses						
Salaries	291,110,231	-	-	3,508,794	-	294,619,025
Employee benefits	167,933,701	-	-	1,001,080	-	168,934,781
Medical supplies and drugs	75,896,649	-	-	254,894	-	76,151,543
Depreciation and amortization	30,946,410	-	877,735	141,823	-	31,965,968
Utilities	17,477,744	-	385,960	738	-	17,864,442
Repairs and maintenance	11,671,712	-	51,777	85,836	-	11,809,325
Other supplies	17,023,255	-	426,984	25,068	-	17,475,307
Purchased services	76,898,542	-	19,703	319,588	-	77,237,833
Professional fees	17,719,189	-	2,335,898	(48,047)	-	20,007,040
Insurance	4,055,794	-	126,662	133,265	-	4,315,721
Rent and lease	7,919,972	-	103,412	383,994	-	8,407,378
Other	7,964,822	6,193	139,077	191,344	-	8,301,436
Total operating expenses	726,618,021	6,193	4,467,208	5,998,377	-	737,089,799
Operating Loss	(158,253,110)	(6,193)	(603,721)	(1,766,875)	-	(160,629,899)
Nonoperating Revenue (Expenses)						
General appropriations from the State of Hawaii	108,540,395	-	-	-	-	108,540,395
Collective bargaining pay raise appropriations	12,000,000	-	-	-	-	12,000,000
Loss on disposal of capital assets	(213,296)	-	-	-	-	(213,296)
Restricted contributions	2,293,713	-	-	344,581	-	2,638,294
Interest expense	(3,837,602)	-	(846,683)	(341)	-	(4,684,626)
Interest and dividend income	249,913	-	1,874	-	-	251,787
Corporate allocation expense	-	-	-	-	-	-
Other nonoperating revenue (expenses) - Net	878,005	-	-	1,151,120	-	2,029,125
Total nonoperating revenue (expenses)	119,911,128	-	(844,809)	1,495,360	-	120,561,679
Excess of Revenue (Under) Over Expenses	(38,341,982)	(6,193)	(1,448,530)	(271,515)	-	(40,068,220)
Capital Contributions	46,715,795	-	-	-	-	46,715,795
Transfer from (to) Affiliate	-	-	-	-	-	-
(Decrease) Increase in Net Position	$ 8,373,813	$ (6,193)	$ (1,448,530)	$ (271,515)	$ -	$ 6,647,575

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

Independent Auditor's Report

To Management and the Board of Directors
Hawaii Health Systems Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hawaii Health Systems Corporation (HHSC or the "Corporation"), which comprise the basic statement of net position as of June 30, 2014 and the related basic statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2014.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as Findings 2014-1 and 2014-2 to be material weaknesses.

To Management and the Board of Directors
Hawaii Health Systems Corporation

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as Findings 2014-3 through 2014-14 to be significant deficiencies.

Compliance and Other Matters

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

Hawaii Health Systems Corporation's Responses to Findings

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

Purpose of this Report

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

Plante & Moran, PLLC

Grand Rapids, Michigan
December 8, 2014

Finding - 2014-1

Organization - Alii Community Care, Inc.

Finding Type - Material weakness

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

Condition - A property and equipment lapse schedule is not being updated properly at Roselani. Also, depreciation expense had not been recorded correctly in fiscal year 2014.

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

Cause - An adjustment to depreciation expense of $7,782 needed to be recorded in fiscal year 2014.

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

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

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

Finding - 2014-2

Organization - Alii Community Care, Inc.

Finding Type - Material weakness

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

Condition - Alii Community Care, Inc. reported financial results on a cash basis throughout fiscal year 2014.

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

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

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

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

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

Finding - 2014-3

Organization - Corporate

Finding Type - Significant deficiency

Criteria - Accrued vacation calculation should be reviewed to verify the proper inputs are being used in the calculation.

Condition - Accrued vacation was not properly reviewed and recorded at June 30, 2014.

Context - Lack of proper review of inputs and calculation by human resources before the calculation is provided to finance to record.

Cause - The calculation formulas were reviewed; however, the inputs such as salary and wage rates as well as the amounts earned and used were not reviewed.

Effect - The accrued vacation calculation was updated several times with the final version resulting in an insignificant misstatement at year end.

Recommendation - Management should involve human resources in the review of the accrued vacation calculation to verify the proper inputs are being used. In addition, another review of the calculation should be completed at least annually by an independent person.

Views of Responsible Officials and Planned Corrective Action Plan - All HR reports relating to leave records and relevant information (i.e., pay rates, FTE, earn and use accruals, etc.) will be reviewed for correctness on a monthly basis. HR will continue to remind managers and supervisors to provide all approved leave requests to HR in a timely manner.

Finding - 2014-4

Organization - Corporate

Finding Type - Significant deficiency

Criteria - Obligations allocated to the various HHSC regions should be reviewed to verify expense and capital assets are properly recorded.

Condition - Compensation expense and capital assets were not properly recorded at June 30, 2014.

Context - Lack of review of compensation expense and capital assets allocated to the HHSC regions.

Cause - Compensation expense and capital assets were not properly reviewed.

Effect - Compensation expense related to the EMR project was not properly allocated to the regions resulting in an overstatement of expense at HHSC-Corporate. A capital asset was improperly allocated to the regions resulting in an understatement of capital assets at HHSC-Corporate.

Recommendation - We recommend management implement a process to review all EMR expense and capital assets for proper allocation.

Views of Responsible Officials and Planned Corrective Action Plan - A process has been redesigned and implemented to collect payroll information related to EMR and a process exists to allocate invoices related to IT. Additionally, IT managers/approvers and personnel have been re-educated on the definitions related to GASB Statement No. 51 (capitalization versus operational expense) and on how to code invoices according to the existing IT invoices coding matrices. Finally, the newly hired IT budget director has been alerted to review, educate, and approve information collected for both payroll and invoice allocations.

Finding - 2014-5

Organization - Alii Community Care, Inc.

Finding Type - Significant deficiency

Criteria - General journal entries are not required to be reviewed before being posted at Alii Community Care, Inc.

Condition - It was noticed during year-end audit procedures that any individual that has access to the accounting system can post an entry into the system without prior approval or subsequent review.

Context - Errors could be made when entries are made and their effect could go unnoticed and uncorrected.

Cause - A restriction on the posting of journal entries is not in place. The accounting system should be modified so that an individual who creates a journal entry cannot post the entry to the system or a formal policy should be adopted and followed whereby all manual entries are signed off as being reviewed before being posted.

Effect - Unsupported or incorrect journal entries could be made to the system.

Recommendation - We recommend a policy be put in place whereby all manual journal entries that are posted to the system must be approved by the individual not posting the entry or the accounting system should be modified to not allow the creator of an entry to post that entry.

Views of Responsible Officials and Planned Corrective Action Plan - The ACC Board Management Liaison will work with Roselani management to develop a policy on manual journal entries. This policy will address access issues and proper oversight protocols for manual journal entries.

Finding - 2014-6

Organization - East Hawaii Region

Finding Type - Significant deficiency

Criteria - Accounts receivable allowance calculations should be reviewed and compared to the general ledger to ensure entries were appropriately recorded.

Condition - The bad debt allowance per the general ledger for HHH did not agree to the calculated bad debt allowance due to a lack of review.

Context - The general ledger was not adjusted to the calculated allowance, which resulted in the allowance being understated by approximately $570,000 throughout the year.

Cause - After the allowance calculation was prepared and journal entries were posted, the general ledger was not reconciled to the calculation.

Effect - HHH's bad debt allowance per the general ledger was understated by approximately $570,000 compared to the calculated allowance.

Recommendation - We recommend the East Hawaii Region implement procedures to review all allowance reconciliations and compare them to the general on a regular basis.

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

Finding - 2014-7

Organization - East Hawaii Region

Finding Type - Significant deficiency

Criteria - Inventory supplies cost per unit should be updated periodically to the actual market cost.

Condition - Inventory cost per unit was incorrectly updated due to a lack of review.

Context - One inventory item had a cost in the system which far exceeded the actual cost; the result was an estimated adjustment of approximately $14,300 for one inventory item.

Cause - The inventory cost per unit was not properly updated due to lack of review.

Effect - Inventory was overstated at year end.

Recommendation - We recommend the East Hawaii Region review inventory unit cost on a periodic basis.

Views of Responsible Officials and Planned Corrective Action Plan - Management has corrected the error and put procedures in place to properly review inventory costs.

Finding - 2014-8

Organization - East Hawaii Region

Finding Type - Significant deficiency

Criteria - Management is responsible for establishing and maintaining an effective internal control over financial reporting. Throughout the year, bad debt expense was improperly classified as revenue deductions.

Condition - Revenue deductions were overstated and bad debt expense was understated throughout the year; however, net patient service revenue was properly stated.

Context - The general ledger was not adjusted for a reversing entry made to bad debt expense, which allowed bad debt expense to be understated throughout the year.

Cause - The classification error was a result of a change in the system application of bad debt and revenue deductions. Management did not review the details for revenue deductions or bad debt expenses to ensure the system was posting accurately.

Effect - A reclassifying entry of $6.4 million was posted to decrease revenue deductions and increase bad debt expense.

Recommendation - We recommend the East Hawaii Region properly post write-offs to bad debt to the bad debt expense account.

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

Finding - 2014-9

Organization - Kahuku Medical Center

Finding Type - Significant deficiency

Criteria - Accounts receivable and revenue should be reviewed for proper cut-off at year end.

Condition - Accounts receivable and revenue were not properly stated at June 30, 2014.

Context - Lack of proper review of charges posted after year end which related to the fiscal year.

Cause - Management did not record accounts receivable and revenue for charges posted after year end.

Effect - Net accounts receivable and net revenue at June 30, 2014 were understated by approximately $227,000.

Recommendation - We recommend management implement a formal procedure to review charges posted subsequent to year end.

Views of Responsible Officials and Planned Corrective Action Plan - Management is working to implement a process to review charges posted after month-/year-end close.

Finding - 2014-10

Organization - Kahuku Medical Center

Finding Type - Significant deficiency

Criteria - All account balances should be reviewed each month end and year end to ensure they are properly recorded.

Condition - Various general ledger accounts were improperly recorded at year end.

Context - Lack of review and reconciliation of various general ledger accounts.

Cause - Management did not review all general ledger account balances at year end.

Effect - Various accounts were adjusted including inventory for approximately $38,000, construction in progress for approximately $200,000, and accounts payable and expense for approximately $10,000.

Recommendation - We recommend management implement a formal procedure to review all general ledger account balances at month end and year end.

Views of Responsible Officials and Planned Corrective Action Plan - Management is working to implement a process to review general ledger account balances at year end.

Finding - 2014-11

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - There was a significant amount of unapplied cash receipts as of June 30, 2014.

Condition - Cash receipts were not applied timely to patient accounts.

Context - The amount of unapplied cash receipts at June 30, 2014 was approximately $1,400,000, resulting in overstated individual patient accounts.

Cause - Cash receipts were not applied timely, causing there to be significant unapplied cash at June 30, 2014.

Effect - As a result of the unapplied cash, individual patient accounts receivable were overstated as of June 30, 2014.

Recommendation - We recommend cash receipts be applied to patient accounts in a timely manner.

Views of Responsible Officials and Planned Corrective Action Plan - Management is working to correct the issue.

Finding - 2014-12

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - Bank account signatory authorities should be limited to current management members without access to journal entry capabilities.

Condition - The former Maui Region CFO is still listed with signatory authority on bank accounts held by Maui Memorial Medical Center and Kula Hospital. Also, we noticed a large number of signatory authorities for each of the Region's bank accounts, including certain job positions that do not appear to require authority or a need for cash access.

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

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

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

Recommendation - We recommend management request that former employees be removed timely from bank accounts upon termination. Also, we recommend signatory authorities be limited to only necessary employees.

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

Finding - 2014-13

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - Management should be actively identifying new GASB accounting principles that are relevant to the Region.

Condition - During audit testing, it was identified that GASB Statement No. 65 was applicable for the Region, but had not been implemented.

Context - It was identified that bond issuance costs were still capitalized as assets on the Region's balance sheet, which is inconsistent with GASB Statement No. 65 requirements.

Cause - Lack of review for newly required GASB accounting principles.

Effect - As a result of GASB Statement No. 65 being implemented retroactively, there was approximately $650,000 of bond issuance costs removed from the balance sheet and expensed as interest expense during 2014.

Recommendation - We recommend management regularly review newly announced GASB accounting principles and implement any that are applicable to the Region.

Views of Responsible Officials and Planned Corrective Action Plan - Management will work to review announced GASB accounting principles and assess the need for implementation.

Finding - 2014-14

Organization - West Hawaii Region

Finding Type - Significant deficiency

Criteria - Accounts receivable allowance calculations should be reviewed and compared to the general ledger to ensure entries are appropriately recorded.

Condition - The bad debt allowance per the general ledger for Kona did not agree to the calculated bad debt allowance.

Context - The general ledger was not adjusted to the calculated allowance, which resulted in the allowance being overstated by $1.3 million throughout the year.

Cause - After the allowance calculation was prepared and journal entries were posted, the general ledger balance was not reconciled to the calculation.

Effect - Kona's bad debt allowance per the general ledger was over stated by $1.3 million compared to the calculated allowance.

Recommendation - We recommend the West Hawaii Region implement procedures to review all allowance reconciliations and compare them to the general ledger on a regular basis.

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

Attachment 4

HAWAII HEALTH SYSTEMS

C O R P O R A T I O N

Quality Healthcare For All

REGIONAL BOARD REPORTS

FOR FISCAL YEAR 2014

POC: Alice M. Hall, Acting President and Chief Executive Officer
December 15, 2014

REGIONAL BOARD REPORT INDEX

OAHU REGION

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

Long-Term Care Inpatient Services

- 155 Dual Certified Skilled Nursing and Intermediate Care Beds

Support

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

Outpatient Services

- Adult Day Health Center
- Leahi Geriatrics Outpatient Clinic **-** Collaboration with the UH School of Medicine, Geriatrics Medicine Division to provide outpatient geriatric consultation and medical services

PATIENT CENSUS

- Admissions 210
- Patient Days 49,553

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES

- Total Private Donations - $16,916.00
- Total Fundraising – N/A
- Total Federal/State/Private Grants – N/A

TOTAL - $16, 916.00

VOLUNTEER SERVICES

- Number of Active Volunteers: 182
- Number of Total Volunteer Hours: 10,167
- Volunteer Auxiliary Contributions: $38,535

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

Long-Term Care Inpatient Services

- 158 Dual Certified Skilled Nursing and Intermediate Care Beds

Support

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

Outpatient Services

- Primary Care Geriatric Outpatient Clinic
- Adult Day Health Center

Programs and Services

- Admissions 160
- Patient Days 56,048

Volunteer Services

- Number of Active Volunteers: 43
- Number of Total Volunteer Hours: 8,293
- Volunteer Auxiliary Contributions: approx. $3,600 - $4,000

Oahu Region Foundation Supporting HHSC Hospitals
Background /Contact Information

Leahi Hospital and Maluhia Foundation

The foundation was established in 2003.

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

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

Board of Director Members for FY 2014
Ken Takeuchi, President and Secretary
Neal Yanagihara, Vice President
Michael Hamamoto, Treasurer
Lydia Chock, Director
Karen Halemano, Director
Jane Schramko, Director
Jerry Tsuda, Director

Contact Information:
Leahi-Maluhia Foundation
c/o Maluhia
1027 Hala Drive
Honolulu, HI 96817
Tele: 808-832-1927 Fax: 808-832-3402

In fiscal year 2014, the HHSC Oahu Region serving the long term services and support for our community continues to face serious fiscal challenges. Due to delayed payments and reduced reimbursement levels from insurance providers along with increased collective bargaining increases negotiated by the State of Hawaii, Oahu Region struggles financially. Priorities are set on the use of cash to meet payroll and vendor payments. Throughout the year, the Oahu Region implemented operational efficiency efforts to reduce staffing expenses through attrition, reduced overtime and other expenses, and interchanged staff between buildings and continued to provide high quality of care to our residents, patients and participants while facing declining reimbursements and increasing salaries and benefit costs.

The Centers for Medicare and Medicaid Services (CMS) surveyed both Oahu Region facilities under the Quality Indicator Survey guidelines. The survey guidelines involve a more in-depth review and include resident, family and staff interviews.

The Oahu Region continues to work on a plan for the Center of Excellence in Long Term Care, engaging in extensive discussions with various stakeholders. The proposed plan presented to the Governor and collaborators, included Kapiolani Community College and Diamond Head Theater. The plan reflects a collaborative set of community views, including those directly related to health, education and the arts.

The Oahu Region received CIP funding for the development of a Leahi Master Plan. The Master Plan will be a work-in-progress strategic planning effort developed to include community services and possible partnerships with private entities, unlike what is currently being considered by the Maui Region which involves the region being essentially purchased by another healthcare entity. Rather, it would include private investment to possibly design and construct buildings and housing operations to increase services and support for the aged, blind and disabled population, ancillary services and facilities to become more self-sufficient. It would also include partnering with the University of Hawaii and its health and other programs throughout its operations, including learning opportunities for Kapiolani Community College (KCC) students. A key part of the Master Plan is acquiring the Leahi property via a transfer from the University of Hawaii.

Capital Improvement Projects:

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

LEAHI HOSPITAL
Replace Nurse Call System, $517,950
Renovation of public restrooms, $67,787
Replace deteriorated transformer for Trotter Building, $7,036
Renovate first floor offices, $49,999
Renovate Atherton 2nd floor, $241,914
Repair flagpole and renovate second floor men's restroom in Administration, $24,385
Remove deteriorated incinerator stack, $56,165
Replace lobby flooring, $13,869
Replace dishwasher, $48,748
Demolish rock foundation, $43,860
Lobby counter, $11,220
Glass tinting, $3,876
Remove trees, $2,565
Lighting upgrade, $15,124
Remove underground storage tanks, $31,260

MALUHIA
Reroof, $614,000
Re-floor nursing office and administration, $14,679
Lighting Upgrade, $12,992
Renovate Central Supply Room, $44,007

Nursing:

Census in both facilities has been high, that is more than 93%, and the acuity of the resident is greater. The staff's dedication to resident centered and quality care continues as reflected in the quality measures section of the Federal Government Nursing Home Compare website. Our ratings for the second consecutive year continue to be 4-star and 5-star for Leahi and Maluhia, respectively.

Recently the Healthcare Association of Hawaii (HAH) identified Leahi and Maluhia as one of the 35 long term care provider members for their achievement in reaching national quality goals set by its national association, the American Health Care Association and National Centers for Assisted Living (AHCA/NCAL which includes a national effort focused on reducing hospital readmissions, nursing staff turnover and use of antipsychotic medications, as well as increasing customer satisfaction. Leahi and Maluhia antipsychotic medication usage rates continue to be lower than the State and National averages.

Our Geriatric Nurse Practitioner was instrumental in support of Act 154 legislation that now allows Advance Practice Registered Nurses to be able to sign off on Provider Orders for Life-Sustaining Treatment (POLST) forms. Recently, the Infection Control Nurse provided both facilities with in-services on infection Control and Urinary tract infections. Her training improves communication between the licensed nurse and Physician using Interact Hospitalization Rate Tracking Tool to reduce hospital re-admissions. The Oahu Region is participating with HMSA, University of Hawaii at Manoa School of Nursing and Kokua Mau on a Palliative Care project. The goal is to continue improving the quality of care and communication we provide to residents and families who are coping with end of life concerns.

Several Oahu Region nursing staff members had their work published in the American Association of Nurse Assessment Coordination (AANAC) journal on evidenced based practice, The American Association of Colleges in Nursing (AACN) noted that nursing research has provided the evidence that education does make a difference in clinical practice. These studies demonstrate that nurses who hold a baccalaureate degree have better patient outcomes such as lower mortality and failure-to-rescue rates. The Oahu Region continues to mentor new graduates and serves as a clinical site for the University of Hawaii, Kapiolani Community College and Chaminade University schools of nursing. .Leahi's nurse management team has achieved the Institute of Medicine's goal of having 80% of nurses with Bachelor of Nursing degrees.

Personnel:

Full Time Equivalent (FTE) figures are as follows:

FY 14 612.20
FY 13` 626.72
FY 12 686.94
FY 11 582.54
FY 10 588.00

Financial:

Approximately 90% of Oahu Region's patients are members of the Quest Expanded Access (QExA) program. Oahu Region revenues and cash flow are dependent on the reimbursement rates and timeliness of payments provided by the Medicaid program. General fund appropriations from the State have not sufficiently covered collective bargaining salary and benefits increases during the past several years. Oahu Region continues to struggle to make ends meet.

Electronic Health Records:

Implementing the Electronic Health Record (EHR) project is an important project for the Oahu Region. Much work has been or is currently being done to develop the Long Term Care systems due for release in 2015.

With evaluation of the EHR project implementation occurring at the health system corporate level, Oahu Region has initiated information gathering on possible alternatives that may improve both the EHR application and implementation timeframes. With this information and the results of the System-wide evaluation of our current project, Oahu region will be in a better position to decide what is best for Oahu region.

Education efforts will continue to make sure all employees have the necessary skills to use an electronic medical record. The "go live" dates for Leahi Hospital and Maluhia are not tentatively scheduled and are dependent on the go-lives of other HHSC facilities and their respective software upgrades. Meanwhile the Federal mandate to implement ICD-10 by October 2015 must be integrated carefully with EHR activities over the coming year.

Strategic Planning:

Oahu Region has focused its efforts on developing contingency plans as it faces significant budget shortfalls due to decreased funding sources for the next few years. Our work plan for this year focuses primarily on developing more efficiencies and decreasing our operations costs and implementing action plans that position our Region facilities for potential collaboration, partnerships and expansion of services. This includes replacement and upgrades of existing facilities and expansion to support anticipated increased complexity of patients to be managed.

Oahu Region will seek stronger relationships with other State agencies in developing and anticipating future needs of the elderly and chronically ill population. Our master plan development continues to move forward with proposed funding becoming available next fiscal year. Major capital improvement within existing facilities is starting and will create opportunities to decrease costs and improve operating efficiencies and appearance.

Oahu Regional Board Quality Committee’s efforts in supporting our quality improvement activities over the past year that have resulted in in a renewed improvements in reporting and quality of care initiatives at both facilities necessary which respond to expectations by the public and as potential providers for Accountable Care Organizations (ACO).

Risk Management:

Oahu Region continues to focus its efforts on effectively managing residents with higher acuity, difficult to place characteristics, and behavioral problems. This has resulted in more active discussion among staff leading to improvements in early identification and handling of these types of residents. We also continue to work with other community agencies and public safety in providing prompt notification, communication and appropriate transfers in providing the best care we can for this population.

Staff at both facilities has created a learning environment by meeting formally and informally to develop recommendations on difficult cases. Our admission process has improved to insure that potential residents are carefully screened for appropriateness based on our ability to effectively manage this higher acuity resident population. This provides the referring acute facility greater assurances that residents are not re-admitted within 30 days to be treated again for avoidable complications.

Our infection control program has upgraded our facilities' ability to manage and contain outbreaks effectively thru focused education and training with our Housekeeping, Food and Nutrition Services and Nursing staff. This involves performing daily facility-wide surveillance and consistent use of protocols to prevent or contain such outbreaks.

KAUAI REGION

West Kauai Medical Center (WKMC), formerly known as Kauai Veterans Memorial Hospital (KVMH), was completed in October 1957 and dedicated to the Veterans of the Korean War. KVMH was built to meet the healthcare needs of its surrounding communities. WKMC has 45 licensed beds, including 25 acute and 20 long-term care beds. Today, WKMC employs approximately 293 people and provides the following 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 OB/Gyn, General Surgery, Family Practice, and Pediatrics
  - Eleele Clinic staffed with Internal Medicine
  - Kalaheo Clinic staffed with Internal Medicine, Family Practice

The Kawaiola Medical Office Building (MOB) was completed and dedicated in November 1996. Kawaiola was the outcome of a collaborative effort among the West Kauai communities and KVMH. 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 Center (Kauai Community Health Center) – Medical and Dental

PATIENT CENSUS

- Admissions 1,249
- Births 275
- ER Visits 6,637
- Patient Days 11,783

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES

Estimated Total Donations received by the KVMH Charitable Foundation:

- Total Private Donations $0
- Total Fundraising - $12,000
- Total Federal/State/Private Grants - $38,774

TOTAL - $50,774

VOUNTEER SERVICES

- Number of Active Volunteers: 52
- Number of Total Volunteer Hours: 2,844
- Volunteer Auxiliary Contributions: $23,468

Samuel Mahelona Memorial Hospital (SMMH) is the oldest operating hospital on Kauai. Founded in 1917 as a tuberculosis hospital, it received its name from a member of the Wilcox family, who died of TB as a young man. In the 1960s, with a cure for TB well established, SMMH gradually transitioned to providing acute 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). The critical access hospital has approximately 150 employees. Currently, SMMH patient services include:

- Emergency Services – 24-hour mid-level emergency services staffed by Board certified ER physicians and ER nurses
- Laboratory
- Physical Therapy
- Radiology
- Occupational Therapy
- Adult Inpatient Psychiatric Care
- Detoxification
- 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
- Inpatient Pharmacy
- Social Services
- Occupational Therapy
- Recreational Therapy
- Speech Therapy
- Physical Therapy
- Dietitian

PATIENT CENSUS

- Admissions 249
- Patient Days 21,463
- ER Visits 6,155

VOLUNTEER SERVICES

- Number of Active Volunteers: 19
- Number of Total Volunteer Hours: 2,114.25
- Volunteer Auxiliary Contributions: $8,188.82

Kauai Region Foundations Supporting HHSC Hospitals
Background / Contact Information

Kauai Veterans Memorial Hospital (KVMH) Foundation

The KVMH Foundation was formed in the fall of 1998. The board consists of 10 community members and three employees of the Kauai Veterans Memorial Hospital. The foundation's main focus is to support the many services, equipment purchases, and programs that West Kauai Medical Center and KVMH provides for its island communities.

Foundation President: Vacant
Foundation Vice President/Treasurer: Vacant

Contact Information:
KVMH Charitable Foundation
Kauai Veterans Memorial Hospital
PO Box 356
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, it is committed to bringing the best healthcare possible to the community through it efforts of raising money from various projects, grants, endowments and community support. To accomplish this, Foundation members go into the community and listens to health concerns and needs. Foundation members carry the message of SMMH to them, thus forming a bond of trust, integrity and partnership.

Contact information:
SMMH Foundation
Samuel Mahelona Memorial Hospital
4800 Kawaihau Road
Kapaa, Kauai, HI 96746

Tel: 808-822-4961 Fax: 808-823-4100

Hawaii Health Systems Corporation

Kauai Region

July 1, 2013 to June 30, 2014

During FY2014, the HHSC Kauai Region was faced with daunting economic and healthcare reform challenges, physician turnover, financial issues affecting ability to recruit and retain both physicians and staff, and adequate space to accommodate day to day operations. In November of 2013, the Kauai Region regrouped under a new Interim CEO (Scott E. McFarland) and COO (Freddie Woodard Jr., MBA) to pioneer a path to sustainability for the Kauai Region facilities, services, providers, and staff.

Community leaders, Board members, senior leaders, managers, providers, staff, and other stakeholders came together to address the challenges. From this collaborative venture, a Living Strategic Plan emerged to guide us through the fast paced change we must navigate in the upcoming years. The strategy is titled as 'Living' because we expect it will change and grow with us as we move forward. The focus of this plan is:

- Quality
- Fiscal strength
- People
- Services
- Community engagement
- Infrastructure
- Population Health
- Community Engagement

The Kauai Region is comprised of West Kauai Medical Center / Kauai Veterans Memorial Hospital (KVMH), West Kauai Clinics, and Mahelona Medical Center / Samuel Mahelona Memorial Hospital (SMMH).

KVMH is a Critical Access Hospital with 25 Acute Care Beds and a distinct 20-bed Long Term Care wing, with 24-hour emergency services, serving the West Kauai community and visitors alike.

West Kauai Clinics has three strategically placed clinics to serve the West side community and visitors. The Waimea clinic, which is adjacent to the West Kauai Medical Center / KVMH offers Family Practice, Pediatrics, General Surgery, and OB / GYN services. The Port Allen Clinic is located in the Port Allen Marina Center in Eleele and services include Internal Medicine, Pediatrics and Women's Health. The Kalaheo clinic provides Family Practice, Internal Medicine and Pediatrics services. There is also a Specialty Clinic on the Mahelona Medical Center campus where West Kauai Clinic physicians see patients on the island's East side to assist with increasing their patient base.

Mahelona Medical Center / SMMH is a Critical Access Hospital with five Acute Care beds, nine Acute Psychiatric beds, 66 Long Term Care beds, with 24-hour emergency services, serving the East and North shore communities of Kauai.

As a Region, we have approximately 450 employees staffing our clinics and hospitals.

The Kauai Region's near term financial recovery during the last half of FY2014 was "real" and is certainly worthy of mention as very few would have expected this quick of a turnaround. The Kauai Region actually grew operating revenues by 5.4% by year end after a very difficult first six months where our census and collections dipped to historic lows.

The Kauai Region also had the LOWEST percentage increase in its operating expenses during FY2014 at 4.7% over FY2013. This again is very positive and actually "in line" with well performing hospitals on the Mainland.

In addition, the Kauai Region had the LOWEST percentage increase in its overall operating loss at 2% over FY2013.

And finally, the Kauai Region actually grew its profitability by nearly a percentage, which is quite an accomplishment given the reality of its liquid cash situation. The Kauai Region was the only HHSC Region to have an increase in its operating margin during FY2014, coming in at a 0.9% improvement over FY2013.

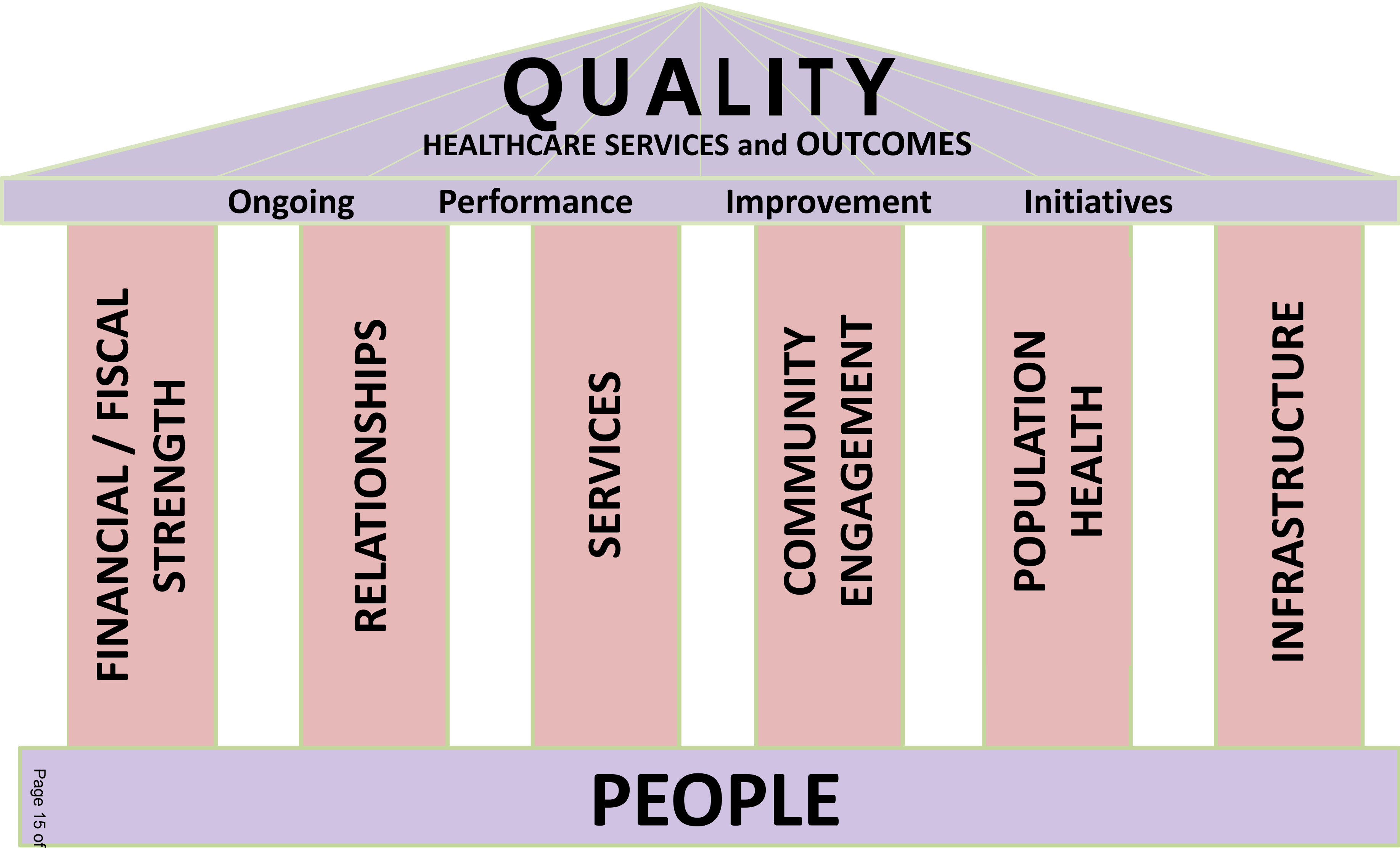
As in FY2014, the Kauai Region's biggest challenge during FY2015 will be its lack of cash and cash reserves. The other HHSC Regions are in a much better cash position to weather the storm that will be FY2015; however, those Regions may not be in a positon to "loan" any short term cash to help the Kauai Region survive FY2015.

The Ongoing, Living Kauai Transformation

As of June 30, 2014

The HHSC Kauai Region Team

“A Patient, Resident and Family Centered Culture that is Accountable and Provides Quality Care”



BUILDING a SUSTAINABLE FUTURE for KAUAI REGION

Immediate Actions and Results

- ✓ Implemented sound fiscal metrics and processes for cash management, cash collections, claims processing, accounts payable, expenditure approvals, budgeting, and cost reductions.

  Result: April and May 2014 resulted in over $4M/month collected, increased clinic utilization, and monthly charges target of $1,050,000 for Clinics exceeded.

- ✓ Revenue production/cost reduction assessments.

  Result: Increase in utilization of LTC facilities at SMMH to 55 beds.

  Result: FY2015 budgets developed with fiscally responsible guidance.

- ✓ Prioritize, define team(s), and schedule strategic initiatives for FY2015 and beyond.

  Result: Plan strategic initiatives to revitalize & optimize Kauai healthcare.

Ongoing Performance Improvement Actions

- Increased Executive Management Oversight of the revenue cycle for Kauai
- Significantly improved our charge capture process
- Daily cash management
- Implemented monthly revenue cycle meetings in the region to identify issues timely that pose barriers to payment
- Redesigned Billing workflow process 9/13 to gain efficiencies and increase cash collections
- Analyzed clinic practice structure to best provide care to outpatients communities served
- Increased access to care with Saturday Clinics at Waimea and Kalaheo
- Achieved high quality scores by providing right personalized care

Ongoing Cost Control Actions

- Currently assessing staffing needs
- Staff utilization: (Reduction of overtime)
- Increased participation, education and auditing regarding quality initiatives to maximize incentive payments
- Implemented purchasing controls
- Re-evaluating purchased service contracts
- Establishing consistent performance expectations for medical staff to meet facilities financial goals
- Developing plan to reduce A/P and rebuild relationships with vendors
- Engaged in workflow redesign in critical areas to gain efficiencies and reduce costs
- Re-allocating resources in the region looking to achieve maximum benefit

Next Steps for FY2015

- Reduce days in A/R to below 45 days
- Decrease days in A/P, and restore reputation with local vendors
- Continue to develop policies and processes that better integrate to and align with the Living Strategic Plan (LSP) of the Kauai Region
- Engage Staff and increase performance
- Continue to deliver QUALITY care
- Advance and redesign services (provide access to appropriate service)
- Increase cash collections
- Continue to develop and meet financial goals and targets

MAUI REGION

Maui Memorial Medical Center (MMMC) has a long history of serving the Maui community. Originally opened in 1884 as "Malulani" (Protection of Heaven) by Queen Kapiolani, the County of Maui assumed financial responsibility for Malulani Hospital in 1927. In 1952, a new 140-bed Central Maui Memorial Hospital was opened. Eventually, the state took ownership. Today, MMMC is licensed for 213 acute care beds and has close to 1,396 (FTE, FY14) employees and boasts over 200 attending physicians. MMMC is the largest acute facility within HHSC and is also supported through community donations through its non-profit partners: MMMC Foundation and Hospital Auxiliary.

MMMC patient services include:

- Acute Inpatient Dialysis
- Adult Behavioral Health Services
- Cardio Thoracic Surgery
- Complementary Care
- Critical Care Unit
- 24-Hr. Emergency Services
- Endoscopy
- Heart, Brain & Vascular Center
  - Angiography, EP Studies, Cardiac Catherization, Ablations, Pacemakers, Cardiac Stress Testing, Echocardiography, Cardioversion
  - Interventional Radiology Services
- Laboratory – 24-hour services
- Newborn Nursery and Maternity Services
- Nutrition Serves
- Obstretics/Gynecology – with childbirth education classes
- Oncology – Cancer treatments
- Operating Room
  - Same Day Surgery (Outpatient)
- Outpatient Clinics
  - Cardio-Thoracic Surgery
  - Cardiology
  - Gastroenterology
  - Oncology
  - Orthopedics
  - Psychiatry
- Pediatric Medicine
- Percutaneous Coronary Intervention
- Pharmacy
- Inpatient and Outpatient Physical, Occupational, and Speech Therapy
- Recreational Therapy
- Progressive Care Services
- Radiology-

  - Diagnostic x-ray, CT Scan, MRI, Ultrasound, Nuclear Medicine, Mammography
- Respiratory Therapy
- Outpatient Observation Unit
- Telemetry – "heart monitoring"
- Outpatient Observation Unit
- Wound/Ostomy Care

PATIENT CENSUS
- Admissions 11,512
- Births 1,705
- ER Visits 32,757
- Patient Days 57,902

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES
- Total Private Donations - $117,172
- Total Fundraising - $111,676
- Total Federal/State/Private Grants - $63,500

TOTAL - $292,348

VOLUNTEER SERVICES
- Number of Active Volunteers: 60
- Number of Total Volunteer Hours: 8,739
- Volunteer Auxiliary Contributions: $1,349

Kula Hospital began operations in 1909 as a tuberculosis facility. In 1936, Kula Sanitorium expanded to a 200-beds facility for TB patients. By the 1960s, it began offering psychiatric care. Kula evolved into a long-term care facility during the early 1970s. Kula has 113 licensed beds (5 acute/SNF swing care, 100 SNF/ICF, and 9 ICF/IID), and employs 214 (FTE, FY14) employees. Kula Hospital's patient services include:

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

PATIENT CENSUS

- LTC Census 70
- Patient Days 25,550
- ER Visits 2,347

VOLUNTEER SERVICES

- Number of Active Volunteer: 50
- Number of Total Volunteer Hours: 5,893.5
- Volunteer Auxiliary Contributions: $15,690.42

Lanai Community Hospital 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 4 licensed acute care and 10 long-term care beds (dual certification for SNF/ICF). LCH has 44 (FTE, FY14) employees. As a critical access hospital, LCH provides the following services:

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

PATIENT CENSUS

- Admissions 21
- Patient Days 3,725
- ER Visits 1,173

VOLUNTEER SERVICES

- Number of Active Volunteers: 54
- Number of Total Volunteer Hours: 860
- Volunteer Auxiliary Contributions: $7,522

Maui Region Foundation Supporting HHSC Hospitals
Background / Contact Information

Maui Memorial Medical Center (MMMC) Foundation

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

Foundation President: David Jorgensen, Esq.

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

Contact information:

Maui Foundation (www.MauiFoundation.org)
285 Mahalani Street, Suite 4
Wailuku, Maui, HI 96793
Tel: 808-242-2632 Fax: 808-442-5646

FINANCIAL

Unaudited figures show the Maui Region earned net operating revenue of approximately $228.7 million dollars with corresponding operating expenses of $266.8 million, before audit adjustments. The most significant missing adjustment is the allocation of other post-retirement benefits. The net loss from operations was $38.1 million before non-operating revenues, corporate allocation and State Appropriations. Net profit after including all State appropriations and other non-operating expenses was $12.5 million. Below is a breakdown by facilities in the Maui Region.

Unaudited - (amounts in millions)	MMMC	Kula	Lanai	Maui Region
Net Operating Revenue	$ 206.3	$ 18.8	$ 3.6	$ 228.7
Operating Expense	239.0	22.4	5.4	266.8
Operating Loss	**(32.7)**	**(3.6)**	**(1.8)**	**(38.1)**
Non-Operating Revenue, Corporate Allocate, State Appropriations	41.2	7.0	2.4	50.6
Net Profit (Loss)	**$ 8.5**	**$ 3.40**	**$ 0.60**	**$ 12.5**

In FY14, the Maui Region made several investments in plant improvements and clinical equipment.

PATIENT CENSUS

MMMC

Admissions – 11,512
Births – 1,705
ER Visits (not admitted) – 35,757
Patient Days – 57,902

Kula Hospital

Admissions – 99
Patient Days –29,316
ER Visits –2,368

Lanai Community Hospital

Admissions – 21
Patient Days –3,725
ER Visits - 1173

HIGHLIGHTS

Awards*

****Get With The Guidelines Gold Plus – Stroke and Heart Failure***

MMMC received the Get With The Guidelines® Stroke Gold Plus Quality Achievement Award from the American Heart Association/ American Stroke Association and also the Heart Failure Gold Plus Quality Achievement Award. This marks the sixth year that MMMC has been recognized with a quality achievement award for heart care and the third year that it has been recognized for stroke care. MMMC also received a Stroke Target Level Award.

***Joint Commission - 2013 Top Performer on Key Quality Measures**
MMMC was recognized as a 2013 *Top Performer on Key Quality Measures*® by The Joint Commission, the leading accreditor of health care organizations in the United States. MMMC was recognized as part of The Joint Commission's 2014 annual report *"America's Hospitals: Improving Quality and Safety,"* for attaining and sustaining excellence in accountability measure performance for: heart attack, heart failure, pneumonia and surgical care. MMMC is one of 1,224 hospitals in the United States to achieve the 2013 *Top Performer* distinction.

***Mission Lifeline Award**

Per the Hawaii Health Information Consortium, MMMC was also noted for the lowest readmission rates in Hawaii for Acute Myocardial Infarction (Heart Attack) and Pneumonia.

Electronic Medical Records (EMR)
The MMMC EMR Project went live in March of 2014. The system transitioned the hospital from paper-based records keeping to electronic. As part of the Hawaii Health Systems Corporation (HHSC) transition to EMR, the project will connect patient information across all facilities within HHSC, including MMMC.

Dialysis Unit Expansion
MMMC opened its new Dialysis Unit, which will expand services for the patients and community. The hospital first began offering renal dialysis services in 2002 after establishing a need for MMMC patients who required treatment within the hospital. The unit was quickly utilized and expanded although in different locations throughout the hospital due to size limitation. Now the dialysis center can serve up to nine patients at a time all inside the same unit.

Student Art Contest
MMMC held their third student art contest and reception for 18 very special young artists. Their work is now on display in the hospital.

LCH Auxiliary
A group of community members and Lanai Community Hospital staff started a hospital auxiliary program to benefit the patients, staff and Lanai community at large. The first project of installing a Serenity Garden is now well underway with cement walkways completed, foundation work and initial planting.

MMMC Patient Services
(Please add to the listing from previous year)
Cardio Thoracic Surgery
Percutaneous Coronary Intervention

Outpatient Clinics
Oncology
Gastroenterology
Cardiology
Orthopedics
Cardio-Thoracic Surgery
Psychiatry

EMPLOYEES

MMMC – 1396
KULA – 198
LANAI - 44

EAST HAWAII REGION

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 276-licensed beds, consisting of 142 acute and 22 skilled nursing licensed beds including a 20-bed psychiatric unit, a separate 134-bed licensed extended care facility and an accredited home care agency. Built in 1984, the facility sits on roughly 20.5 acres of land, next to the new 95-bed Yukio Okutsu Veterans Home, Hawaii's first State Veterans Home, and the previous site of the "old hospital." Today, HMC is the largest employer in Hilo, with 1,047 (FTE, FY14) 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, Orthopedics, Otolaryngology, Pain Management, and Urology. Efforts by our Chief Medical Officer and Medical Staff Office to recruit physicians in general and specialty areas are underway and ongoing.

HMC patient services include:

- 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

PATIENT CENSUS

- Admissions 9,015
- Patient Days 77,819
- Births 1,147
- ER Visits 43,703

COMMUNITY-BASED FOUNDATION SUPPORT OF EAST HAWAII REGION FACILITIES

- Total Private Donations - $448,000
- Total Fundraising – $89,000
- Total Federal/State/Private Grants – $141,000

TOTAL - $678,000

VOLUNTEER SERVICES

- Number of Active Volunteers: 63
- Number of Total Volunteer Hours: 13,512
- Volunteer Auxiliary Contributions: $0

Hale Ho'ola Hamakua (HHH), originally known as Honoka'a Hospital, has served the healthcare needs of the communities of Hamakua, North Hawaii and South Kohala since 1951. In November 1995, a new fifty-bed (50) facility was opened above the old hospital, to provide long-term-care services. The facility was renamed Hale Ho'ola Hamakua (Haven of Wellness in Hamakua) in 1997 to reflect its new focus.

HHH employs 114 (FTE, FY14) employees of which a significant number are residents of the area who were former employees or related to employees of the Hamakua Sugar Company that phased out in 1994. The Hamakua Sugar Company Infirmary, which became the Hamakua Health Center, provides primary care and behavioral health services to the community in a building owned and leased from HHH.

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:

- 11 Acute/SNF Swing Beds
- 66 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

PATIENT CENSUS

- Admissions 89
- Patient Days 22,450
- ER Visits 2,199

COMMUNITY-BASED FOUNDATION SUPPORT OF EAST HAWAII REGION FACILITIES:

- Total Private Donations - $7,450
- Total Fundraising – $6,850
- Total Federal/State/Private Grants - $1,000

TOTAL - $15,300

VOLUNTEER SERVICES

- Number of Active Volunteers: 7
- Number of Total Volunteer Hours: 1,858.50
- Volunteer Auxiliary Contributions to the Facility: $0

Ka`u Hospital, in Pahala, is a 21-bed facility with 16 long-term care beds and 5 acute beds with 54 (FTE, FY14) employees. It also operates a 24 hour 7 day a week Emergency Department. Replacing the last sugar plantation hospital on the island, Ka'u Hospital was built in 1971 to serve the needs of a vast rural area. There are no other hospitals within a 55-mile radius in any direction. As of July 2001, Ka'u Hospital was designated as a CAH (Critical Access Hospital). This is a federal designation given to small hospitals that provide essential emergency and acute services in remote areas to assist them with the financial burdens associated with their size and isolation. Adding to the spectrum of services provided by Ka’u Hospital, a Medicare certified Rural Health Clinic was established on the hospital campus in September of 2003.

The people of Ka’u truly support their hospital. Their partnership of volunteerism and fundraising has enabled Ka’u Hospital to make many improvements in appearance, functionality and medical equipment that the hospital would be unable to fund on its own. It is a true community hospital where staff work toward being the very best they can be for the people of Ka’u. Demand for services, particularly emergency services and long-term care has been growing steadily. Long-term care beds have been 100 percent occupied for the past two fiscal years with some patients waitlisted in our acute beds.

Services provided by Ka’u Hospital include:

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

PATIENT CENSUS

- Admissions 41
- ER Visits 2,594
- Patient Days 5,130

COMMUNITY- BASED FOUNDATION SUPPORT OF HHSC FACILITIES

- Total Private Donations - $4,158
- Total Fundraising - $14,421
- Total Federal/State/Private Grants - $ 0

TOTAL - $18,579

VOLUNTEER SERVICES

- Number of Active Volunteers: 11
- Number of Total Volunteer Hours: 1,518.5
- Volunteer Auxiliary Contributions: $ 0

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: Julie Tulang

Foundation Administrator: Lisa Rantz
lrantz@hhsc.org

Contact information:
Hilo Medical Center Foundation
www.hilomedicalcenterfoundation.com
1190 Waianuenue Avenue, Box 629
Hilo, HI 96720
Tel: 808-935-2957 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: Bradley Westervelt

Foundation Vice President/Director: Wayne Kawachi

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

2014 Legislative Brief

Hawaii Health Systems Corporation East Hawaii Region Accomplishments

On behalf of the East Hawaii Region of Hawaii Health Systems Corporation (HHSC), we are pleased to submit our report highlighting the accomplishments in fiscal year 2014. The report is organized into five operational pillars of excellence: People, Quality, Service, Growth and Finance.

The East Hawaii Region includes Hilo Medical Center's (HMC) acute and long term care facilities, its twelve outpatient clinics, critical access hospitals Hale Ho`ola Hamakua and Ka`u Hospital, and the Yukio Okutsu State Veterans Home.

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

People

The East Hawaii Region welcomed new Board Members – David Camacho, M.D., Kurt Corbin, Mike Middlesworth, Dennis Nutting, Joseph Skruch and John Uohara, M.D., and gratefully acknowledged the service of former Board Chair Robert Irvine, M.D., and Board members Brian Iwata, Craig Shikuma, M.D., Brenda Ho, Christine Beck, Diana Van De Car, Susan Hunt and Carol Myrianthis.

East Hawaii welcomed approximately 20 new physicians to the community whose specialties include Nephrology, Psychiatry, Pain Management, Emergency Medicine, and Radiology. In addition, the first three residents joined the Hawaii Island Family Medicine Residency Program along with the fourth and final faculty member, specially trained in Obstetrics.

For the fourth year in a row, HMC also conducted a nursing development program, which resulted in the hiring of 18 recent graduates, many from local nursing schools.

Quality

Awards and Recognition

Hilo Medical Center, Ka`u Hospital, and Hale Ho`ola Hamakua were recipients of numerous awards and recognition in FY 2014.

As a result of the East Hawaii Region's facilities successfully attested to the American Recovery and Reinvestment Act (ARRA) Meaningful Use Stage 2, Hale Ho`ola Hamakua received $119,000 in incentive funds from Medicare.

The Region also achieved the Healthcare Information and Management Systems Society's (HIMSS) Analytics® *Electronic Medical Record Adoption Model*℠ *Stage 7* in January 2014. HHSC's East Hawaii Region is one of only two hospital systems in the State to achieve *Stage 7* and is among the less than 1.9% of hospitals in the United States to have attained *Stage 7*. East Hawaii Region began its implementation of the MEDITECH electronic medical records system at Hilo Medical Center in May 2010 and continued implementation to all of its outpatient clinics and critical access hospitals.

In 2014, Hilo Medical Center also received the American Heart Association's *Get with the Guidelines' Silver Award* for treatment of heart failure.

HMC's Long Term Care services received Providigm's *Quality Assurance & Performance Improvement Accredited Facility Award* and its *Embracing Quality Award for the Prevention of Hospital Readmissions*. HMC was also the recipient of the American Health Care Association's *2014 Three Tier Level Quality Initiative Recognition Program Award* for its achievement in safely reducing hospital readmissions, and off-label use of antipsychotics as well as increasing customer satisfaction.

Quality Improvements
In addition to the awards and recognition it received, Hilo Medical Center is participating in a number of projects that are significantly improving the quality of healthcare and preventive care in East Hawaii.

HMC instituted Bedside Reporting to have nurses and patients review the care plan at shift change. This practice allows for clearer communication and improved patient input. To address the Patient Satisfaction goal of reducing noise levels in the hospital, HMC introduced the Maluhia Program to promote patients' recovery and reduce their length of stay.

HMC began an IV resource team comprised of a group of "sharp shooters" to assist and handle patients with difficult IVs. HMC also developed a "best practice" protocol for a pneumonia order set to alert physicians of the best course of treatment.

HMC improved the quality of care for its patients by continuing its successful hand washing program with caregiver hand washing compliance at 85% or higher over the last 18 months. This was a marked improvement from the starting point of 40% at the beginning of the project. The hospital also improved its flu vaccination rate among clinical staff from 55% to 72%, one of the highest in the state.

Patients continue to benefit from the activation protocols instituted by the Trauma Program, which now applies to patients who present with sepsis, one of the leading causes of death in hospitals. The Sepsis Activation alerts members of the Sepsis Team who respond, evaluate and care for patients who present with a possibly life-threatening condition. HMC also utilized a "best practice" that was modeled after the

Johns Hopkins Comprehensive Unit-based Safety Program (CUSP) Team. HMC assembled multidisciplinary, patient safety teams of frontline staff on the nursing units that identify what's working and what's not in order to improve patient care.

HMC achieved consistent Core Measure compliance over the past year at or greater than 85-90%; zero ventilator associated pneumonia cases and central bloodstream infections over a 48-month period; and succeeded in decreasing its Emergency Department's average wait time to under 20 minutes despite averaging 120 patient visits per day. The Emergency Department (ED) also managed to achieve patient satisfaction in the top third of EDs in the nation. HMC developed an online event reporting system within the electronic medical records that allows the hospital to respond faster to patient concerns.

Service

In June 2014, Hilo Medical Center's Trauma Program was recertified as a Level III Trauma Center. Since 2010 HMC has mobilized its Trauma Activation Team over 1,000 times and cared for over 1,600 trauma patients. 96% of the nurses in the Emergency Department received trauma nursing certification.

Growth

In 2014 the East Hawaii Region continued its efforts to close the gap in physician coverage for the next 5 years. HMC is tackling the significant shortages existing in Primary Care and Psychiatry. The Hawaii Island Family Medicine Residency Program received accreditation and welcomed the first class of residents in July 2014. HMC also welcomed a psychiatrist to assist in coverage at the hospital's Behavioral Health Unit.

Ka'u Hospital completed its renovation using capital improvement program (CIP) funds awarded to improve and maintain the air quality in the hospital. This CIP project involved the replacement of the roof, doors and windows, plus installation of air conditioning and filtration. The project advanced in phases with each phase requiring part of the hospital to be closed and affected patients relocated for several months at a time. The hospital's appearance and function has significantly improved.

Finance

Hilo Medical Center

Total Operating Revenue for FY 2014 was \$145M compared to a budget of \$142M. FY 2014 Total Operating Expense was \$177M versus a budget of \$168M. Operating Income (Loss) for FY 2014 was (\$31M) compared to a budget of (\$27M). After Corporate overhead and other appropriations, the Net Income (Loss) was (\$7.6M) versus a budget of (\$7.4 M). Data provided is unaudited.

Hale Ho'ola Hamakua

Total Operating Revenue for FY 2014 was $12.5M compared to a budget of $9.7M. FY 2014 Total Operating Expense was $15.3M versus a budget of $12.7M. Operating Income (Loss) for FY 2014 was ($2.7M) compared to a budget of ($3.0M). After Corporate overhead and other appropriations, the Net Income was $0.9M versus a budget of $0.7M. Data provided is unaudited.

Ka'u Hospital

Total Operating Revenue for FY 2014 was $6.8M compared to a budget of $5.6M. FY 2014 Total Operating Expense was $7.8M versus a budget of $8.4M. Operating Income (Loss) for FY 2014 was ($1.0M) compared to a budget of ($2.8M). After Corporate overhead and other appropriations, the Net Income was $2.6M versus a budget of ($1.0M). Data provided is unaudited.

WEST HAWAII REGION

Kona Community Hospital, the primary health care facility serving West Hawaii, is a 94-bed full service medical center and designated Level III Trauma Center; 51 beds Medical Surgical acute; 18 beds certified Skilled Nursing; 4 labor beds and 6 postpartum beds in the Obstetrics unit; 11 beds behavioral health unit; and, a 9 bed intensive care unit. It is located in Kealakekua, Kona, and 18 miles south of Kona International Airport. The hospital has expanded considerably from its initial wooden structure with 52 beds built in 1941. It is currently housed in a three-story structure constructed in 1975.

This facility employs 415 (FTE, FY14) employees. There are over 69 active medical staff members representing a wide variety of medical specialties. Patient services include:

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

PATIENT CENSUS

- Admissions 3534
- Patient Days 17,681
- Births 528
- ER Visits 20,759

COMMUNITY- BASED FOUNDATION SUPPORT OF HHSC FACILITIES

- Total Private Donations - $16,773
- Total Fundraising - $400,634
- Total Federal/State/Private Grants - $86,475

TOTAL - $503,882

VOLUNTEER SERVICES

- Number of Active Volunteers: 50
- Number of Total Volunteer Hours: 6,504

- Volunteer Auxiliary Contributions: $25,650

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 56 (FTE, FY14) employees, has 26 licensed acute and long-term care beds, and as a critical access hospital provides the following services:

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

PATIENT CENSUS

- Number of Admissions: 20
- Patient Days: 7135
- Emergency Visits: 1700

COMMUNITY- BASED FOUNDATION SUPPORT OF HHSC FACILITIES

- Total Private Donations - $136,417.79
- Total Fundraising - $574.12
- Total Federal/State/Private Grants - $35,193.26

TOTAL - $172,185.17

VOLUNTEER SERVICES

- Number of Active Volunteers: 2
- Number of Total Volunteer Hours: 988
- Volunteer Auxiliary Contributions: $1029.50

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 Vice Chair: Judith Ann Nakamaru

Contact information:
Kona Hospital Foundation
79-1019 Haukapila Street
Kealakekua, HI 96750
Tel: 808-322-9311 Fax: 808-322-6963

Kohala Hospital Charitable Foundation

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

Foundation President: Giovanna Gherardi
Foundation Vice President: Rhoady Lee

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

Hawaii Health System Corporation
West Hawaii Region
July 1, 2013 – June 30, 2014

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

Kona Community Hospital

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

The staff includes over 415 highly skilled employees; many have been with our hospital for over 20 years. KCH has 203 medical staff practitioners. We also are one of the largest employers in West Hawaii.

Kohala Hospital

Kohala Hospital is a 26-bed Critical Access Hospital (CAH), founded in 1917, that serves the population of North Kohala. Located in Kapaau, Kohala Hospital (KOH) employs 56 full-time, part-time and casual-hire employees. With 22 beds dedicated to Long Term Care, KOH provides emergency services, outpatient lab, radiology and EKG services, inpatient short-stay acute care and inpatient rehab services. There are emergency physicians on-call at all times, servicing more than 1600 emergency room patients per year.

AWARDS AND ACCOLADES

- Kona Community Hospital was voted Best Hospital in West Hawaii in the 2014 West Hawaii Today "Best Of" poll.
- Kohala Hospital received an overall 5.0 Star Overall and Quality Rating on Medicare's Nursing Home Compare.

PEOPLE

The Board of Directors of the West Hawaii Region welcomed new Board member, Reed Flickinger.

Sean McCormick, RN joined the West Hawaii regional management team as Regional Compliance and Privacy Officer/Risk Manager. David Frazier joined the team as the Manager of Information Technology.

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

QUALITY

KCH successfully completed its recertification for a Level III trauma center designation. KCH has been a Level III Trauma Center since 2011. This designation increases efficiency in the treatment of traumatic injury and better equips KCH to reduce death rates from trauma. The Trauma Center averages of 12 trauma activations per month.

In Fiscal Year 2014, KCH implemented the American Heart Association's Mission Lifeline: STEMI and Cardiac resuscitation system. This evidence-based ST segment Elevation Myocardial Infarction (STEMI) system of care improves survival rates for heart attack patients.

KCH is preparing for a Baby-Friendly Hospital certification visit. This certification satisfies requirements of a worldwide breastfeeding quality improvement initiative created by the World Health Organization (WHO) and the United Nations Children's Fund (UNICEF).

Other KCH programs offer community and patient engagement:

- Metabolic and Bariatric Weight Loss program. The only comprehensive weight loss program on Hawaii Island provides medical and surgical weight loss options to manage obesity and comorbid conditions.
- KCH is an American Heart Association certified training center, providing courses for the Public as well as thcare Providers in: ACLS (Advanced Cardiac Life Support), BLS (Basic Life Support, PALS (Pediatric Advanced Life Support, and PEARS (Pediatric Emergency Assessment, Recognition and Stabilization) as well as ECG & Pharmacology.
- Certified childbirth educators from our Women's Services Unit offer six-week prenatal education classes for expectant mothers to improve the labor experience.
- Training is on-going for the implementation of ICD-10.

PHYSICIAN RETENTION & RECRUITMENT

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

Kona Community Hospital has approximately sixty-nine active physicians representing 26 specialties on its medical staff. In FY 2014, we saw additions of three permanent medical staff – all in the field of obstetrics.

Hospitalist group, Sound Physicians began providing comprehensive hospitalist services in June, 2013. Their approach to hospital medicine utilizes proven tools including a workflow and informatics platform and processes to improve inpatient quality and care outcomes, as well as financial performance. As of FYE 2014, Sound Physicians employed a team of six physicians and a dedicated hospitalist RN. They are currently recruiting a Nurse Practioner to support hospitalist activities.

Sound Physicians recently implemented a Bedside Patient Feedback program to collect real-time feedback from patients during their hospital stay. This patient satisfaction tool highlights bright spots as well as areas of opportunity for improvement while the patient is in the hospital. This program has been positively received by patients and Hospitals alike.

Hawaii County presently has a -33% physician shortage. Recruiting and retention of permanent physicians to our community remains a challenge. We continue to address this deficit with a progressive recruitment and retention plan in collaboration with our non-profit affiliate, Ali'i Health Center.

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

PARTNERSHIPS & AFFILIATIONS

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

- Ali'i Health Center
- HHSC (Hawaii Health Systems Corporation)
- Hawaii Life Flight
- Kona Ambulatory Surgery Center
- Kona Community Hospital Auxiliary
- Kona Hospital Foundation
- Maui Memorial Medical Center's Maui Heart & Vascular

KCH is in the final stages of implementing the Hawaii Stroke Network Project operated by the Queens Medical Center in order to improve the quality of care and outcomes for acute stroke patients. This program will provide 24/7/365 tele-consultation for acute stroke patients within a stroke system of care.

Kona Hospital Foundation raises monies for new medical technology, expanded services and enhanced facilities for KCH. The Foundation successfully concluded its campaign to raise funds to upgrade and purchase new operating room technology with the following purchases:

- Video laryngoscope and neoprobe
- Flexible intubation scopes
- Two anesthesia machines and pressure infuser irrigators
- Co2 monitor for the respiratory therapy department

The Foundation's newest campaign to upgrade the hospital's Cancer Center is off to a great start, with the purchase of a golf cart to transport patients between the Medical Oncology Clinic and the Infusion Center, and the planned expansion of the Medical Oncology clinic.
Kona Community Hospital Auxiliary provides a volunteer support base for service and fund-raising. Their primary mission is to fund nursing scholarships. In FY 2014, fifty active volunteers provided 6504 hours of service. The Auxiliary funded 5 nursing scholarships and purchased a Panda Baby Warmer for the Obstetrics Unit.
Kohala Hospital Volunteer Services provides volunteer support for resident activities. In FY 2014, two active volunteers provided 825 hours of service to the hospital. The Auxiliary raised $4000.

FACILITIES

At Kona Community Hospital, Capital Improvement Project (CIP) funded projects and improvements are on-going. Fiscal year 2014 included ten major capital improvement projects

- Installation of two new Carrier main chillers
- Re-roofing over Emergency Department and Admitting
- Renovation of endo-scope instrument cleaning room and equipment
- Medical Surgical unit asbestos abatement
- Installation of new flooring on Med/Surg unit and hallways
- OB unit labor room specialty lights in the ceilings
- Phase 1 new door installation throughout hospital
- Cat Scan upgrade and room renovation
- Phase 2 of seismic ceiling replacement project with stainless steel grid and healthcare grade ceiling tiles
- Electrical panel upgrades for second floor
- Restriping and sealing of all the asphalt parking areas.

At Kohala Hospital, renovations and upgrades have progressed. State CIP dollars are funding the Emergency Department renovation and relocation project.

CLINICAL SERVICES & TECHNOLOGY

KCH partners with Maui Memorial Medical Center to operate the Maui Heart and Vascular Kona Clinic. The clinic's non-invasive cardiologist continues to see an average of 7-10 patients per clinic day. A thoracic surgeon provides once-a-month consulting and referral services.

KCH continued its contract with Hawaii Life Flight to operate a medically equipped, over-water helicopter. This partnership has reduced emergency transit times from the 4 hours it previously took to transport a patient to Oahu, to approximately one hour. Transport time to Maui is down to 35 minutes. Monthly, KCH has an average of 25 Hawaii Life Flight activations.

In FY 2014, Kona Community Hospital's Mobile Medical Van was highly successful in the Ka`u District. HMSA provided operating funds for a two year period. KCH contributed medical expertise and staff to coordinate services. Services were provided at the Pahala Elementary School campus and in the Ocean View community. Services focused on screening, testing, prevention education, immunizations and school physicals.

ELECTRONIC MEDICAL RECORDS

KCH and KOH were the first in the HHSC system to convert to EMR. Primary challenges included infrastructure upgrades to support the new and expanded use of technology, staffing and other resources. These are ongoing challenges as we recognize opportunities to standardize and implement best-practices across the system in different care settings – acute, long term care and critical access

- West Hawaii Region successfully attested to Year 1, Stage 1 Meaningful Use requirements for the CMS Incentive Program.
- Along with HHSC, the West Hawaii Region launched *my*Health Patient Portal. As required by CMS, the patient portal gives patients access to their personal hospital medical records. It also prepares us for the upcoming Health Information Exchange (HIE) that patients and physicians can use together.
- Although certain aspects of the EMR remain challenging, the overall result has been an improvement in patient care and safety.

FINANCIAL

At KCH, inpatient volumes decreased by 5% in FY 2014, while outpatient volumes increased by 5% resulting in same revenues as prior year. Surgery volumes increased again by 27% over previous year. Medicare reimbursements were reduced by 2% from previous year due to mandated federal reductions.

For the fiscal year 2014, KCH operating losses were $19 million offset by $14 million in state appropriations and $5 million in capital contributions, resulting in a break-even net income.

The Kohala Hospital Revenue Cycle Team continues to focus on reducing challenges from QExA payors for inaccurate reimbursements. The revenue cycle team helped trim gross A/R from 99 to 53 days after EMR implementation (goal 40 days). Training is ongoing for the upcoming implementation of ICD-10 for Quest Integration.

KCH launched a 9-month performance improvement initiative called "*Preparing for the Future.*" The project goal is to identify and implement sustainable financial and operational performance enhancements and cost savings initiatives to improve financial performance and patient care. Focus areas include Revenue Cycle, Non-Labor, Labor, Clinical Operations and Physician Services. As of FYE 2014, three months into the initiative, the project has identified and implemented a total savings of $3.7 million.

The West Hawaii Region is projecting financial challenges based on a number of root causes:

- Ongoing decreased reimbursement from Medicare, Medicaid and third party payers
    - New government regulations: EMR, Sequestration, Affordable Care Act
- Labor and benefits costs at 79% of net revenue
- 5% reduced state funding allocation
- Mandated funding of state retiree health benefits beginning in 2015 adding $4 million obligation to the West Hawaii Region.

The West Hawaii Region continues to provide comprehensive community health care. We have implemented a wide range of strategies that are producing better patient outcomes, delivering new clinical services and creating strong community partnerships. With a strong leadership team in place along with the dedication of employees, physicians, volunteers, foundation and its Board, the Region has made progressive advancements. We continue to innovate in order to provide exceptional patient care. Although we face critical financial challenges moving into 2015, we are focused on projects and initiatives that will match the evolving health care needs of West Hawaii.