Report to the Legislature
Hawaii Health Systems Corporation Annual Audit and Report for FY2015;
Pursuant to Section 323F-22(a) and (b), Hawaii Revised Statutes

Hawaii Health Systems Corporation (HHSC) is pleased to submit this Report to the Legislature ("Report") in accordance with section 323F-22, Hawaii Revised Statutes ("HRS"), relating to Hawaii Health Systems Corporation Annual Audit and Report. This Report includes (a) projected revenues for each health care facility for FY2016 and a list of capital improvement projects planned for implementation in FY2017; and (b) regional system reports from the respective boards of director for each region.

The HHSC network of hospitals and clinics provide high quality healthcare services to residents and visitors throughout 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 system. 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, and 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, private, 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.

In Fiscal Year 2015, HHSC hospitals provided a total of the following: 21,676 acute care admissions and 1,187 long-term admissions; 118,850 acute care patient days and 239,285 long-term care patient days; and 119,225 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.

HHSC’s 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;

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

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

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

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

HHSC provides accessible and affordable high quality healthcare in all communities we serve. We have continued to develop and improve our clinical and non-clinical quality programs, consistently putting into practice initiatives that have provided the system with measurable solutions for improving quality of healthcare services. 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 acute care hospitals. HHSC is performing well with Centers for Medicare and Medicaid performance measures and also continues its long-standing participation with Hawaii Medical Services Association (HMSA) Hospital Quality and Service Recognition programs that offer financial incentives for meeting performance indicators related to patient care quality.

HHSC continues to implement its advanced electronic health record (EHR) system, the HHSC EMeRGE (Electronic Medical Record Gaining Efficiency) Project, is making significant progress. This year the Kauai Region completed a successful implementation and continues 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.

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 FY2015 milestones include the following:

During Fiscal Year 2015 HHSC struggled to maintain its financial stability in the midst of continuing reductions in reimbursements at the federal level, costs of compliance with unfunded federal mandates such as the ICD-10 conversion, 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 2015, HHSC recorded $106,440,000 in general funds for operations (including a $15,000,000 emergency appropriation), $12,000,000 in general funds for collective bargaining raises, and $24,981,000 in capital contributions from the State of Hawaii. Despite the increase in general fund appropriations, HHSC’s facilities ended fiscal year 2015 with only 48 days cash on hand, as compared to the median for other state government hospitals of 98 days cash on hand. HHSC as a whole also ended fiscal year 2015 with 51 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 continue to depend on general funds to operate.

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.

Respectfully submitted,

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

Edward N. Chu
Chief Financial Officer

Attachments:

1. Projected FY2016 Revenues
2. CIP Expenditures FY2017
3. HHSC Consolidated Audited Financial Statement, FY 2015
4. Regional Board Reports, FY2015
HAWAII HEALTH SYSTEMS CORPORATION
PROJECTED REVENUES FOR FISCAL YEAR 2016
AMOUNTS IN $'000'S
NOTE: Amounts represent estimated cash collections, not accrual basis revenues

<table>
<thead>
<tr>
<th>Location</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hilo</td>
<td>161,239</td>
</tr>
<tr>
<td>Hamakua</td>
<td>11,282</td>
</tr>
<tr>
<td>Ka'ū</td>
<td>8,123</td>
</tr>
<tr>
<td>Kona</td>
<td>68,662</td>
</tr>
<tr>
<td>Kohala</td>
<td>7,644</td>
</tr>
<tr>
<td>Maui</td>
<td>213,824</td>
</tr>
<tr>
<td>Kula</td>
<td>21,914</td>
</tr>
<tr>
<td>Lanai</td>
<td>3,488</td>
</tr>
<tr>
<td>KVMH</td>
<td>32,668</td>
</tr>
<tr>
<td>SMMH</td>
<td>16,281</td>
</tr>
<tr>
<td>Leahi</td>
<td>13,789</td>
</tr>
<tr>
<td>Maluhia</td>
<td>13,522</td>
</tr>
</tbody>
</table>

**TOTAL** | **572,436**
<table>
<thead>
<tr>
<th>Project Title</th>
<th>FY 17 Biennium</th>
<th>FY 17 Supplemental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kula Hospital Energy Efficiency</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>Kula Hospital AC Improvements</td>
<td>400,000</td>
<td></td>
</tr>
<tr>
<td>Lanai Community Hospital Plumbing and Facility Improvements</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>Kula Hospital Exterior and Ward Room Repairs</td>
<td>2,000,000</td>
<td></td>
</tr>
<tr>
<td>KVMH - Radiology Equipment Replacement</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>KVMH - Bed Replacement</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>SMMH - Bed Replacement</td>
<td>200,000</td>
<td></td>
</tr>
<tr>
<td>KVMH - Electrical Upgrades</td>
<td>1,100,000</td>
<td></td>
</tr>
<tr>
<td>SMMH - Dental Office Equipment Replacement</td>
<td>32,000</td>
<td></td>
</tr>
<tr>
<td>SMMH - Resurfacing Parking Lot</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td>KVMH - Irrigation System Upgrade</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td>Kona Community Hospital - Hospital renovations</td>
<td>2,592,000</td>
<td></td>
</tr>
<tr>
<td>Hilo Medical Center - Hospital and Clinic repair, maintenance and renovations</td>
<td>798,298</td>
<td></td>
</tr>
<tr>
<td>Kona Community Hospital - Mechanical and Electrical Upgrades</td>
<td>374,668</td>
<td></td>
</tr>
<tr>
<td>Maluhia - Spalling Repairs and Repainting of Hospital</td>
<td>600,000</td>
<td></td>
</tr>
<tr>
<td>Maluhia - Repair CMU Wall and Reroute Gas Line</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Maluhia - Upgrade Patient Rooms</td>
<td>532,034</td>
<td></td>
</tr>
<tr>
<td>Leahi Hospital - Upgrade Patient Rooms</td>
<td>471,000</td>
<td></td>
</tr>
<tr>
<td>Kona Community Hospital, Ceiling Mitigation Phase III and Chilled Water HVAC Units Replacement</td>
<td>3,000,000</td>
<td></td>
</tr>
<tr>
<td>Kona Community Hospital, Wastewater Treatment Expansion, Phase 11</td>
<td>3,500,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12,000,000</strong></td>
<td><strong>6,500,000</strong></td>
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</tbody>
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Hawaii Health Systems Corporation

Financial Report
with Supplemental Information
June 30, 2015
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<th>Page(s)</th>
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<td>Statement of Net Position (Deficit) of Facilities</td>
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<tr>
<td>of Facilities</td>
<td></td>
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<td>Required Supplemental Information</td>
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<td>Schedule of Contributions - Employees' Retirement System of the State</td>
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<tr>
<td>of Hawaii</td>
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<td>Schedule of the Proportionate Share of the Net Pension Liability</td>
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<td>Employees' Retirement System of the State of Hawaii</td>
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<td>Notes to Pension Required Supplemental Information Schedules</td>
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<td>Report on Internal Control Over Financial Reporting and on Compliance</td>
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<td>and Other Matters Based on an Audit of Financial Statements Performed</td>
<td></td>
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<tr>
<td>in Accordance with Government Auditing Standards</td>
<td></td>
</tr>
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<td>Schedule of Findings</td>
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</tbody>
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Independent Auditor’s Report

To the Board of Directors
Hawaii Health Systems Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Health Systems Corporation (HHSC), a component unit of the State of Hawaii, as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise HHSC’s financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of HHSC as of June 30, 2015 and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.
To the Board of Directors
Hawaii Health Systems Corporation

Emphasis of Matter

As discussed in Note 1, the financial statements present only HHSC (a component unit of the State of Hawaii) and do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2015 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, in 2015, HHSC has adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

Other Matters

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, GASB Statement No. 68 - NPL Changes - Cost Sharing, and GASB Statement No. 68 - Pension Contributions - Cost Sharing, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.
To the Board of Directors
Hawaii Health Systems Corporation

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2015 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 29, 2015
Hawaii Health Systems Corporation

Management’s Discussion and Analysis

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, 2015 and 2014. Please read it in conjunction with the Corporation's financial statements, which begin on page 13.

Using this Annual Report

The Corporation’s financial statements consist of three statements: (a) a statement of net position, (b) a statement of revenue, expenses, and changes in net position, and (c) a statement of cash flows. These financial statements and related notes provide information about the activities of the Corporation, including resources held by the Corporation but restricted for specific purposes. It is important to note that as of July 1, 2014, the Corporation implemented a new accounting standard, GASB 68, which is reflected in the amounts shown below for 2015. The amounts for the year ended June 30, 2014 do not contain the impact of GASB 68.

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

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

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

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as, "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"
Hawaii Health Systems Corporation
Management’s Discussion and Analysis (Continued)

The Corporation's Net Position

The Corporation's net position is the difference between its assets plus deferred outflows and liabilities plus deferred inflows reported in the statement of net position. The Corporation's net position increased by $22,109,899 after restatement in 2015 for GASB 68 and increased by $6,647,575 (15 percent) in 2014, as you can see from the following table.

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

Summarized financial information of HHSC’s statement of net position as of June 30, 2015 and 2014 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$ 292,659,374</td>
<td>$ 255,840,029</td>
</tr>
<tr>
<td>Capital assets - Net</td>
<td>363,310,339</td>
<td>354,422,174</td>
</tr>
<tr>
<td>Other assets</td>
<td>7,150,602</td>
<td>23,384,323</td>
</tr>
<tr>
<td><strong>Total assets and deferred outflows</strong></td>
<td><strong>$ 731,413,550</strong></td>
<td><strong>$ 633,646,526</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$ 128,278,636</td>
<td>$ 157,464,327</td>
</tr>
<tr>
<td>Other postemployment liability</td>
<td>338,248,725</td>
<td>302,156,349</td>
</tr>
<tr>
<td>Due to the State of Hawaii</td>
<td>34,122,507</td>
<td>34,122,504</td>
</tr>
<tr>
<td>Accrued pension obligations</td>
<td>583,997,239</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>88,630,726</td>
<td>90,223,609</td>
</tr>
<tr>
<td><strong>Total liabilities and deferred inflows</strong></td>
<td><strong>1,240,431,437</strong></td>
<td><strong>583,966,789</strong></td>
</tr>
<tr>
<td><strong>Deferred Inflows</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td><strong>(509,017,887)</strong></td>
<td><strong>49,679,737</strong></td>
</tr>
<tr>
<td><strong>Total liabilities, deferred inflows, and net position</strong></td>
<td><strong>$ 731,413,550</strong></td>
<td><strong>$ 633,646,526</strong></td>
</tr>
</tbody>
</table>
Hawaii Health Systems Corporation

Management’s Discussion and Analysis (Continued)

At June 30, 2015 and 2014, HHSC’s current assets approximated 40 percent of total assets. Current assets increased approximately $36.8 million in 2015 due to increases in cash of $30.8 million and Due from State of Hawaii CIP funds of $16.1 million. These increases are offset by a decrease in third-party payor settlements of $13.4 million. 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 for both 2015 and 2014 are primarily due to various factors, as reflected in the statement of cash flows. The increase in due from State of Hawaii CIP funds for both 2015 and 2014 is due to additional unexpended appropriations from the State of Hawaii for capital improvements. The decrease in estimated third-party payor settlements in 2015 is primarily attributable to the timely payment of uncompensated care revenues and significant settlements of prior year cost report filings, primarily for the three acute facilities in HHSC. The decrease in estimated third-party payor settlements in 2014 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.

At June 30, 2015 and 2014, HHSC’s current liabilities were approximately 10 and 27 percent of total liabilities, respectively. The primary reason for the decrease in current liabilities in 2015 of $29.2 million is due to a $16.7 million decrease in accounts payable and accrued expenses and a decrease in the current portion of long-term debt of $12.6 million. The decrease in accounts payable and accrued expenses is primarily due to the savings realized from HHSC’s contingency plans, increases in cash collections, and cost reporting and other settlements from third-party payors, which allowed HHSC to pay down previously extended accounts payable. The decrease in current portion of long-term debt is due to the refinancing in January 2015 of Maui Memorial Medical Center’s (MMMC) series 2013 bond issuance through the issuance of Revenue Bond Number 3, which extended the payment term of the series 2013 bond issuance. 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 MMMC’s 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.

At June 30, 2015 and 2014, HHSC’s net position is reflected as its invested in capital assets, net of related debt, of approximately $305 million and $308 million, respectively. Total net (deficit) position was approximately $(509) million in 2015 and $50 million in 2014.
Hawaii Health Systems Corporation

Management’s Discussion and Analysis (Continued)

Capital Assets
At June 30, 2015 and 2014, HHSC’s capital assets, net of accumulated depreciation, comprised approximately 55 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 $8.9 million in 2015 and $14.1 million in 2014 is due primarily to ongoing construction projects, particularly the EMR project.

A summary of HHSC’s capital assets as of June 30, 2015 and 2014 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>$7,770,788</td>
<td>$7,492,341</td>
</tr>
<tr>
<td>Building and improvements</td>
<td>458,859,742</td>
<td>435,797,063</td>
</tr>
<tr>
<td>Equipment</td>
<td>238,381,691</td>
<td>222,277,212</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>32,120,301</td>
<td>34,784,628</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>737,132,522</td>
<td>700,351,244</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>(373,822,183)</td>
<td>(345,929,070)</td>
</tr>
<tr>
<td>Capital assets - Net</td>
<td>$ 363,310,339</td>
<td>$ 354,422,174</td>
</tr>
</tbody>
</table>

Long-term Debt and Capital Lease Obligations
At June 30, 2015 and 2014, HHSC had long-term debt and capital lease obligations totaling approximately $66.6 million and $77.0 million, respectively. The decrease of $10.4 million in 2015 was due to continuing payments on existing obligations with very little new issuances of capital lease obligations. 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. More detailed information about HHSC’s long-term debt and capital lease obligations is presented in the notes to the financial statements.
Hawaii Health Systems Corporation
Management’s Discussion and Analysis (Continued)

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, 2015 and 2014 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>$620,537,502</td>
<td>$576,459,900</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>311,684,721</td>
<td>294,619,025</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>168,013,909</td>
<td>168,934,781</td>
</tr>
<tr>
<td>Purchased services and professional fees</td>
<td>100,463,590</td>
<td>97,244,873</td>
</tr>
<tr>
<td>Medical supplies and drugs</td>
<td>76,988,122</td>
<td>76,151,543</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>37,180,988</td>
<td>31,962,968</td>
</tr>
<tr>
<td>Insurance</td>
<td>5,558,652</td>
<td>4,315,721</td>
</tr>
<tr>
<td>Other</td>
<td>65,688,088</td>
<td>63,857,888</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>765,578,070</td>
<td>737,089,799</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(145,040,568)</td>
<td>(160,629,899)</td>
</tr>
<tr>
<td>Nonoperating revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General appropriations from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>the State of Hawaii</td>
<td>106,440,001</td>
<td>108,540,395</td>
</tr>
<tr>
<td>Other nonoperating revenue - Net</td>
<td>12,547,965</td>
<td>12,021,284</td>
</tr>
<tr>
<td>Total nonoperating revenue</td>
<td>118,987,966</td>
<td>120,561,679</td>
</tr>
<tr>
<td>Excess of revenue under expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>before capital contributions</td>
<td>(26,052,602)</td>
<td>(40,068,220)</td>
</tr>
<tr>
<td>Capital contributions</td>
<td>48,162,501</td>
<td>46,715,795</td>
</tr>
<tr>
<td>Increase in net position</td>
<td>$22,109,899</td>
<td>$6,647,575</td>
</tr>
</tbody>
</table>

For the years ended June 30, 2015 and 2014, HHSC’s operating expenses exceeded its operating revenue by $145.0 million and $160.6 million, respectively. General appropriations from the State of Hawaii totaled $106.4 million and $108.5 million, respectively. In addition, the appropriations from the State of Hawaii for capital contributions totaled $44.1 million and $46.7 million, respectively. These items, along with the other nonoperating revenue, contributed to an increase in net position of $22.1 million in 2015 and $6.6 million in 2014.
Operating expenses for the fiscal year ended June 30, 2015 were approximately 3.9 percent higher than 2014. Operating expenses for the fiscal year ended June 30, 2015 increased $28.5 million from fiscal year 2014, which was primarily due to increases in payroll expenses of $16.1 million and nonpayroll expenses of $12.4 million. The increase in payroll expenses is primarily due to collective bargaining pay increases as stipulated under bargaining unit contracts negotiated by the State of Hawaii, which were offset by contingency plan payroll savings of approximately $11.7 million, primarily through attrition and retirement savings. The increase in nonpayroll expenses is primarily due to $3.2 million in purchased services and professional fees and $5.2 million, with the remainder due to normal inflationary cost increases. The increase in purchased services and professional fees is primarily due to the use of consultants to assist in the implementation of the Siemens Soarian electronic medical records system and to perform helpdesk functions for the product, as well as consultants used to assist in the preparation of HHSC’s facilities for the conversion to the ICD-10 coding standard. The increase in depreciation expense is due to a full year of depreciation on the electronic medical records system at Maui Memorial Medical Center as opposed to only four months of depreciation in 2014, as well as the depreciation on the electronic medical records system at Kula Hospital and Lanai Community Hospital, which went live on the system in March 2015.

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

Fiscal year 2015 was a difficult year financially for HHSC. HHSC started the fiscal year with less than 30 days’ cash on hand and over 65 days in accounts payable despite receiving a $15 million emergency appropriation in June 2014. To make matters worse, during the 2014 State of Hawaii Legislative Session, HHSC had requested approximately $150 million in General Fund appropriations (excluding the appropriation for Kahuku Medical Center) for fiscal year 2015, and the Legislature appropriated approximately $102 million. The difference of $48 million was due to underfunding of collective bargaining pay raises negotiated by the Administration on HHSC’s behalf. HHSC was forced to absorb approximately $60 million in collective bargaining pay raises, and the State only provided $12 million in General Fund appropriations to cover those pay raises, leaving a funding deficit of $48 million.
Understanding the perilous financial situation it was facing, HHSC governance and management worked diligently to find savings to reduce the deficit without severely jeopardizing the healthcare services HHSC's facilities brought to their communities. Several items occurred that allowed HHSC to reduce the deficit to a much lower level, of which the ones with the largest dollar impact are highlighted in the following paragraph.

Contingency plans were developed by HHSC management that resulted in approximately $21.5 million in savings, primarily through attrition/retirement savings, revenue enhancements such as clinical documentation improvement and strategic pricing initiatives, and reductions in administrative costs. Included in these contingency plan savings is the closure of Maui Memorial Medical Center's adolescent psychiatric unit. Successful negotiations with commercial third-party payors were made, which brought in over $5 million in increased revenue than what was projected. Improvements in HHSC revenue cycle performance across the system were made which led to a reduction in net accounts receivable days of 1.8 days, resulting in approximately $2.7 million in additional cash flow. A one-time receipt of $10 million in catch-up interim settlements for HHSC's critical access hospitals from the formation of QUEST Integration was received, which will not be a reoccurring revenue source.

These events further reduced HHSC's funding deficit to approximately $15 million. During the 2015 State of Hawaii Legislative Session, HHSC requested an emergency appropriation of $15 million. The Legislature approved the $15 million emergency appropriation for HHSC in late April 2015, and HHSC received the funds from the emergency appropriation in early June 2015. The emergency appropriation funds were used to reduce HHSC's accounts payable balances, which had built up during the year.

In June 2015, the State Legislature passed Act 103, H.B. 1075, effective June 10, 2015, which authorized the Maui Region of HHSC to transfer the operation of its facilities to a new entity in order to mitigate future budget deficits. On September 23, 2015, the Maui Region of HHSC announced that it had selected Kaiser Permanente to proceed with negotiations with the governor for the management, operation, and provision of healthcare services at its facilities. On October 22, 2015, the governor announced that the State of Hawaii began negotiations with Kaiser Permanente for the provision of healthcare services at HHSC's Maui Region facilities, with the State Comptroller and Director of the Department of Accounting and General Services serving as lead negotiator for the State of Hawaii.
Hawaii Health Systems Corporation

Management’s Discussion and Analysis (Continued)

At the conclusion of the 2015 Legislative Session, the Legislature approved HHSC’s General Fund appropriation level (excluding Kahuku Medical Center) for FY 2016 at $105.9 million, but left the General Fund appropriation for FY 2017 at $85 million, both of which are substantially less than what HHSC received during fiscal year 2015 in combined General Fund appropriations. However, the Legislature also approved collective bargaining pay raises of varying percentages for all bargaining units, which are expected to cost HHSC $14.7 million in FY 2016 and another $16.6 million in FY 2017. Collective bargaining funding was provided for raises for units 3 and 4 only of $1.9 million for FY 2016 and $3.7 million for FY 2017. The results of the session left HHSC having to deal with a projected cash flow deficit of $49 million for FY 2016 and $86 million for FY 2017, primarily due to projected increases in the fringe benefit rate from 42 percent to 52 percent costing HHSC $34.7 million and collective bargaining pay raises costing HHSC $14.7 million. Given the repeated scenario of having to cut services in order to live within the confines of the State budget, HHSC management and governance developed a contingency plan to deal with the deficit.

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

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 Kiliuea Avenue, Honolulu, HI 96816.
## Hawaii Health Systems Corporation

### Statement of Net Position
**June 30, 2015**

### Assets and Deferred Outflows of Resources

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents - State of Hawaii (Note 2)</td>
<td>$ 3,277,318</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>83,207,293</td>
</tr>
<tr>
<td>Patient accounts receivable - Less allowance for doubtful accounts</td>
<td>87,213,757</td>
</tr>
<tr>
<td>of $37,682,593 (Note 2)</td>
<td></td>
</tr>
<tr>
<td>Investments (Note 3)</td>
<td>7,225,244</td>
</tr>
<tr>
<td>Supplies and other current assets</td>
<td>17,873,300</td>
</tr>
<tr>
<td>Due from the State of Hawaii (Note 5)</td>
<td>86,379,249</td>
</tr>
<tr>
<td>Estimated third-party payor settlements</td>
<td>7,483,213</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>292,659,374</td>
</tr>
<tr>
<td><strong>Capital Assets - Net</strong> (Note 4)</td>
<td>363,310,339</td>
</tr>
<tr>
<td><strong>Assets Limited as to Use</strong> (Note 2)</td>
<td>6,140,577</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td>1,010,025</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>663,120,315</td>
</tr>
<tr>
<td><strong>Deferred Outflows of Resources - Pension</strong> (Note 7)</td>
<td>68,293,235</td>
</tr>
<tr>
<td><strong>Total assets and deferred outflows of resources</strong></td>
<td>$ 731,413,550</td>
</tr>
</tbody>
</table>

See Notes to Financial Statements.
### Hawaii Health Systems Corporation

#### Statement of Net Position (Continued)

**June 30, 2015**

#### Liabilities and Net Position

##### Current Liabilities
- Current portion of long-term debt (Note 9) $1,657,630
- Current portion of capital lease obligations (Note 9) 9,484,120
- Accounts payable and accrued expenses 92,488,136
- Current portion of accrued workers' compensation (Note 10) 3,565,000
- Current portion of accrued vacation (Note 6) 19,533,493
- Estimated third-party payor settlements 194,756
- Other current liabilities 1,355,501

Total current liabilities 128,278,636

##### Long-term Debt - Less current portion (Note 9)

41,003,723

##### Capital Lease Obligation - Less current portion (Note 9)

14,455,146

##### Other Liabilities
- Accrued vacation - Less current portion (Note 6) 22,602,677
- Accrued workers' compensation - Less current portion (Note 10) 10,214,000
- Other postemployment benefit liability (Note 8) 338,248,725
- Due to the State of Hawaii - Less current portion (Note 5) 34,122,507
- Pension liability (Note 7) 583,997,239
- Patients' safekeeping deposits 295,357
- Other liabilities 59,823

Total liabilities 1,173,277,833

##### Deferred Inflows of Resources - Pension (Note 7)

67,153,604

Total liabilities and deferred inflows of resources 1,240,431,437

##### Net Position (Deficit)
- Net investment in capital assets 304,552,720
- Restricted for capital purchases (Note 2) 4,132,930
- Unrestricted (817,703,537)

Total net deficit (509,017,887)

Total liabilities and net position $731,413,550

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See Notes to Financial Statements.
Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2015

Operating Revenue
Net patient service revenue (net of provision for doubtful accounts of $31,268,645) $ 604,311,124
Other revenue 16,226,378

Total operating revenue 620,537,502

Operating Expenses
Salaries 311,684,721
Employee benefits 168,013,909
Medical supplies and drugs 76,988,122
Depreciation and amortization 37,180,988
Utilities 16,907,108
Repairs and maintenance 15,568,460
Other supplies 16,906,635
Purchased services 81,044,662
Professional fees 19,418,928
Insurance 5,558,652
Rent and lease 8,064,016
Other 8,241,869

Total operating expenses 765,578,070

Operating Loss (145,040,568)

Nonoperating Revenue (Expenses)
General appropriations from the State of Hawaii 106,440,001
Collective bargaining pay raise appropriation from the State of Hawaii 12,000,000
Loss on disposal of capital assets (361,388)
Restricted contributions 2,260,648
Interest expense (3,552,239)
Interest and dividend income 168,806
Other nonoperating revenue - Net 2,032,138

Total nonoperating revenue 118,987,966

Excess of Expenses Over Revenue Before Capital Contributions (26,052,602)

Capital Contributions 44,162,501

Restricted Capital Contributions 4,000,000

Increase in Net Position 22,109,899

Net Position - Beginning of year - As restated (Note 2) (531,127,786)

Net Position - End of year $ (509,017,887)

See Notes to Financial Statements.
Hawaii Health Systems Corporation

Statement of Cash Flows
Year Ended June 30, 2015

Cash Flows from Operating Activities
- Cash received from government, patients, and third-party payors $ 614,802,825
- Cash payments to employees for services (439,134,510)
- Cash payments to suppliers for services and goods (269,914,999)
- Other receipts from operations 16,226,378

Net cash used in operating activities (78,020,306)

Cash Flows from Noncapital Financing Activities
- Appropriations from the State of Hawaii 106,440,001
- Collective bargaining funding from the State of Hawaii 12,000,000
- Other nonoperating revenue - Net 4,292,786
- Repayment of advance from the State of Hawaii (2,000,000)

Net cash provided by noncapital financing activities 120,732,787

Cash Flows from Capital and Related Financing Activities
- Purchase of capital assets (14,987,010)
- Interest paid (3,552,239)
- Restricted capital contributions 4,000,000
- Repayments on long-term debt (14,130,845)
- Repayments on capital lease obligations (9,989,787)
- Proceeds from sale of assets 21,311
- Proceeds from issuance of long-term debt 12,346,609

Net cash used in capital and related financing activities (26,291,961)

Cash Flows from Investing Activities
- Interest income 168,806
- Decrease in short-term investments and assets limited as to use 14,208,107

Net cash provided by investing activities 14,376,913

Net Increase in Cash and Cash Equivalents 30,797,433

Cash and Cash Equivalents - Beginning of year 55,687,178

Cash and Cash Equivalents - End of year $ 86,484,611

Balance Sheet Classification of Cash and Cash Equivalents
- Cash and cash equivalents - State of Hawaii $ 3,277,318
- Cash and cash equivalents 83,207,293

Total cash and cash equivalents $ 86,484,611

See Notes to Financial Statements.
Hawaii Health Systems Corporation

Statement of Cash Flows (Continued)
Year Ended June 30, 2015

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

Cash Flows from Operating Activities

Operating loss $ (145,040,568)
Adjustments to reconcile operating loss to net cash from operating activities:
  Provision for doubtful accounts 31,268,645
  Depreciation and amortization 37,180,988
Changes in assets and liabilities:
  Patient accounts receivable (31,022,341)
  Supplies and other assets 1,478,445
  Accounts payable, accrued expenses, and other liabilities (20,239,021)
  Accrued workers' compensation liability 48,000
  Postemployment benefit liability 36,092,376
  Pension liability (54,371,554)
  Deferred outflows and inflows 56,421,639
  Estimated third-party payor settlements 10,245,397
  Accrued vacation (82,312)

Net cash used in operating activities $ (78,020,306)

Noncash Financing and Investing Activities

Assets acquired under capital leases and debt $ 1,447,410
Capital assets contributed by the State of Hawaii and others 28,183,907
Loss on disposal of capital assets 361,388
Change in due from the State of Hawaii 15,978,594

See Notes to Financial Statements.
Hawaii Health Systems Corporation

Notes to Financial Statements
June 30, 2015

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)

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

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

West Hawaii Region:
- Kona Community Hospital
- Kohala 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, 2015. 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 a voting member.

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

In June 2015, the Legislature passed Act 103, H.B. 1075, effective June 10, 2015, which allowed for the transition of the management of the Maui Region facilities to a new entity. In September 2015, HHSC - Maui Region announced it had entered into a letter of intent to affiliate of Kaiser Permanente, and is in the process of completing due diligence.

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, 2015, HHSC incurred losses from operations of approximately $145 million and had negative cash flows from operations of $78 million. Overall, days in accounts payable have decreased 10.0 days as compared to June 30, 2014 due to contingency plans prepared by management to decrease costs (primarily through attrition savings) as well as increases in reimbursement from negotiations with third-party payors and one-time settlements from the State Medicaid QUEST Integration program which allowed facilities to pay previously extended vendor payables. Days in accounts receivable have decreased as compared to June 30, 2014 due primarily to more efficient billings at Maui Memorial Medical Center, now that they have been using Soarian electronic medical records system for over a year. Downward pressure on reimbursements was due to federal healthcare reform and federal deficit legislation. Although improvements continue to be seen by HHSC, management believes maintaining the current levels of service provided by HHSC will require continued funding by the State of Hawaii.
Hawaii Health Systems Corporation

Notes to Financial Statements
June 30, 2015

Note 2 - Summary of Significant Accounting Policies

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

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

Cash and Cash Equivalents - Cash and cash equivalents include short-term investments with original maturities of three months or less. It also includes amounts held in the State Treasury. The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury (cash pool). HHSC’s portion of this cash pool at June 30, 2015 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 $80,757,000 at June 30, 2015. 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.
Hawaii Health Systems Corporation

Notes to Financial Statements
June 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

- Building and improvements
- Equipment

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and improvements</td>
<td>5-40 years</td>
</tr>
<tr>
<td>Equipment</td>
<td>3-20 years</td>
</tr>
</tbody>
</table>

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, 2015, assets limited as to use consisted of restricted cash of $6,140,577.

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

Notes to Financial Statements
June 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Operating Revenue and Expenses - HHSC has defined its operating revenue and expenses as those relating to the provision of healthcare services. The revenue and expenses relating to capital and related financing activities, noncapital financing activities, and investing activities are excluded from that definition.
Note 2 - Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue - Net patient service revenue is recorded on an accrual basis in the period in which the related services are provided at established rates, less contractual adjustments and provision for doubtful accounts. HHSC, as a safety net provider, provides charity care to certain patients; the specific cost of such care for the year ended June 30, 2015 was approximately $4,300,000.

HHSC has agreements with third-party payors that provide for payments at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The adjustments to the final settlements did not have a significant impact on the fiscal year 2015 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.

  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.
Note 2 - Summary of Significant Accounting Policies (Continued)

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.

- **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.
Note 2 - Summary of Significant Accounting Policies (Continued)

- **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.

**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 year ended June 30, 2015, interest expense totaled approximately $7,923,000.

**Risk Management** - HHSC is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The facilities are self-insured for workers' compensation and disability claims and judgments as discussed in Note 10.
Note 2 - Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncement - 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 Corporation has adopted this standard as of June 30, 2015. As a result of implementing this statement, the beginning net position was restated to $(531,127,786) (a reduction of $580,807,523).

Upcoming Accounting Changes - In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application. Statement No. 72 requirements will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. The statement will be effective for the Corporation's 2016 fiscal year.

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

HHSC is currently evaluating the impact these standards will have on the financial statements when adopted.
Hawaii Health Systems Corporation

Notes to Financial Statements
June 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued)

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, 2015 was as follows:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>32 %</td>
</tr>
<tr>
<td>Medicaid</td>
<td>28</td>
</tr>
<tr>
<td>HMSA</td>
<td>8</td>
</tr>
<tr>
<td>Other third-party payors</td>
<td>18</td>
</tr>
<tr>
<td>Patient and other</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Note 3 - Investments

HHSC's investment options are limited to investments listed in the Hawaii Revised Statutes. At June 30, 2015, HHSC held investments in U.S. Treasury obligations, U.S. government agencies, and money market funds. At June 30, 2015, the fair value of these investments was $4,303,708, $2,800,621, and $120,915, respectively.

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

Custodial Credit Risk of Investments

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, HHSC's investment policy generally limits maturities on investments to not more than five years from the date of investment. All of HHSC's investments at June 30, 2015 have an original maturity date within five years from the date of investment.
Credit Risk


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, 2015.

Note 4 - Capital Assets

Transactions in the capital asset accounts for the year ended June 30, 2015 were as follows:

<table>
<thead>
<tr>
<th>Assets not subject to depreciation:</th>
<th>Beginning of Year</th>
<th>Additions</th>
<th>Retirements</th>
<th>Transfers and Adjustments</th>
<th>End of Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and land improvements</td>
<td>$ 7,492,343</td>
<td>$</td>
<td>$ -</td>
<td>$ 278,445</td>
<td>$ 7,770,788</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>34,878,087</td>
<td>38,934,123</td>
<td>(108,327)</td>
<td>(41,583,582)</td>
<td>32,120,301</td>
</tr>
<tr>
<td>Assets subject to depreciation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>435,796,874</td>
<td>536,844</td>
<td>(3,420,996)</td>
<td>25,947,020</td>
<td>458,859,742</td>
</tr>
<tr>
<td>Equipment</td>
<td>220,873,517</td>
<td>6,968,735</td>
<td>(4,818,678)</td>
<td>15,358,117</td>
<td>238,381,691</td>
</tr>
<tr>
<td>Total</td>
<td>699,040,821</td>
<td>46,439,702</td>
<td>(8,348,001)</td>
<td></td>
<td>737,012,522</td>
</tr>
<tr>
<td>Less accumulated depreciation:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>(196,732,113)</td>
<td>(15,416,442)</td>
<td>3,292,614</td>
<td>(208,855,941)</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>(147,886,534)</td>
<td>(21,752,396)</td>
<td>4,672,688</td>
<td>(164,966,242)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>(344,618,647)</td>
<td>(37,168,838)</td>
<td>7,965,302</td>
<td></td>
<td>(373,822,183)</td>
</tr>
<tr>
<td>Capital assets - Net</td>
<td>$ 354,422,174</td>
<td>$ 9,270,864</td>
<td>$ (382,699)</td>
<td></td>
<td>$ 363,310,339</td>
</tr>
</tbody>
</table>

The State Department of Accounting and General Services and others transferred capital assets, including construction in progress, aggregating approximately $28,184,000 to HHSC as a contribution of capital for the year ended June 30, 2015.
Hawaii Health Systems Corporation

Notes to Financial Statements
June 30, 2015

Note 4 - Capital Assets (Continued)

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. The remainder of the Maui region implemented the system in March 2015. 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, 2015, 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 2016. Accordingly, the advance is classified as a noncurrent liability at June 30, 2015. The amount due to the State of $34,122,507 at June 30, 2015 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.

At June 30, 2015, $86,379,249 was due from the State for allotments made to HHSC before June 30, 2015.

Note 6 - Accrued Vacation

Transactions in this account during the year ended June 30, 2015 were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Beginning of Year</th>
<th>Additions</th>
<th>Reductions</th>
<th>End of Year</th>
<th>Current Portion</th>
<th>Noncurrent Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued vacation</td>
<td>$42,218,482</td>
<td>$18,532,945</td>
<td>$(18,615,257)</td>
<td>$42,136,170</td>
<td>$19,533,493</td>
<td>$22,602,677</td>
</tr>
</tbody>
</table>
Note 7 - Cost-Sharing Defined Benefit Pension Plan

Plan Description - All full-time employees of HHSC are eligible to participate in the Employees’ Retirement System of the State of Hawaii (ERS), a cost-sharing, multiple-employer, public employee retirement system covering eligible employees of the state and counties. The ERS issues a publicly available financial report that can be obtained at ERS's website: http://ers.ehawaii.gov/.

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

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, Session Laws of Hawaii of 2004. Participants prior to July 1, 2006 could choose to participate in this hybrid plan or remain in the existing plans. New employees hired from July 1, 2006 are required to join the hybrid plan. Participants will contribute 6 percent of their salary to this plan. Furthermore, members in the hybrid plan are eligible for retirement at age 62 with five years of credited service or at age 55 and 30 years of credited service. Members will receive a multiplier of 2 percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan.
Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

Contributions - Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2015 was 15.50 percent. Contributions to the pension plan from the Corporation were $46.6 million for the fiscal year ended June 30, 2015.

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

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2015, the Corporation reported a liability of $584 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Corporation's proportion of the net pension liability was based on the Corporation's actuarially required contribution for the year ended June 30, 2015, relative to all other contributing employers. At June 30, 2014, the Corporation's proportion was 7.28 percent, which was an increase of 0.13 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Corporation recognized pension expense of $49,173,000. At June 30, 2015, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<table>
<thead>
<tr>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference between expected and actual experience</td>
<td>$ 7,236,804</td>
</tr>
<tr>
<td>Net difference between projected and actual earnings on plan investments</td>
<td>-</td>
</tr>
<tr>
<td>Corporation contributions and proportionate share of contributions</td>
<td>1,041,824</td>
</tr>
<tr>
<td>Employer contributions to the plan subsequent to the measurement date</td>
<td>60,014,607</td>
</tr>
<tr>
<td>Total</td>
<td>$ 68,293,235</td>
</tr>
</tbody>
</table>
Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

The $60,014,607 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<table>
<thead>
<tr>
<th>Years Ending June 30</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$(15,044,862)</td>
</tr>
<tr>
<td>2017</td>
<td>(15,044,862)</td>
</tr>
<tr>
<td>2018</td>
<td>(15,044,862)</td>
</tr>
<tr>
<td>2019</td>
<td>(15,044,861)</td>
</tr>
<tr>
<td>2020</td>
<td>1,304,471</td>
</tr>
</tbody>
</table>

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 3.0 %
- Salary increases: 3.5 % Average, including inflation
- Investment rate of return: 7.8 % Per year, compounded annually, including inflation

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2010. ERS updates their experience studies every five years.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the ERS will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.
Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

Projected Cash Flows

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

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

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation (%)</th>
<th>Long-term Expected Real Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic equity</td>
<td>30 %</td>
<td>8.5 %</td>
</tr>
<tr>
<td>International equity</td>
<td>26</td>
<td>9.0</td>
</tr>
<tr>
<td>Real estate</td>
<td>7</td>
<td>8.5</td>
</tr>
<tr>
<td>Total fixed income</td>
<td>20</td>
<td>3.1</td>
</tr>
<tr>
<td>Private equity</td>
<td>7</td>
<td>11.8</td>
</tr>
<tr>
<td>Real return</td>
<td>5</td>
<td>6.1</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Corporation, calculated using the discount rate of 7.75 percent, as well as what the Corporation's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75 percent) or 1 percentage point higher (8.75 percent) than the current rate:

<table>
<thead>
<tr>
<th></th>
<th>1% Decrease (6.75%)</th>
<th>Current Discount Rate (7.75%)</th>
<th>1% Increase (8.75%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net pension liability</td>
<td>$728,975,870</td>
<td>$583,997,239</td>
<td>$420,685,219</td>
</tr>
</tbody>
</table>
Hawaii Health Systems Corporation

Notes to Financial Statements
June 30, 2015

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

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

**Note 8 - Employee Benefits**

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

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Only single-plan coverage is provided for retirees in this category. Retirees in this category can elect a family plan to cover dependents.
Note 8 - Employee Benefits (Continued)

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

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

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

For cost allocation purposes, the State allocates the full accrual ARC expense among its component units, including HHSC, based on respective percentages of full-time equivalents. The State requires HHSC to contribute to the plan at a rate of covered payroll necessary to fund its share of the annual “pay-as-you-go contributions,” which is significantly less than the actuarially determined contribution rate. HHSC then allocates its full accrual ARC expense among its various regions based on their respective percentages of full-time equivalents. The cumulative difference between the amounts the State requires HHSC to contribute and HHSC’s allocation of the total plan ARC expense is recorded as other postretirement benefit liability on the balance sheet of each region. HHSC’s actual cash contributions for postretirement benefits approximated $29.3 million and $29.5 million for the years ended June 30, 2015 and 2014, respectively.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>$ 302,156,349</td>
</tr>
<tr>
<td>Required contributions</td>
<td>65,423,087</td>
</tr>
<tr>
<td>Actual contributions</td>
<td>(29,330,711)</td>
</tr>
<tr>
<td>End of year</td>
<td>$ 338,248,725</td>
</tr>
</tbody>
</table>
Note 8 - Employee Benefits (Continued)

Sick Leave - Accumulated sick leave as of June 30, 2015 was approximately $82,198,000. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded in the accompanying financial statements.

Note 9 - Long-term Liabilities

Long-term liability activity for the year ended June 30, 2015 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>Current Year Additions</th>
<th>Current Year Reductions</th>
<th>2015</th>
<th>Amounts Due Within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
<td>$46,433,833</td>
<td>$10,358,365</td>
<td>$(14,130,845)</td>
<td>$42,661,353</td>
<td>$1,657,630</td>
</tr>
<tr>
<td>Capital lease obligations</td>
<td>$30,493,399</td>
<td>$3,435,654</td>
<td>$(9,989,787)</td>
<td>$23,939,266</td>
<td>$9,484,120</td>
</tr>
</tbody>
</table>

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, 2015, the balance payable was $13,272,746.
Note 9 - Long-term Liabilities (Continued)

Maui Bonds

In 2012, Maui Memorial Medical Center (MMMC) issued general obligation bonds. These bonds were executed in two parts, series 2012A and series 2012B. The series 2012A bonds were issued to refinance MMMC’s existing $8 million loan which had been held with Bank of Montreal. Total borrowing under the first agreement was $8,100,000. These bonds carry an interest rate of 4.05 percent. The series 2012A bonds are secured by a loan note guarantee issued by the United States Department of Agriculture (USDA) through its Rural Development division. The series 2012B bonds provided initial funding for the purposes of construction of a physician clinic adjacent to the hospital, partially funding a building renovation, and equipment associated with imaging services. Total borrowing costs under the second agreement were $901,000. These bonds carry a variable interest rate that starts at 5 percent until September 1, 2017, at which point the rate shall reset on each September 1, occurring every five years thereafter at a rate equal to 3.75 percent over the prevailing five-year FHLB bulled rate (Seattle). In the event that such rate is no longer available or practicable, a similar index, as mutually agreed upon by the issuer and holders of the bonds, will be used. The series 2012B bonds are unsecured. The bonds are payable in annual installments ranging from $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 revenue anticipation bonds which matured on February 1, 2015 and were issued under the existing master trust indenture dated April 1, 2008. These bonds carried an interest rate of 2.25 percent. The Series 2013 bonds were secured by the Direct Loan issued by the United States Department of Agriculture 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. The Series 2013 bonds were refinanced in full in January 2015.

In January 2015, MMMC issued Revenue Bond Number 3, the proceeds of which were used to refinance the previously issued Series 2013 bonds. These bonds were issued under the existing master trust indenture dated April 1, 2008. Monthly payments are due in the amount of $46,433, including principal and interest, through January 2045 when all remaining principal and accrued interest are payable. Revenue Bond Number 3 carries an interest rate of 3.50 percent. In connection with Revenue Bond Number 3, MMMC is subject to certain financial covenants.
Note 9 - 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, 2015, the balance payable was $8,309,732.

Yukio Okutsu Veterans' Home - In May 2008, the Yukio Okutsu Veterans' Home entered into a line of credit for $1.8 million, which calls for monthly interest-only payments at an interest rate of 5 percent. In November 2014, the Yukio Okutsu Veterans' Home signed an extension, which extended the balloon principal payment due from December 2015 to December 2016. At June 30, 2015, the balance payable was $1,051,460.

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, 2015, the balance payable was $369,880.

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, 2015, the balance of the loan was $146,972.
Note 9 - 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, 2015, the balance of the loan was $524,030.

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 year ended June 30, 2015, capitalized interest was not material. Capital lease obligations recorded on Corporate's accounting records at June 30, 2015 were $22,544,167.

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

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, 2015, the balance payable was $1,052,480.

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, 2015, the balance payable was $92,502.

Hilo Medical Center - Hilo Medical Center had one ongoing capital lease during fiscal year 2015 for time-keeping software and related support in the amount of $125,000. The lease term of this agreement is 36 months with total monthly payments of $3,472. There is no interest included in the capital payments and the lease is collateralized by the equipment. At June 30, 2015, the balance outstanding under this lease agreement was $69,445.

During the year ended June 30, 2015, Hilo Medical Center entered into two capital leases for a time-keeping system and related support in the amount of $279,968. The lease term is 27 months with a monthly payment of $10,369. There is no interest included in the capital payments. The lease is collateralized by the equipment. At June 30, 2015, the balance payable was $250,117.
Hawaii Health Systems Corporation

Notes to Financial Statements
June 30, 2015

Note 9 - Long-term Liabilities (Continued)

The following is a schedule by year of principal and interest as of June 30, 2015:

<table>
<thead>
<tr>
<th>Years Ending June 30</th>
<th>Long-term Debt</th>
<th>Capital Lease Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>2016</td>
<td>$ 1,657,630</td>
<td>$ 2,006,025</td>
</tr>
<tr>
<td>2017</td>
<td>2,989,502</td>
<td>1,908,629</td>
</tr>
<tr>
<td>2018</td>
<td>1,754,215</td>
<td>1,864,082</td>
</tr>
<tr>
<td>2019</td>
<td>1,759,529</td>
<td>1,718,792</td>
</tr>
<tr>
<td>2020</td>
<td>1,727,665</td>
<td>1,626,484</td>
</tr>
<tr>
<td>2021-2025</td>
<td>10,213,188</td>
<td>10,421,411</td>
</tr>
<tr>
<td>2026-2030</td>
<td>9,052,018</td>
<td>5,346,924</td>
</tr>
<tr>
<td>2031-2035</td>
<td>5,064,203</td>
<td>2,058,927</td>
</tr>
<tr>
<td>Thereafter</td>
<td>8,443,403</td>
<td>1,557,734</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td><strong>$ 42,661,353</strong></td>
<td><strong>$ 28,509,008</strong></td>
</tr>
</tbody>
</table>

Note 10 - Commitments and Contingencies

Professional Liability - HHSC maintains professional and general liability insurance with a private insurance carrier with a $35 million limit per claim and a $39 million aggregate. HHSC has also purchased additional excess insurance with a $10 million per claim and aggregate limit. HHSC’s general counsel advises that, in the unlikely event any judgments rendered against HHSC exceed HHSC’s professional liability coverage, such 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 $13,779,000 for unpaid claims as of June 30, 2015.

Estimated liability - Beginning of year $ 13,731,000
Estimated claims incurred - Including changes in estimates 3,636,000
Claim payments (3,588,000)
Estimated liability - End of year $ 13,779,000
Note 10 - Commitments and Contingencies (Continued)

Operating Leases - HMC, MMC, and Ali entered into various operating leases and related sublease agreements. Future minimum lease payments and sublease receipts at June 30, 2015 are as follows:

<table>
<thead>
<tr>
<th>Years Ending June 30</th>
<th>Lease Payments</th>
<th>Sublease Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$1,879,111</td>
<td>$106,294</td>
</tr>
<tr>
<td>2017</td>
<td>1,912,135</td>
<td>106,294</td>
</tr>
<tr>
<td>2018</td>
<td>1,169,499</td>
<td>-</td>
</tr>
<tr>
<td>2019</td>
<td>1,204,670</td>
<td>-</td>
</tr>
<tr>
<td>2020</td>
<td>1,240,802</td>
<td>-</td>
</tr>
<tr>
<td>Thereafter</td>
<td>3,414,077</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$10,820,294</td>
<td>$212,588</td>
</tr>
</tbody>
</table>

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

During the 2006 Legislative Session, the State of Hawaii Legislature enacted Act 178, which provided interim measures to ensure that a certain amount of proceeds was made available to OHA from the prorated portion of the public land trust for the betterment of the conditions of native Hawaiians. The act provided that the State agencies that collect receipts from the use of lands within the public land trust transfer a total of $3,775,000 to OHA within 30 days of the close of each fiscal quarter (or $15,100,000 per fiscal year), beginning with the 2006 fiscal year. In addition, the act appropriated $17,500,000 out of the State’s general revenue to pay OHA for underpayments of the State’s use of lands in the public land trust for the period from July 1, 2001 to June 30, 2005.
Note 10 - Commitments and Contingencies (Continued)

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

For the year ended June 30, 2015, there were no payments made to OHA.

Litigation - HHSC is a party to certain litigation arising in the normal course of business. In management’s opinion, the outcome of such litigation will not have a material impact on HHSC’s financial statements.
Supplemental Information
# Hawaii Health Systems Corporation

**Supplemental Schedule of Reconciliation of Cash on Deposit and Assets Limited as to Use with the State of Hawaii**  
June 30, 2015

<table>
<thead>
<tr>
<th>Special Funds:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>S-14-303-H</td>
<td>597,385</td>
</tr>
<tr>
<td>S-15-373-H</td>
<td>254</td>
</tr>
<tr>
<td>S-93-359-H</td>
<td>2,818</td>
</tr>
<tr>
<td>S-96-359-H</td>
<td>2,007</td>
</tr>
<tr>
<td>S-97-359-H</td>
<td>3,556</td>
</tr>
<tr>
<td>S-12-350-H</td>
<td>1</td>
</tr>
<tr>
<td>S-12-351-H</td>
<td>1,274</td>
</tr>
<tr>
<td>S-12-352-H</td>
<td>1</td>
</tr>
<tr>
<td>S-12-353-H</td>
<td>30,627</td>
</tr>
<tr>
<td>S-11-354-H</td>
<td>1,214,846</td>
</tr>
<tr>
<td>S-10-355-H</td>
<td>700,233</td>
</tr>
<tr>
<td>S-10-371-H</td>
<td>106,576</td>
</tr>
<tr>
<td>S-10-358-H</td>
<td>160,205</td>
</tr>
<tr>
<td>S-14-365-H</td>
<td>1,474</td>
</tr>
<tr>
<td>S-14-312-H</td>
<td>448,109</td>
</tr>
<tr>
<td>S-13-373-H</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Trust Funds:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>T-04-918-H</td>
<td>1,273</td>
</tr>
<tr>
<td>T-04-921-H</td>
<td>6,679</td>
</tr>
</tbody>
</table>

Total Per State: 3,277,318

Reconciling Items: 0

Total Per HHSC: 3,277,318

## Assets limited as to use - Patient trust funds:

<table>
<thead>
<tr>
<th>Reconciling Items:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Patients’ safekeeping deposits held by financial institutions</td>
<td>124,859</td>
</tr>
<tr>
<td>Restricted assets held by financial institutions</td>
<td>5,907,807</td>
</tr>
</tbody>
</table>

Total Per HHSC: 6,140,577
<table>
<thead>
<tr>
<th>Facility</th>
<th>Total Current Assets</th>
<th>Total Current Liabilities</th>
<th>Net Position</th>
<th>Total Long-Term Debt</th>
<th>Total Equity</th>
<th>Total Debt</th>
<th>Total Assets</th>
<th>Total Liabilities</th>
<th>Net Position (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawaii</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
<td>$0</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
<td>$2,469,134</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
</tr>
<tr>
<td>Health</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
<td>$0</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
<td>$2,469,134</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
</tr>
<tr>
<td>Systems</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
<td>$0</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
<td>$2,469,134</td>
<td>$1,234,567</td>
<td>$1,234,567</td>
</tr>
</tbody>
</table>

**Statement of Not Position (Deficit) of Facilities**

Hawaii Health Systems Corporation

June 30, 2015

**Total Current Assets:** $1,234,567

**Total Current Liabilities:** $1,234,567

**Net Position:** $0

**Total Long-Term Debt:** $1,234,567

**Total Equity:** $1,234,567

**Total Debt:** $1,234,567

**Total Assets:** $2,469,134

**Total Liabilities:** $1,234,567

**Net Position (Deficit):** $1,234,567

---

**Footnotes:**


2. Income from operations includes all revenue less expenses excluding depreciation and amortization.

3. Interest income includes interest earned on cash and short-term investments.

4. Dividends received represent income from equity investments.

5. The balance sheet presents the financial position of Hawaii Health Systems Corporation at the end of the fiscal year.

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**Notes to Financial Statements:**

1. The financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP).

2. The statements are unaudited.

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**Other Information:**

1. The financial data is presented in U.S. dollars.

2. The information is subject to change upon completion of the annual audit.
### Statement of Revenue, Expenses, and Changes in Net Position (Deficit) of Facilities

#### Year Ended June 30, 2015

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Hawaii Medical Center</th>
<th>Kona Medical Center</th>
<th>Kauai Medical Center</th>
<th>Maui Medical Center</th>
<th>Molokai Health Center</th>
<th>Oahu Health System Facilities</th>
<th>Total Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$118,192,677</td>
<td>$16,864,796</td>
<td>$11,911,729</td>
<td>$12,301,197</td>
<td>$87,605,936</td>
<td>$539,349,004</td>
<td>$850,907,784</td>
</tr>
<tr>
<td>Non-operating expenses</td>
<td>$10,102,934</td>
<td>$1,147,125</td>
<td>$1,161,217</td>
<td>$1,206,938</td>
<td>$783,756</td>
<td>$13,511,597</td>
<td>$19,791,675</td>
</tr>
<tr>
<td>Net position</td>
<td>$(10,102,934)</td>
<td>$(1,147,125)</td>
<td>$(1,161,217)</td>
<td>$(1,206,938)</td>
<td>$(77,783,756)</td>
<td>$(12,511,597)</td>
<td>$(20,791,675)</td>
</tr>
</tbody>
</table>

#### Total operating revenues

- Hawaii Medical Center
- Kona Medical Center
- Kauai Medical Center
- Maui Medical Center
- Molokai Health Center
- Oahu Health System Facilities
- Total Facilities

#### Total operating expenses

- Hawaii Medical Center
- Kona Medical Center
- Kauai Medical Center
- Maui Medical Center
- Molokai Health Center
- Oahu Health System Facilities
- Total Facilities

#### Net position

- Hawaii Medical Center
- Kona Medical Center
- Kauai Medical Center
- Maui Medical Center
- Molokai Health Center
- Oahu Health System Facilities
- Total Facilities

#### Hawaii Health Systems Corporation
Required Supplemental Information
## Hawaii Health Systems Corporation

### Required Supplemental Information

#### Schedule of Contributions

**Employees' Retirement System of the State of Hawaii**  
**Year Ended June 30**

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractually required contribution</td>
<td>$ 49,213,969</td>
<td>$ 53,279,576</td>
</tr>
<tr>
<td>Contributions in relation to the contractually required contribution</td>
<td>50,272,620</td>
<td>47,500,308</td>
</tr>
<tr>
<td><strong>Contribution (Excess) Deficiency</strong></td>
<td>$ (1,058,651)</td>
<td>$ 5,779,268</td>
</tr>
<tr>
<td>Corporation's Covered Employee Payroll</td>
<td>$ 285,988,382</td>
<td>$ 268,597,949</td>
</tr>
<tr>
<td>Contributions as a Percentage of Covered Employee Payroll</td>
<td>17.6 %</td>
<td>17.7 %</td>
</tr>
</tbody>
</table>
## Hawaii Health Systems Corporation

### Required Supplemental Information

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation's proportion of the net pension liability (asset)</td>
<td>7.3 %</td>
<td>7.2 %</td>
</tr>
<tr>
<td>Corporation's proportionate share of the net pension liability (asset)</td>
<td>$583,997,239</td>
<td>$638,368,793</td>
</tr>
<tr>
<td>Corporation's covered employee payroll</td>
<td>$285,988,382</td>
<td>$268,597,949</td>
</tr>
<tr>
<td><strong>Corporation's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll</strong></td>
<td>204.2 %</td>
<td>237.7 %</td>
</tr>
<tr>
<td><strong>Plan Fiduciary Net Position as a Percent of Total Pension Liability</strong></td>
<td>63.9 %</td>
<td>58.0 %</td>
</tr>
</tbody>
</table>
The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

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

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

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

Valuation methods and assumptions used to determine contribution for fiscal year 2014:

- **Actuarial cost method**: Entry age, normal
- **Amortization method**: Level dollar, closed
- **Remaining amortization period**: 23 years
- **Asset valuation method**: 5-year smoothed market
- **Inflation**: 3.0%
- **Salary increases**: 3.5% wage inflation
- **Investment rate of return**: 7.75% per year, compounded annually including inflation
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, 2015 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 29, 2015.

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 2015-1 through 2015-3 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 2015-4 through 2015-9 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 29, 2015
Finding - 2015-1

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 2015.

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

Cause - An adjustment to depreciation expense of $6,581 needed to be recorded in fiscal year 2015.

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

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

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

Schedule of Findings (Continued)
Year Ended June 30, 2015

Finding - 2015-2

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 2015.

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

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

Effect - The statement of revenue, expenses, and changes in net position was misstated throughout the year. Adjusting journal entries were posted to correct this misstatement.

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

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

Schedule of Findings (Continued)
Year Ended June 30, 2015

Finding - 2015-3

Organization - Alii Community Care, Inc.

Finding Type - Material weakness

Criteria - Segregation of duties should be in place for individuals who receive cash and post payments to patient accounts.

Condition - Alii Community Care, Inc. did not have appropriate segregation of duties in place throughout 2015.

Context - Misappropriation of assets could occur and could go unnoticed and uncorrected.

Cause - Employees' responsibilities include receiving cash and posting the payment to the patient account.

Effect - Misappropriation of assets could occur and could go unnoticed and uncorrected.

Recommendation - We recommend that the cash receipt procedures be updated to segregate the process of collecting cash payments and the responsibility for posting payments to patient accounts. We also recommend a detailed review of adjustments to patient accounts.

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

Schedule of Findings (Continued)
Year Ended June 30, 2015

Finding - 2015-4

Organization - East Hawaii Region

Finding Type - Significant deficiency

Criteria - Inventory quantities within the detail listing should be reconciled to count sheets periodically to ensure the balance in the general ledger is accurate.

Condition - Inventory quantities were incorrect in the detail listing.

Context - For two supplies in inventory, obsolete and disposed inventory was not appropriately written off at June 30, 2015, which resulted in an estimated adjustment of $26,400 to decrease the inventory balance associated with these two supplies.

Cause - The obsolete inventory was not properly updated in the detail listing.

Effect - Inventory was overstated at June 30, 2015.

Recommendation - We recommend the East Hawaii Region reconcile inventory count sheets to the detail listing on a periodic basis and review for slow-moving or obsolete inventory.

Views of Responsible Officials and Planned Corrective Action Plan - Management has corrected the error and put procedures in place to properly review inventory quantities.
Finding - 2015-5

Organization - Kauai Region

Finding Type - Significant deficiency

Criteria - The balance recorded in a vacation accrual should be reviewed on a regular basis to ensure proper reporting of employee balances.

Condition - Changes to employee accrued vacation were not carried forward into the 2015 year leave report, causing the ending balance to be understated.

Context - Vacation balances for an employee was understated by 40 hours.

Cause - Management does not verify when requested vacation is used.

Effect - The ending accrued vacation balance is understated.

Recommendation - Management should implement a process to better track employee vacation used.

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

Schedule of Findings (Continued)
Year Ended June 30, 2015

Finding - 2015-6
Organization - Kauai Region
Finding Type - Significant deficiency
Criteria - Management should be reviewing accounting guidance on the capitalization of assets prior to entry into the accounting system.
Condition - During the year, it was noted that costs for asbestos remediation were capitalized as an asset.
Context - Fixed asset additions were improperly overstated by approximately $319,000.
Cause - Lack of review of capitalization guidance.
Effect - Fixed asset balances were overstated, and expenses were understated by approximately $319,000 as of June 30, 2015.
Recommendation - We recommend that management review capitalization guidance prior to entering assets into the accounting system.
Views of Responsible Officials and Planned Corrective Action Plan - Management will work to review guidance prior to future capitalization of assets.
Finding - 2015-7

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - Management should have a process for proper review of all manual entries posted to the general ledger.

Condition - A correcting entry was posted for Kula Hospital which was already captured and recorded within the year-end revenue accrual entry, effectively booking an entry twice.

Context - Patient accounts receivable and revenue were overstated by approximately $250,000 as of June 30, 2015.

Cause - An entry was recorded twice due to lack of understanding of the revenue accrual already recorded, in addition to a lack of proper review of the entry recorded.

Effect - As a result of the duplicate adjustment, approximately $250,000 of patient accounts receivable and revenue were removed from the statement of net position and statement of revenue, expenses, and changes in net position, respectively, for the year ended June 30, 2015.

Recommendation - We recommend that all manual entries be properly reviewed and approved.

Views of Responsible Officials and Planned Corrective Action Plan - Management is working to correct the issue.
Finding - 2015-8

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - Management should be actively identifying and understanding generally accepted accounting principles that are relevant to the Region.

Condition - During audit testing, it was identified that there was no retainage recorded related to the Region's ongoing construction projects at June 30, 2015.

Context - We identified that there was no liability or related asset recorded for retainage related to capital projects in place at year end.

Cause - Lack of review of applicable accounting rules.

Effect - As a result of not recording retainage, liabilities and the related construction in progress assets are understated on the statement of net position by approximately $100,000 at June 30, 2015.

Recommendation - We recommend that management regularly review generally accepted accounting principles and implement any that are applicable to the Region.

Views of Responsible Officials and Planned Corrective Action Plan - Management is working to correct the issue.
Finding - 2015-9

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - The ability to post adjustments to specific patient accounts should be limited to a small group of necessary individuals.

Condition - Over 150 individuals in the Region have the ability to post adjustments to specific patient accounts.

Context - We identified that an excessive number of individuals are able to post adjustments to patient accounts, including individuals that receive cash.

Cause - Lack of proper limitation of access to patient accounts.

Effect - No financial statement effect was identified; however, internal controls are considered to be negatively impacted as incorrect adjustments could be posted and not identified.

Recommendation - We recommend that the number of individuals with the ability to post adjustments to patient accounts be significantly reduced, and be limited to individuals that do not have cash receipt or accounting responsibilities.

Views of Responsible Officials and Planned Corrective Action Plan - Management will work to correct the issue.
REGIONAL BOARD REPORTS
TO THE TWENTY-NINTH
HAWAII STATE LEGISLATURE
FOR FISCAL YEAR 2015

POC: Dr. Linda Rosen, Corporate Chief Executive Officer
January 15, 2016
### INDEX

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<td>Maluhia Statistics</td>
<td>4</td>
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<td>Foundations, Auxiliaries and Community-Based Volunteer Programs</td>
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<table>
<thead>
<tr>
<th>Region</th>
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<tbody>
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<td><strong>B. Kauai Region</strong></td>
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<tr>
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<td>7</td>
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<td>8</td>
</tr>
<tr>
<td>Foundations, Auxiliaries and Community-Based Volunteer Programs</td>
<td>9</td>
</tr>
<tr>
<td>Regional Highlights</td>
<td>10</td>
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</tbody>
</table>

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>C. Maui Region</strong></td>
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<tr>
<td>Maui Memorial Medical Center Statistics</td>
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<td>Kula Hospital Statistics</td>
<td>15</td>
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<td>Lanai Community Hospital Statistics</td>
<td>16</td>
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<td>Foundations, Auxiliaries and Community-Based Volunteer Programs</td>
<td>17</td>
</tr>
<tr>
<td>Regional Highlights</td>
<td>18</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>D. East Hawaii Region</strong></td>
<td></td>
</tr>
<tr>
<td>Hilo Medical Center Statistics</td>
<td>22</td>
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<tr>
<td>Hale Ho’ola Hamakua Statistics</td>
<td>23</td>
</tr>
<tr>
<td>Ka’u Hospital Statistics</td>
<td>24</td>
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<tr>
<td>Foundations, Auxiliaries and Community-Based Volunteer Programs</td>
<td>26</td>
</tr>
<tr>
<td>Regional Highlights</td>
<td>28</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E. West Hawaii Region</strong></td>
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<tr>
<td>Kona Community Hospital Statistics</td>
<td>31</td>
</tr>
<tr>
<td>Kohala Hospital Statistics</td>
<td>32</td>
</tr>
<tr>
<td>Foundations, Auxiliaries and Community-Based Volunteer Programs</td>
<td>33</td>
</tr>
<tr>
<td>Regional Highlights</td>
<td>34</td>
</tr>
</tbody>
</table>
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. Leahi Hospital employs approximately 250 people. Individuals requiring long term care or short term restorative care are admitted to our nursing facility beds where care is provided by an interdisciplinary team of healthcare professionals. 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

<table>
<thead>
<tr>
<th></th>
<th>Long Term Care</th>
<th>Acute</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions</td>
<td>234</td>
<td>3</td>
</tr>
<tr>
<td>Patient Days</td>
<td>52,810</td>
<td>33</td>
</tr>
</tbody>
</table>

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Private Donations</td>
<td>$12,333</td>
</tr>
<tr>
<td>Total Fundraising</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Federal/State/Private Grants</td>
<td>$ 4,641</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$16,974</td>
</tr>
</tbody>
</table>
VOLUNTEER SERVICES

- Number of Active Volunteers: 187
- Number of Total Volunteer Hours: 10,942
- Volunteer Auxiliary Contributions: $40,700.86

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 services continue 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: 45
- Number of Total Volunteer Hours: 8,773
- Volunteer Auxiliary Contributions: approx. $7,719.52
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 respective missions, development, and provision of quality healthcare and long term care.

Vision
The 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
www.leahi.hhsc.org/about-us/leahi-maluhiafoundation
c/o Maluhia
1027 Hala Drive
Honolulu, HI 96817
Tele: 808-832-1927  Fax: 808-832-3402
HHSC Oahu Region
Fiscal Year 2015 Regional Highlights

1. Establishment of the following: subcommittees to facilitate Board business and direction:
   a. Funding Priorities
   b. Public Awareness
   c. Alliance with Leahi and Maluhia Auxiliaries

2. Approval from 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 (formerly known as the Young Building) at Leahi Hospital. The structure is now removed, with plans to utilize stones from its rock foundation as part of a walking path for residents and families.

3. Continued approval to participate in the Aloha United Way’s Donor Choice program. This area continues to be a challenge because 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

West Kauai Medical Center, also 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 all of the residents of the surrounding communities. Accredited as a critical access hospital, KVMH has 45 licensed beds, including 25 acute and 20 long-term care beds. Today, KVMH employs approximately 285 people and provides the following services:

SERVICES OFFERED

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

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

- Physician Specialists; cardiology, podiatry
- Liberty Dialysis Services
- Lifeway Retail Pharmacy
- KVMH Auxiliary Gift Shop
- Kauai Community Health Center (Federally Qualified Health Center)
  - Medical
  - Dental

**KVMH PATIENT VOLUMES:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient Admissions</td>
<td>1,364</td>
</tr>
<tr>
<td>Births</td>
<td>286</td>
</tr>
<tr>
<td>ER Visits</td>
<td>6,894</td>
</tr>
<tr>
<td>Average Daily Census</td>
<td></td>
</tr>
<tr>
<td>Acute</td>
<td>6.7</td>
</tr>
<tr>
<td>Swing</td>
<td>6.0</td>
</tr>
<tr>
<td>LTC</td>
<td>20.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>32.7</td>
</tr>
</tbody>
</table>

Outpatient Clinic Visits 30,104

**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 care, psychiatric care, skilled nursing care, TB clinic, and ancillary outpatient and inpatient services. SMMH is accredited as a critical access hospital and has 80 licensed beds, (66 long-term care beds and 14 acute care beds) and employs approximately 156 employees. Currently, SMMH patient services include:

- Emergency Services – 24-hour physician staffed emergency care
- Long-Term Care
- In-patient Psychiatric Care
  - Adult In-patient Psychiatric Unit
  - Detoxification
- Acute Swing (SNF) Beds
- Radiology
- Recreational Therapy
- Occupational Therapy
- Physical Therapy
- Inpatient Pharmacy
- Dietary Counseling
- Social Services

**SMMH PATIENT CENSUS**

<p>| | |</p>
<table>
<thead>
<tr>
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<tr>
<td>Inpatient Admissions</td>
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<td>ER Visits</td>
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<td>Average Daily Census</td>
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<tr>
<td>Acute</td>
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<td>--------</td>
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<td>Psych</td>
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<tr>
<td>LTC</td>
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</table>

### Kauai Region Foundations Supporting HHSC Hospitals
#### Background / Contact Information

**Kauai Veterans Memorial Hospital Charitable Foundation, Inc.**

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

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

**Contact Information:**

Kauai Veterans Memorial Hospital  
PO Box 356  
Waimea, HI 96796  
TEL: 808-338-9431  
FAX: 808-338-9420  
Email: skline@hhsc.org

Estimated Total Donations received by the KVMH Charitable Foundation:

- Total Private Donations $1,600
- Total Fundraising $23,890
- Total Federal / State / Private Grants
  - Total $25,490

**KVMH Auxiliary**

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

**Volunteer Services**

Number of Active Volunteers: 56  
Number of Total Volunteer Hours: 3,500  
Volunteer Auxiliary Contributions: $17,597
HHSC Kauai Region  
Fiscal Year 2015 Highlights

On behalf of the Kauai Region of the Hawaii Health Systems Corporation (HHSC), we are pleased to submit our report highlighting the accomplishments in fiscal year 2015.

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

Our Vision – Creating Extraordinary Healthcare Experiences  
Mission – Caring for Our Community through Excellence in Healthcare  
Values – Service, Teamwork, Attitude, Respect and Stewardship

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

PEOPLE

The Kauai Region Board of Directors appointed Mr. Patrick Gegen as chair of the Kauai Board. In addition, Mr. Peter Klune replaced Mr. Scott McFarland as the Chief Executive Officer in April of 2015. Board members are as follows: Mr. Kurt Akamine, Mrs. Mahina Anguay, Graham Chelius, MD, Mrs. Stephanie Iona, Mrs. Laurel Loo, James McGee, MD, Mr. Rohit Mehta, Travis Parker, MD, and Mr. Tito Villanueva.

The Kauai Region’s physician staff totals 30 physicians. Attrition due to retirement and relocation of a primary care physician (1), orthopedist (1), pediatricians (2), and obstetrician (1) during 2014-2015, reduced the size of the medical staff and decreased patient volumes in our clinic and hospital surgery department. Efforts have been initiated to replace the physicians necessary to serve our community needs in a financially sustainable manner.

The Kauai Region initiated a reduction in force (RIF) in late 2015 in an effort to “balance the budget.” (See RIF explanation under “FINANCE” section). Every effort was made to ensure patient care was not adversely impacted, and our employees were transitioned with respect and in accordance with regulations of their respective collective bargaining agreements.

QUALITY

In 2014 and 2015, the Kauai Region participated in a total of 13 surveys between Medicare / State Office of Healthcare Assurance, Centers for Medicare & Medicaid Federal Licensure and the Joint Commission. All of the surveys were concluded with minimal findings and complimentary comments. The West Kauai Medical Center / KVMH, the Samuel Mahelona Medical Center / SMMH and the West Kauai Clinics were recertified for state licensure. KVMH was accredited in good standing with the Joint Commission. Recognition and Programs:
• KVMH received 5 stars for “patient experience” from Hospital Compare in December 2014, being the only 5-star facility in the state. The Long Term Care unit has received the 5-star rating from Nursing Home Compare for four (4) consecutive years.

• KVMH also participates in projects to improve the quality of healthcare and preventative care for Kauai residents:
  o Participation with National Healthcare Safety Network (NHSN) for infection prevention initiatives like using central line insertion checklists, and decreasing indwelling urinary catheters to prevent UTIs. KVMH is the only CAH in the state to participate, and SMMH will participate in 2016.
  o Premier Readmission Reduction initiative; which includes an interdisciplinary team and community follow-up post discharge by a Care Transition Coach.
  o Healthy Baby initiatives to increase breastfeeding of newborns; nurses and doctors have made it a top priority to educate new mothers.

• KVMH has achieved consistently high Core Measure compliance over the past 2 years as reported to CMS and available at www.HospitalCompare.gov. There were no incidents of ventilator associated pneumonia or central line associated infections.

• SMMH is deeply committed to the health and well-being of their residents. We have a vigorous activities program which include frequent outings to nearby parks, shopping and going to the beach. SMMH also celebrate milestones in the residents lives, recently celebrating multiple wedding anniversarys and vow renewals.
  o SMMH LTC achieved 5 stars on Nursing Home Compare in 2014 and received high scores on resident experience surveys in 2014 and 2015.

GROWTH

Physician Retention and Recruitment
Over the past decade, we have seen a number of primary care and specialty care providers transition in and out of our hospital system. In recent years, it has been challenging to recruit and retain primary care physicians in numbers sufficient to serve our community. The Kauai Region leadership team has reviewed and revised its physician recruitment and retention program and is currently working to increase the number of primary physicians necessary to serve our communities in its various clinic locations.

Electronic Medical Records
After a number of years preparing for the implementation of an Electronic Medical Record, the Kauai Region has “Gone Live” as of July 1, 2015 with the Siemens Soarian Electronic Medical Record. The implementation was successful with minimal disruption to patient care and billing processes. The implementation now qualifies the region to proceed with meaningful use attestation and the procurement of federal/state funds.

ICD-10
ICD-10, the revision of codes for all diagnoses, symptoms and procedures recorded in hospitals and physician practices was implemented on October 1, 2015. This was accomplished with no detrimental impacts to hospital operations, billing, or collections.
FACILITIES

Improvements to the facilities of the Kauai Region in 2015 include projects to address patient care needs, quality of life issues for our patients and residents, and the replacement of aging plant infrastructure.

KVMH & SMMH funded Capital Improvement Projects on-going for FY 15-16 include:

- Renovation of Multi-Purpose Room (SMMH)- $500,000
- Exterior Door Replacement (SMMH) - $1,100,000
- Replace Nurse Call / Wandering System (SMMH) - $500,000
- Renovation of Patient Rooms (SMMH) - $500,000
- Water Pipe Replacement (SMMH) - $3,000,000
- Replace Chillers and Pumps (KVMH) - $2,200,000
- Renovation of OB Unit (KVMH) -$187,000
- Abatement of asbestos and lead (KVMH) - $257,000
- Replace Nurse Call / Baby Abduction System (KVMH) - $500,000
- Air Conditioning Improvements in Nursing Facility (KVMH) - $275,000
- Replace Motor Starters (KVMH) - $21,000
- Renovation of ICU Unit (KVMH) - $30,000
- Replace Medical Air Compressor (KVMH) - $50,000

FINANCE

Kauai Region had an operating loss of $10.4 million and received $11 million in state appropriations. The surplus allowed us to pay down aging payables to vendors.

At KVMH, patient volumes increased in several areas: inpatient admits (+16%), emergency room outpatient visits (+4%), and emergency room admissions (+5%). Decreases in volume occurred in surgery cases (-23%) and clinic visits (-10%). The decreases are primarily due to the loss of primary care physicians and the orthopedic surgeon referred to above.

At SMMH, patient volumes increased in long-term care (+8%) and emergency room outpatient visits (+15%). Psychiatric inpatient volume decreased by 15%.

Kauai Region continues to face financial challenges from numerous factors:

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

In FY16, the Kauai Region anticipates minimal growth to volume and projects net revenue of $48M. We project our net operating loss to increase by $3M which is due to increases in labor costs as a result of collective bargaining raises and state retiree health benefit costs.

In an effort to not exceed the 2016 budgeted appropriation, the Kauai Region implemented a contingency plan in June 2015 to further reduce operating costs. Part of the contingency plan was a reduction in force of 30 staffed positions which is projected to reduce labor costs by $1.8M in FY16 and $3M in FY17. In addition, Kauai Region is reviewing and renegotiating physician contracts. Annualized savings to date is $750K for physician contracts. The senior leadership team with the support of the Kauai Regional Board is also working on implementing strategies and initiatives to improve the revenue cycle, patient access and rebuild primary care services to keep up with evolving healthcare needs in the community.
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 1,355 (FTE, FY15) 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 Catheterization, Ablations, Pacemakers,
    - Cardiac Stress Testing, Echocardiography, Cardioversion
  - Interventional Radiology Services
- Laboratory – 24-hour services
- Newborn Nursery and Maternity Services
- Nutrition Serves
- Obstetrics/Gynecology – with childbirth education classes
- Oncology – Cancer treatments
- Operating Room
  - Same Day Surgery (Outpatient)
- Outpatient Clinics
  - Cardio-Thoracic Surgery
  - Cardiology
  - Gastroenterology
  - Oncology
  - Orthopedics
  - Psychiatry
- 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 11,783
• Births 1,533
• ER Visits 36,149
• Patient Days 64,426

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: 65
• Number of Total Volunteer Hours: 8,412
• Volunteer Auxiliary Contributions: $49,852.00

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 123 licensed beds (9 acute/SNF swing care, 105 SNF/ICF, and 9 ICF/IID), and employs 216 (FTE, FY15) employees. Kula Hospital’s patient services include:

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

PATIENT CENSUS
• LTC Census  83
• Patient Days  29,316
• ER Visits  2,368

VOLUNTEER SERVICES
• Number of Active Volunteer:  50
• Number of Total Volunteer Hours:  6445.50
• Volunteer Auxiliary Contributions:  $29,569.21

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 47 (FTE, FY15) 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  10
• Patient Days  3,412
• ER Visits  1,179

VOLUNTEER SERVICES
• Number of Active Volunteers:  16
• Number of Total Volunteer Hours:  520
• Volunteer Auxiliary Contributions:  $500.00
Maui Memorial Medical Center (MMMC) Foundation
The MMMC Foundation was formed in 1996 and opened its foundation office in 1999. The Foundation supports the master plan for development, scholarship funding and the purchase of state-of-the-art equipment.

Foundation President: David Jorgensen, Esq.
Foundation Executive Director: Lisa Varde (lvarde@hhsc.org) 808-442-5656

Contact information:
Maui Memorial Medical Center Foundation (www.MauiHospitalFoundation.org)
285 Mahalani Street, Suite 4
Wailuku, Maui, HI 96793
Tel: 808-242-2630  Fax: 808-242-2633
HHSC Maui Region
Fiscal Year 2015 Regional Highlights

Financial
Unaudited figures show the Maui Region earned net operating revenue of approximately $245.1 million with corresponding operating expenses of $277.4 million, before audit adjustments. The most significant missing adjustment is the allocation of other post-retirement benefits. The net loss from operations was $32.4 million before non-operating revenues, corporate allocation and State Appropriations. Net profit after including all State appropriations and other non-operating expenses was $16.8 million. Below is a breakdown by facilities in the Maui Region.

<table>
<thead>
<tr>
<th>Unaudited - (millions)</th>
<th>MMMC</th>
<th>Kula</th>
<th>Lanai</th>
<th>Maui Region</th>
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<tbody>
<tr>
<td>Net Operating Revenue</td>
<td>$218.1</td>
<td>$ 23.2</td>
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<td>Operating Expense</td>
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<td>$12.9</td>
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In FY15, Maui Region made several investments in plant improvements and clinical equipment including major renovations to the Oncology and Imaging Departments.

Quality
Get With the Guidelines
MMMC received the Get With The Guidelines®—Heart Failure Gold-Plus Quality Achievement Award and the American Heart Association/American Stroke Association’s Get With The Guidelines® —Target: Stroke Honor Roll-Elite Quality Achievement Award. This marks the 7th year that MMMC has been recognized with a quality achievement award. The awards recognize the hospital’s commitment and success ensuring that patients receive the most appropriate treatment according to nationally recognized, research-based guidelines based on the latest scientific evidence.

Stroke Certification
MMMC voluntarily applied for Primary Stroke Certification with the Joint Commission and underwent a rigorous onsite review to obtain the certification. Joint Commission experts evaluated compliance with stroke-related standards and requirements, including program management, the delivery of clinical care and performance improvement.
The survey resulted in MMMC earning The Joint Commission’s Gold Seal of Approval® and the American Heart Association/American Stroke Association’s Heart-Check mark for Advanced Certification for Primary Stroke Centers. The Gold Seal of Approval® and the Heart-Check mark represent symbols of quality from their respective organizations.

**Improvements**

**Legislation**
In June 2015, the Legislature passed Act 103, H.B. 1075, effective June 10, 2015, which allows for the transition of the management and operation of Maui Region facilities to a new private entity. Kaiser Permanente was selected as the entity to continue negotiations with a goal of an agreement signed by the end of the year.

**New CT Scanner**
MMMC acquired a Toshiba Aquilion One – 640 series CT Scanner. One of the major advantages in newer scanners is reduced radiation dose. New dose reduction technology ensures the best possible image quality at the lowest possible dose. We now have the capability to acquire an entire organ in a single scan such as whole brain, whole organ (heart) in less time (faster) and safer (less dose).

**Maui Lani Outpatient Clinic**
The MMMC Outpatient Clinic opened in Maui Lani in November of 2014. The clinic provides outpatient services in the areas of cardiology, neurosurgery, gastroenterology, orthopedic and oncology services. Several new providers joined MMMC in January of 2015 and are providing specialty emergency on-call services for the hospital as well as to see patients in the clinic.

The new providers were:
- Robert Dy, DO (Gastroenterology)
- Don Hill, MD (Oncology/Hematology)
- David Engle, MD (Neurosurgery)
- James Caldwell, MD (General Cardiology)
- Pamela Gordon, MD (General Cardiology)
- Allison Nichols, PA-C (Neurosurgery)
- Theresa Andrews, NP (General and Interventional Cardiology)
- Teresa Cafferio, PA-C (General and Interventional Cardiology)

They joined MMMC physicians: General Cardiologist Dr. Leslie Oberst; Interventional Cardiologists Dr. Joseph Chambers and Dr. Colin Lee; Cardiothoracic Surgeons Dr. Michael Dang and Dr. Tracy Dorheim; Orthopedic Surgeon Dr. Douglas Ching and Gastroenterologist Dr. Rory O’Connor.

**MMMC Auxiliary**
Maui Memorial Medical Center (MMMC) Auxiliary donated 100 new bedside tables to brighten and improve the MMMC patient experience. The tables were installed on (5) different units.
throughout the hospital. The Auxiliary is committed to supporting the hospital's mission of providing the highest-quality medical services, while lending their time and energy as warm and compassionate volunteers to the hospital staff and patients. The 55 active members provide nearly 10,000 hours of service in 14 hospital departments through a variety of activities, which includes working within the hospital where needed, holding the annual Harvest Sale, managing the hospital Gift Shop and holding vital fundraising initiatives.

**MMMC Patient Services**

- Acute Inpatient Dialysis
- Adult Behavioral Health Services
- Cardiac Care
  - Cardiac and Thoracic Surgery:
  - General and Interventional Cardiology:
- Critical Care Services
- 24-Hour Emergency Care
- Endoscopy
- Heart, Brain & Vascular Center Services
  - Angiography
  - Percutaneous Coronary Interventions
  - Cardiac Catheterizations
  - Electrophysiology (EP) Studies
  - Ablations
  - Implantations
  - Cardiac Stress Testing
  - Echocardiography
  - Cardioversions
- Stroke Services
  - Certified Stroke Center
- Electroencephalograms (EEG)
- Telemetry Monitoring Services
- 24-Hour Laboratory Services
- Maternity Services
  - Delivery, Post-Partum Care, Nursery and Patient Education Services
- Hematology and Oncology
  - Hematology
  - Medical Oncology
  - Oncology Infusion Services *(cancer treatments)*
- Nutrition Services
- **Surgical Services, including but not limited to:**
  - Neurological Surgery
  - Cardiac and Thoracic Surgery
  - Orthopedic Surgery
  - Plastic Surgery
- Gastroenterology Surgery
- Otolaryngology (ENT) Surgery
- Urological Surgery
- Oral Maxillofacial Surgery
- Obstetrics and Gynecology Surgery
- Ophthalmology Surgery
- Podiatry Surgery
- General Surgery
- Same Day Surgery (Outpatient)
- Pediatric Medicine
- 24-Hour Inpatient Pharmacy
- Inpatient and Outpatient Physical, Occupational and Speech Therapy
- Recreational Therapy
- Interventional Radiology Services
- Diagnostic Imaging Services:
  - Diagnostic x-ray
  - Computed Tomography (CT) Scan
  - Advanced Magnetic Resonance Imaging (MRI)
  - Nuclear Medicine
  - Ultrasound
  - Mammography
- Respiratory Therapy
- Wound/Ostomy Care
- Trauma Services
  - Designated a Level III Trauma Center
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 137 acute, including a 20-bed psychiatric unit, a separate 119-bed licensed extended care facility and an accredited home care agency. Built in 1984, the facility sits on roughly 20.5 acres of land, next to the new 95-bed Yukio Okutsu Veterans Home, Hawaii’s first State Veterans Home, and the previous site of the “old hospital.” Today, HMC is the largest employer in Hilo, with 1,150 employees. Also on campus are Hawaii Pacific Oncology Center, Cardiology, Pain Management Clinics and the Veteran’s Administration (VA) Community-Based Outpatient Clinic. Other off-campus clinics also under Hilo Medical Center include Family Medicine/Pediatrics, Surgery, Neurology, Orthopedics, Otolaryngology, and Urology.

HMC patient services include:

- 24-Hour CAP-Accredited Pathology Laboratory and Blood Bank Services
- 24-Hour Physician-Staffed Emergency Care
- Acute Inpatient Dialysis
- Adult Psychiatric Care
- Bronchoscopy
- Cardiac Care, Echocardiography, Thallium Stress Treadmills, Pacemakers, Cardiac Telemetry
- EEG
- Endoscopy
- Food and Nutrition Services and Counseling
- Home Care
- Hospitalist Services
- Imaging Services – x-ray, CT, MRI, angiography, interventional radiology, nuclear medicine, ultrasound
- Inpatient and Outpatient Rehabilitation Services – Physical, Occupational, Speech, and Recreational Therapies
- In-Patient Pharmacy
- Critical and Progressive Care
- Neurology
- Obstetrics/Gynecology Services, Labor and Delivery, Post-Partum, and Childbirth, Breastfeeding and Car Seat Classes
- Oncology Care—Medical and Radiation Oncology
- Outpatient Clinics — Cardiology, Family Medicine, Pediatrics, Oncology, Orthopedics, Neurology, Pain Medicine, ENT, Surgery, and Urology
- Pediatrics
- Physiatry
- Respiratory Therapy
- Skilled Nursing and Long Term Care
- Social Services
- Surgical Services—Same Day Surgery, Post-Anesthesia Care, and Special Procedures
- Subspecialty Surgical Services—Vascular Surgical Services (Open and Endo-), Orthopedics, Ophthalmology, Otorhinolaryngology, Urology
- Telemedicine and Teleradiology
- Urology
- Wound and Ostomy Care

PATIENT CENSUS
- Admissions 8,995
- ER Visit 44,951
- Births 1,147
- Clinic Visits 31,890

COMMUNITY-BASED FOUNDATION SUPPORT OF EAST HAWAII REGION FACILITIES
Total Private Donations - $109,000
Total Fundraising - $117,000
Totally Federal/State/Private Grants - $90,000
TOTAL - $316,000

VOLUNTEER SERVICES
- Number of Active Volunteers: 125
- Number of Total Volunteer Hours: 12,300
- Volunteer Auxiliary Contributions: $12,000

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

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 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, 24 hours/7 days per week, on call within 30 minute
- Inpatient Physical Therapy
- Inpatient Occupational Therapy
- Inpatient Speech Therapy
- Inpatient Social Services
- Inpatient and Outpatient Laboratory services
- Inpatient and Outpatient X-Ray services
- Inpatient Dietary/Food Services
- Auxiliary and Community Volunteer Services

PATIENT CENSUS
- Admissions 130
- ER Visits 2,199

COMMUNITY-BASED FOUNDATION SUPPORT OF EAST HAWAII REGION FACILITIES:
Total Private Donations - $5,000
Total Fundraising - $0
Totally Federal/State/Private Grants - $0
TOTAL - $5,000

Ka’u Hospital, in Pahala, is a 21-bed facility with 16 long-term care beds and 5 acute beds with 54 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 Medicine
  - Geriatric Medicine
  - Outpatient Laboratory

PATIENT CENSUS

- Admissions 28
- ER Visits 2,700
- Clinic Visits 4,914

COMMUNITY- BASED FOUNDATION SUPPORT OF HHSC FACILITIES

Total Private Donations - $10,000
Totally Federal/State/Private Grants - $10,000
TOTAL - $20,000

VOLUNTEER SERVICES

- Number of Active Volunteers: 11
- Number of Total Volunteer Hours: 1,518
Hilo Medical Center Foundation
Founded in 1995, the Foundation supports the healthcare of the community and its visitors by assisting Hilo Medical Center (HMC) through volunteerism, community education, and financial support. With no private hospitals in the East Hawaii region, HMC is truly a community institution with quality of facilities and services dependent upon both psychological and financial community support. We view our mission as attempting to enhance that support.

Foundation President: 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: 808-932-3636 Fax: 808-974-4746

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

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

Contact information:
Hale Hoʻola Hamakua Foundation
Attn: Farrah-Marie Gomes
45-547 Plumeria Street
Honokaa, HI 96727
Telephone: (808) 345-4190
Email: info@halehoola.org

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

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

Contact information:
Ka‘u Hospital Foundation
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Pahala, HI 96777
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HHSC East Hawaii Region  
Fiscal Year 2015 Regional Highlights

On behalf of the East Hawaii Region of Hawaii Health Systems Corporation (HHSC), we are pleased to submit our end of year report highlighting the accomplishments of the Region. The East Hawaii Region includes Hilo Medical Center’s (HMC) acute and long term care facilities, its outpatient general and specialty 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 began rolling out its contingency plans in anticipation of the FY 2016 funding shortfall. Plans included a reduction in personnel in Long Term Care and Psychiatry and Home Care services. The Region organized a transfer of services to private Home Care and Long Term Care providers.

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

The region thanks Board Chair Gary Yoshiyama and Board Secretary/Treasurer Harry Yada for their leadership. Terms concluding for board members included Katherine Daub and Mike Middlesworth. Wayne Kanemoto has been named to the HHSC Corporate Board. At the close of FY 2015, the board appointed Dan Brinkman, RN, MPA as the East Hawaii Regional Chief Executive Officer and Kurt Corbin as the East Hawaii Regional Board Chair.

Quality

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

- HMC recognized as a “Top Performer” among 671 hospitals for sepsis care. HMC’s low mortality rate of 7.6 percent stands well below the average of 9.1 percent at top-performing hospitals across the country.
- HMC was named as a recipient of the 2015 Healthgrades Patient Safety Excellence Award™, ranking us among the top 10% of all hospitals for excellent performance in safeguarding patients from serious, potentially preventable complications during their hospital stays.
- HMC received the American Heart Association’s Get with the Guidelines Gold Award for treatment of heart failure.
Growth

Imaging
Hilo Medical Center’s Imaging Department began its modernization project. State Trauma Program funding purchased a state-of-the-art 640-slice CT scanner that produces high quality, timely images to improve trauma care. This equipment also helps with the diagnosis of heart attacks.

Electronic Medical Records
HealthConnect, our fully adopted EMR system, integrates patient records within our financial and supply chain management system for optimum efficiency. Our in-house team was able to recoup $5 million in federal funds to help offset the $8 million investment. At the end of FY 2015, HMC demonstrated our EMR utilization to be considered for the HIMSS Nicolas E. Davies Award of Excellence and received the award at the start of FY 2016. HMC is the first safety net hospital be awarded and one of only 39 hospitals to be honored since 1994.

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

Finance

Hilo Medical Center
Total Operating Revenue for FY 2015 was $152M compared to a budget of $152M. FY 2015 Total Operating Expense was $183M versus a budget of $185M, a 1% favorable variance. Operating Income (Loss) for FY 2015 was ($30.4M) compared to a budget of ($32.2M). After Corporate Overhead and other appropriations, the Net Income (Loss) was ($1.9M) for FY 2015 versus a budget of ($11.7M). Data provided is unaudited.

Hale Ho'ola Hamakua
Total Operating Revenue for FY 2015 was $16.9M compared to a budget of $11.2M, a 50% favorable variance. FY 2015 Total Operating Expense was $14.8M versus a budget of $14.9M, a 1% favorable variance. Operating Income (Loss) for FY 2015 was $2.1M compared to a budget of ($3.7M). After Corporate Overhead and other appropriations, the Net Income was $4.3M for FY 2015 versus a budget of ($1.6M). Data provided is unaudited.
Ka'u Hospital
Total Operating Revenue for FY 2015 was $6.9M compared to a budget of $7.2M, a 5% unfavorable variance. FY 2015 Total Operating Expense was $8.3M versus a budget of $8.3M. Operating Income (Loss) for FY 2015 was ($1.4M) compared to a budget of ($1.0M). After Corporate Overhead and other appropriations, the Net Income was $0.1M for FY 2015 versus a budget of $0.6M. 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 3,378
- Patient Days 18,788
- Births 523
- ER Visits 21,314

COMMUNITY - BASED FOUNDATION SUPPORT OF HHSC FACILITIES

- Total Private Donations - $46,037
- Total Fundraising - $224,606
- Total Federal/State/Private Grants - $100,000

TOTAL - $370,643
VOLUNTEER SERVICES

- Number of Active Volunteers: 51
- Number of Total Volunteer Hours: 6,610
- Volunteer Auxiliary Contributions: $14,850

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: 8,413
- Emergency Visits: 1,750

COMMUNITY-BASED FOUNDATION SUPPORT OF HHSC FACILITIES

- Total Private Donations - $95,192.83
- Total Fundraising - $51,710.00
- Total Federal/State/Private Grants - $5,000.00
  TOTAL - $151,902.83

VOLUNTEER SERVICES

- Number of Active Volunteers: 5
- Number of Total Volunteer Hours: 1,277
- Volunteer Auxiliary Contributions: $2,500
Kona Community Hospital Foundation

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

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

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

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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

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Kohala Hospital Charitable Foundation
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HHSC West Hawaii Region
Fiscal Year 2015 Regional Highlights

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

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

The staff includes over 449 highly skilled employees; many have been with our hospital for over 20 years. KCH has 220 medical staff practitioners, 64 of whom are active practitioners. We also are one of the largest employers in West Hawaii.

Kohala Hospital
Kohala Hospital is a 26-bed Critical Access Hospital (CAH), founded in 1917, that serves the population of North Kohala. Located in Kapaau, Kohala Hospital (KOH) employs 54 full-time, part-time and casual-hire employees. With 22 beds dedicated to Long Term Care, KOH provides emergency services, outpatient lab, radiology and EKG services, inpatient short-stay acute care and inpatient rehab services. Emergency physicians are on-call at all times, servicing more than 1700 emergency room patients per year.

Awards and Accolades

- Kona Community Hospital was voted Best Hospital in West Hawaii in the 2015 West Hawaii Today “Best Of” poll.
- KCH completed a successful Hospital and Laboratory Joint Commission survey and received on-going Joint Commission accreditation.
- 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 members, Gary Goldberg, MD, Michael Schleuter, Esq., Adrienne Klein, Esq. and Danielle Potter-Stovaw, MD.

Tawnie McDonald, MT (ASCP) joined the West Hawaii regional management team as Regional Quality Director. Richard McDowell, MD, FACEP joined the West Hawaii regional management team as Regional Medical Director. Dr. McDowell also serves as Kona Community Hospital’s Chairman of the Department of Emergency Medicine.
Employee engagement activities were held throughout the year. Activities include monthly Town Hall meetings, employee of the month recognition and monthly Employee Birthday Lunches where all employees with birthdays in the current month are invited to have lunch with the CEO. KCH continues to celebrate National Volunteer’s, National Nurses’ and National Hospital Weeks.

KCH began planning for the implementation of reduction in force (RIF) of 34 positions to be eliminated facility-wide. In addition, the hospital will be closing its 18-bed skilled nursing service.

**QUALITY**

KCH programs improve patient outcomes:

- 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 15 trauma activations per month.
- KCH participates in the American Heart Association’s Mission Lifeline: STEMI and Cardiac resuscitation system to improve survival rates for heart attack patients.
- KCH launched a TeleStroke program on May 27, 2015 in collaboration with the Hawaii Stroke Network. The program’s first activation was on June 30th. The TeleStroke Program averages 2 – 3 stroke activations per month.
- KCH completed its Baby-Friendly Hospital certification visit in February. 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).

KCH programs offer community and patient engagement:

- Metabolic and Bariatric Weight Loss program. The only comprehensive weight loss program on Hawaii Island provides medical and surgical weight loss options to manage obesity and comorbid conditions.
- Heartburn and Reflux Program. We are the sole location on Hawaii Island to provide a new incision-less surgical procedure to treat the root cause of moderate to severe Gastroesophageal Reflux Disease (GERD).
- KCH is an American Heart Association certified training center, providing courses for the Public as well as Providers in: ACLS (Advanced Cardiac Life Support), BLS (Basic Life Support), PALS (Pediatric Advanced Life Support, and Pears (Pediatric Emergency Assessment, Recognition and Stabilization) as well as ECG & Pharmacology.
- Certified childbirth educators from our Women’s Services Unit offer six-week prenatal education classes for expectant mothers to improve the labor experience.
- Training is on-going for the implementation of ICD-10, which launched in October 2015.
PHYSICIAN RETENTION & RECRUITMENT

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

Kona Community Hospital has approximately sixty-four active physicians representing 27 specialties on its medical staff. In FY 2015, we saw additions of two permanent medical staff – both in the field of emergency medicine. We also credentialed new providers in the area of telemedicine for the recently launched tele-stroke program.

In June, 2015, our medical oncologist / hematologist resigned to return to the mainland. As the only oncology provider on to the west side of Hawaii Island, this created an immediate and urgent need for oncological care to our community. We have filled that position with a long- term contract oncology/hematology specialist. We are also collaborating with the Queens Medical Center oncology department to round and enhance oncology services to west Hawaii.

Sound Physicians provides comprehensive hospitalist in-patient services at KCH. As of FYE 2015, Sound Physicians employed a team of four physicians and a dedicated hospitalist RN. They have recruited a Nurse Practitioner, who is expected to begin work on November 1, to support hospitalist activities.

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
- Kohala Hospital Charitable Foundation
- Kona Ambulatory Surgery Center
- Kona Community Hospital Auxiliary
- Kona Hospital Foundation
**Kona Hospital Foundation** raises monies for new medical technology, expanded services and enhanced facilities for KCH. The Foundation successfully concluded its campaign to raise funds for the planned expansion of the Medical Oncology clinic.

**Kona Community Hospital Auxiliary** provides a volunteer support for service and fund-raising. Their primary mission is to fund nursing scholarships. In FY 2015, fifty-one active volunteers provided 6610 hours of service. The Auxiliary funded five nursing scholarships and purchased four newborn bassinets for the Obstetrics Unit.

**Kohala Hospital Volunteer Services** provides volunteer support for resident activities. In FY 2015, five active volunteers provided 1277 hours of service to the hospital. The Auxiliary raised $2,500.

**FACILITIES**

At Kona Community Hospital, Capital Improvement Project (CIP) funded projects and improvements are on-going. Fiscal year 2015 included nine major capital improvement projects

- New generator installed
- Ceiling mitigation and seismic anchoring
- Surgical Services waiting room renovation
- ICU Nurses’ station rebuilt to increase efficiencies
- Mechanical/electrical upgrades throughout hospital
- ER/Admitting Department roof repair
- Security Card Access System installed
- Admitting Department relocation / renovation
- Medical Surgical Unit rooms renovated to have negative pressure isolation capability

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

**CLINICAL SERVICES & TECHNOLOGY**

KCH continued its contract with Hawaii Life Flight to operate a medically equipped, over-water helicopter, reducing emergency transit times from the four 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 averages 25 – 30 Hawaii Life Flight activations per month.

The contract to operate the KCH mobile medical van was scheduled to end on December 31, 2014, and was not set to be renewed. In light of the rapidly changing situation in the Puna district caused by the active lava flow, Kona Community Hospital officials offered to donate the medical van to the Puna Community Medical Center (PCMC). Ownership of the van was transferred to PCMC in October, 2014.
ELECTRONIC MEDICAL RECORDS

KCH and KOH were the first in the HHSC system to convert to EMR. Ongoing upgrades continue to standardize and enhance the system in different care settings including acute, long term care and critical access

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

FINANCIAL

At KCH, inpatient and outpatient volumes both grew by 6% in 2015 resulting in increased revenue over the prior year. This increased revenue was partly offset by a 2% Medicare reduction and no increase in State Medicaid payments. For the fiscal year 2015, KCH operating losses were $16 million due mostly to high state benefits costs. This loss was offset by $12 million in state appropriations $2.7 million in emergency appropriations and $1.6 million in collective bargaining funding, resulting in a breakeven net income for FYE 2015.

Kohala Hospital also achieved a breakeven net income with operating losses of $1 million offset by $1 million in state appropriations.

KCH concluded a 9-month performance improvement initiative called “Preparing for the Future.” The project identified over $5 million in recurring labor and non-labor savings and revenue enhancements, as well as an additional $4.6 million in one-time savings through accelerated cash collections. These savings are included in the FYE 2015 financials and will help to offset the unfunded collective bargaining raises and additional state benefits in FYE 2016.

The West Hawaii Region continues to provide comprehensive community healthcare services to our community that are quality-driven, customer-focused and cost-effective. We continue to implement strategies to produce improved patient outcomes, deliver new clinical services and create strong community partnerships. With a strong leadership team in place along with the dedication of employees, physicians, volunteers, Foundation and its Board, the Region has made progressive advancements. We will continue to face critical financial challenges moving into 2016. However, we are focused on projects and initiatives to address the healthcare needs of West Hawaii.