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

DEPT. COMM. NO. 152

To: The Honorable Ronald D. Kouchi
President of the Senate
Thirtieth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Scott K. Saiki
Speaker of the House
Thirtieth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

From: Annie Kumataka Lukec, Secretary to Anne E. Lopez, Esq.
HHSC Legal Department

Date: December 23, 2019

Subject: Hawaii Health Systems Annual Report for FY 2019

For your information and consideration, we are transmitting a copy of the Hawaii Health Systems Corporation annual report and financial statement for FY 2019, as required by Section 323F-22(b) and (c), Hawaii Revised Statutes (HRS). In accordance with Section 93-16, HRS, a copy of this report has been transmitted to the Legislative Reference Bureau and the report may be viewed electronically at: https://www.hhsc.org/about-us/hhsc-reports/

Should you have questions, please call Anne at 808-733-4034.

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HAWAII HEALTH SYSTEMS
CORPORATION
Quality Healthcare For All

REPORT TO THE THIRTIETH HAWAII STATE LEGISLATURE FOR FISCAL YEAR 2019

December 2019

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CEO-19-034

Report to the Legislature
Hawaii Health Systems Corporation's Annual Report for FY2019
Pursuant to HRS Section 323F-22(a) and (b)

Hawaii Health Systems Corporation (HHSC) is pleased to submit this report to the Legislature in accordance with section 323F-22, Hawaii Revised Statutes (HRS) relating to HHSC's Annual Audit and Report. This report includes (a) projected revenues for each health care facility for FY2019 and a list of capital improvement projects planned for implementation in FY2019; and (b) regional system board reports.

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

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

In 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. The Maui Region selected Kaiser Permanente as the entity that would manage the three Maui Region facilities. As a result, Kaiser Permanente formed a new not-for-profit entity, Maui Health System, to manage the three Maui Region facilities. In January 2016, HHSC entered into a transition agreement with an expected effective date of July 1, 2016. Due to legal challenges and other delays, the expected transition date was pushed back to July 1, 2017. The legal challenges were resolved with the passage of Act 18, S.B. 207, effective July 1, 2017, which provided severance benefits for those Maui Region employees affected by the transition of operations from HHSC to MHS. These severance benefits were paid out to eligible recipients in October 2017. HHSC entered into a transfer agreement and a lease agreement with Maui Health System to effectuate the transfer during fiscal year 2017. The transfer of operations was completed on July 1, 2017.

In Fiscal Year 2019, HHSC hospitals provided a total of the following: 12,452 acute care admissions and 573 long-term admissions; 76,079 acute care patient days and 147,406 long-term care patient days; and 80,285 emergency room visits. A total of 768 licensed beds are operated in HHSC's twelve facilities, of which 466 are designated long-term care. The system employed a total of 2,553 FTE (full-time equivalent) personnel.

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

- HHSC's facilities provided the care for almost 12% of all acute care discharges and 18% of all emergency room visits statewide;

- For Hawaii county residents, HHSC facilities provided the care for approximately 69% of all acute care discharges and approximately 84% of all emergency room visits;

- For Kauai county residents, HHSC facilities provided the care for approximately 19% of all acute care discharges and 37% of all emergency room visits.

HHSC provides accessible and affordable high quality healthcare in all communities we serve. We have continued to develop and improve our clinical and non-clinical quality programs consistently putting into practice our mission of "Quality Healthcare for All." HHSC quality initiatives that have provided the system with measurable solutions for improving quality of care, were successfully accomplished through the dedicated efforts and cooperation of our staff, community physicians, and other healthcare professionals. All HHSC facilities are fully certified and licensed by both State and national standards. All HHSC facilities are Medicare/Medicaid certified and all have successfully passed recent surveys. HHSC also continues its long-standing participation with Hawaii Medical Services Association (HMSA) Hospital Quality and Service Recognition program that offers financial incentives for meeting performance indicators related to patient care quality.

Despite the high volume of care that is provided at HHSC's facilities, HHSC continues to face growing operating losses due to excessive levels of salaries and benefits expense as compared to industry benchmarks. HHSC was forced to absorb collective bargaining raises of varying percentages negotiated by the State of Hawaii that increased salaries and benefits expense by approximately $13.8 million in fiscal year 2019 alone. Further, the collective bargaining agreements negotiated by the State of Hawaii are meant to cover employees supporting the static business environment of administrative offices, not the dynamic working environment found in the hospitals that HHSC operates. As a result, the work rules and pay schedules dictated by those collective bargaining agreements makes it difficult for HHSC to operate its facilities efficiently and cost effectively.

In fiscal year 2019, the State assessed HHSC a fringe benefit rate of 60.08%. The increase in the fringe benefit rate from fiscal year 2018 equates to almost $9.7 million in additional salaries and benefits expense. Cumulatively, since the start of fiscal

In fiscal year 2019, the State assessed HHSC a fringe benefit rate of 60.08%. The increase in the fringe benefit rate from fiscal year 2018 equates to almost $9.7 million in additional salaries and benefits expense. Cumulatively, since the start of fiscal year 2018, the mandated increases in the fringe benefit rate have burdened HHSC with an increase in cost of approximately $27.9 million over just two years. Other private hospitals across the United States pay a fringe benefit rate of between 25-30%. The impact to HHSC of the difference between its FY 19 fringe benefit rate and the private hospital fringe rate of 30% is approximately $57.2 million in additional annual expense to HHSC.

HHSC annually has a detailed independent financial audit conducted for the entire system. Additionally, HHSC has a myriad of internal reporting/performance measures that are utilized by the board of directors and management to insure compliance, quality, and financial efficiency in all system work. We have continued to focus on improving our financial management and accounting systems throughout the year. HHSC has received its thirteenth consecutive "clean" unqualified consolidated audit for every fiscal year from FY 1998 through FY2019.

The following information is attached in accordance with section 323F-22, HRS: (1) projected revenues for each facility for FY2019, (2) proposed capital improvement projects during FY2019; and (3) Hawaii Health Systems Corporation, Regional System Board Reports.

Foundations

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

Respectfully submitted,

Linda Rosen MD MPH

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

Attachments:

1. Projected FY2019 Revenues
2. CIP Expenditures FY2019
3. Regional Board Reports, FY2019

HAWAII HEALTH SYSTEMS
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Attachment A
Financial Report with Other Supplemental Information

December 2019

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Hawaii Health Systems Corporation

Financial Report
with Other Supplemental Information
June 30, 2019

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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 (the "Corporation"), a component unit of the State of Hawaii, as of and for the years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise Hawaii Health Systems Corporation'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 Hawaii Health Systems Corporation as of June 30, 2019 and 2018 and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the financial statements present only Hawaii Health Systems Corporation (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, 2019 and 2018 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.

To the Board of Directors
Hawaii Health Systems Corporation

Other Matter

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

Required Supplemental Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 3, 2019 on our consideration of Hawaii Health Systems Corporation'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 Hawaii Health System Corporation's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 3, 2019

This discussion and analysis of Hawaii Health Systems Corporation's (the "Corporation" or HHSC) financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2019, 2018, and 2017. Please read it in conjunction with the Corporation's financial statements, which begin on page 9.

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.

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

Our analysis of the Corporation's finances begins on page 9. 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 in net position. The Corporation's net position - the difference between assets and deferred outflows and liabilities and deferred inflows - can be thought of 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 operations, investing, and financing activities. It provides answers to such questions as, "Where did cash come from," "What was cash used for," and "What was the change in cash balance during the reporting period?"

The Corporation's Net Position

The Corporation's net position is the difference between its assets and deferred outflows and liabilities and deferred inflows, reported in the statement of net position on page 9. The Corporation's net position decreased by $42,882,031 (10 percent) in 2019, increased by $313,227,772 after restatement in 2018 for GASB Statement No. 75, and decreased by $(89,000,840) (18 percent) in 2017, as you can see in the below table.

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

Summarized financial information of Hawaii Health Systems Corporation's statement of net position as of June 30, 2019, 2018, and 2017 is as follows:

	2019	2018	2017
Assets			
Current assets	$ 250,552,705	$ 270,520,262	$ 299,162,372
Capital assets - Net	345,636,530	352,989,995	363,688,690
Other	19,168,571	12,804,398	3,696,553
Total assets	615,357,806	636,314,655	666,547,615
Deferred Outflows	191,351,753	192,593,251	279,905,162
Total assets and deferred outflows	806,709,559	828,907,906	946,452,777
Liabilities			
Current liabilities	79,466,835	99,154,954	130,985,468
Other postemployment liability	547,178,995	541,845,124	387,734,944
Due to the State of Hawaii	19,008,243	19,008,243	20,122,507
Pension liability	542,374,488	530,455,687	916,111,059
Other liabilities	61,767,812	50,383,059	64,113,396
Total liabilities	1,249,796,373	1,240,847,067	1,519,067,374
Deferred Inflows	42,190,438	30,456,060	16,106,533
Total liabilities and deferred inflows	1,291,986,811	1,271,303,127	1,535,173,907
Net Position			
Invested in capital assets - Net of related debt	309,317,653	317,035,159	324,570,837
Restricted	8,657,640	98,970	1,301,834
Unrestricted	(803,252,545)	(759,529,350)	(914,593,801)
Total net position	**$ (485,277,252)**	**$ (442,395,221)**	**$ (588,721,130)**

At June 30, 2019, 2018, and 2017, Hawaii Health Systems Corporation's current assets approximated 41, 43, and 45 percent, respectively, of total assets. Current assets decreased approximately $20.0 million in 2019 primarily due to a decrease in patient accounts receivable of $7.6 million and a decrease in cash and cash equivalents of $7.5 million. Current assets decreased approximately $28.6 million in 2018 due to a decrease in patient accounts receivable of $38.6 million and an increase in cash and cash equivalents of approximately $10.0 million. These changes are offset by an increase in cash of $11.7 million and an increase in patient receivables of $19.0 million. Current assets decreased approximately $6.8 million in 2017 due to a decrease in due from the State of Hawaii CIP funds of $26.2 million and a decrease in third-party payor settlements of approximately $12.5 million. These changes are offset by an increase in cash of $11.7 million and an increase in patient receivables of $19.0 million. The changes in cash are primarily due to various factors, as reflected in the statement of cash flows. The decrease in due from the State of Hawaii CIP funds, which is included within current assets for 2019, 2018, and 2017, is due to the timing of when payments were made from the State to Hawaii Health Systems Corporation.

At June 30, 2019, 2018, and 2017, Hawaii Health Systems Corporation's current liabilities approximated 6, 8, and 9 percent of total liabilities, respectively.

At June 30, 2019, 2018, and 2017, Hawaii Health Systems Corporation's portion of net position that is reflected as its net investment in capital assets, net of related debt, was approximately $309 million, $317 million and $325 million, respectively. Total net position was approximately $(485) million in 2019, $(442) million in 2018, and $(589) million in 2017.

Capital Assets

At June 30, 2019, 2018, and 2017, Hawaii Health Systems Corporation's capital assets, net of accumulated depreciation, comprised approximately 56, 55, and 55 percent, respectively, of its total assets. These assets consist mainly of land, hospital buildings, and equipment that are used in Hawaii Health Systems Corporation's operations. The decrease of approximately $7 million in 2019 is due primarily to depreciation expense incurred in 2019 for these capital assets. The decrease of approximately $11 million in 2018 is due primarily to depreciation expense incurred in 2018 for these capital assets. The increase of approximately $5 million in 2017 is due to the completion of ongoing construction projects.

A summary of Hawaii Health Systems Corporation's capital assets as of June 30, 2019, 2018, and 2017 is as follows:

	2019	2018	2017
Land and land improvements	$ 10,613,439	$ 7,814,855	$ 7,814,855
Building and improvements	537,473,329	519,812,210	505,483,896
Equipment	269,596,091	255,443,860	266,900,149
Construction in progress	29,951,480	44,504,036	35,179,719
Total cost	847,634,339	827,574,961	815,378,619
Less accumulated depreciation and amortization	(501,997,809)	(474,584,966)	(451,689,929)
Capital assets - Net	**$ 345,636,530**	**$ 352,989,995**	**$ 363,688,690**

Long-term Debt and Capital Lease Obligations

At June 30, 2019, 2018, and 2017, Hawaii Health Systems Corporation had long-term debt and capital lease obligations totaling approximately $43.6 million, $43.8 million and $48.3 million, respectively. The decrease of $0.2 million in 2019, the decrease of $4.5 million in 2018, and the decrease of $7.5 million in 2017 were due to continuing payments on existing debt obligations along with very little new issuances of capital lease obligations. More detailed information about Hawaii Health Systems Corporation's long-term debt and capital lease obligations is presented in the notes to the financial statements.

Operating Results and Changes in Net Position

Summarized financial information of Hawaii Health Systems Corporation's statement of revenue, expenses, and changes in net position for the years ended June 30, 2019, 2018, and 2017 is as follows:

	2019	2018	2017
Operating Revenue	$ 447,883,646	$ 446,897,857	$ 679,169,889
Operating Expenses			
Salaries and wages	227,942,144	241,453,293	316,009,476
Employee benefits	154,460,349	220,063,620	233,372,555
Purchased services and professional fees	92,822,867	87,257,245	130,710,043
Medical supplies and drugs	47,964,892	47,099,184	84,419,836
Depreciation and amortization	38,932,208	41,122,426	40,400,080
Insurance	7,925,398	9,685,164	6,997,134
Other	54,075,282	55,277,610	67,321,366
Total operating expenses	624,123,140	701,958,542	879,230,490
Operating Loss	(176,239,494)	(255,060,685)	(200,060,601)
Nonoperating Revenue (Expense)			
General appropriations from the State of Hawaii	120,231,971	112,301,548	107,365,000
Other nonoperating revenue (expense) - Net	2,858,886	32,579,818	(6,336,761)
Total nonoperating revenue	123,090,857	144,881,366	101,028,239
Excess of Expenses Over Revenue before Capital Contributions and Transfers	(53,148,637)	(110,179,319)	(99,032,362)
Capital Contributions	10,266,606	25,138,791	10,031,522
Transfer of Liabilities to the State of Hawaii	-	403,451,094	-
Transfer Agreement Expense	-	(5,182,794)	-
(Decrease) Increase in Net Position	$ (42,882,031)	$ 313,227,772	$ (89,000,840)

Operating Losses

For the years ended June 30, 2019, 2018, and 2017, Hawaii Health Systems Corporation's operating expenses exceeded its operating revenue by $176.2 million, $255.1 million and $200.1 million, respectively. General appropriations from the State of Hawaii totaled $120.2 million, $112.3 million and $107.4 million in 2019, 2018, and 2017 respectively. In addition, appropriations from the State of Hawaii for capital contributions totaled $10.3 million, $25.1 million and $10.0 million in 2019, 2018, and 2017 respectively. These items, along with the other nonoperating revenue and the transfer of certain liabilities to the State of Hawaii, contributed to a decrease in net position of $42.9 million in 2019, an increase in net position of $313.2 million in 2018, and a decrease in net position of $89.0 million in 2017.

Operating expenses for the fiscal year ended June 30, 2019 were approximately 11.1 percent lower than 2018. Operating expenses for the fiscal year ended June 30, 2019 decreased $78 million from fiscal year 2018, which was primarily due to the transition of operations at Maui Region, as severance benefits and other one-time transition costs were expensed in fiscal year 2018.

Operating revenue for the fiscal year ended June 30, 2019 was approximately 0.2 percent higher than 2018. The increase in operating revenue is primarily due to a slight increase in patient volume offset by the loss of revenue from HHSC's three Maui Region facilities.

Operating expenses for the fiscal year ended June 30, 2018 were approximately 20.2 percent lower than 2017. Operating expenses for the fiscal year ended June 30, 2018 decreased $177.3 million from fiscal year 2017, which was primarily due to the transition of operations at Maui Region. Maui Region operating expenses for fiscal year 2018 were $61,034,479, as compared to $339,582,199 in fiscal year 2017, a decrease of $278,547,720. This decrease in operating expenses was offset by a $56.8 million increase in postemployment benefit expense allocated to the Corporation from the State of Hawaii, $48.7 million in pension expense allocated to the Corporation from the State of Hawaii, $18.0 million in employee benefit expense increases charged to the Corporation as part of its payroll payments, and $11.2 million in collective bargaining pay raises negotiated by the State of Hawaii on the Corporation's behalf.

Operating revenue for the fiscal year ended June 30, 2018 was approximately 34.2 percent lower than 2017. The decrease in operating revenue is primarily due to the transition of HHSC's three Maui Region facilities to Kaiser Permanente, effective July 1, 2017.

Operating expenses for the fiscal year ended June 30, 2017 were approximately 12.4 percent higher than 2016. Operating expenses for the fiscal year ended June 30, 2017 increased $97.0 million from fiscal year 2016, which was primarily due to increases in purchased services and professional fees of approximately $14.3 million and an increase in employee benefits of $66.9 million, with the remainder due to normal inflationary cost increases.

Operating revenue for the fiscal year ended June 30, 2017 was approximately 6 percent higher than 2016. The increase in operating revenue is primarily due to an increase in acute patient days from fiscal year 2016, coupled with an increase in payments from various health plans related to uncompensated care programs. Additional increases in revenue are driven by third-party payor contract negotiations, clinical documentation improvement initiatives, and strategic pricing initiatives.

System-wide Outlook

Fiscal year 2019 continued the trend of demonstrating how critical HHSC's facilities are in terms of access to health care in the State of Hawaii, particularly on the neighboring islands. In fiscal year 2019, HHSC's acute discharges for the four remaining HHSC regions were 13,599, which accounts for approximately 12 percent of all acute-care discharges in the State of Hawaii. In fiscal year 2019, HHSC's emergency department visits for the four remaining HHSC regions were 87,020, representing approximately 18 percent of all emergency department visits statewide. The impact of HHSC's facilities on the neighboring islands is even more impressive. For residents of the County of Hawaii, HHSC's facilities cared for 69 percent of all acute-care discharges and 84 percent of all emergency department visits. For residents of the County of Kauai, HHSC's facilities cared for 19 percent of all acute-care discharges and 37 percent of all emergency department visits.

Despite the high volume of care that is provided at HHSC's facilities, HHSC continues to face growing operating losses due to excessive levels of salaries and benefits expense, as compared to industry benchmarks. HHSC was forced to absorb collective bargaining raises of varying percentages negotiated by the State of Hawaii, which increased salaries and benefits expense by approximately $13.8 million in fiscal year 2019 alone. Furthermore, the collective bargaining agreements negotiated by the State of Hawaii are meant to cover employees supporting the static business environment of administrative offices, not the dynamic working environment found in the hospitals that HHSC operates. As a result, the work rules and pay schedules dictated by those collective bargaining agreements make it difficult for HHSC to operate its facilities efficiently and cost effectively. In fact, as a result of these ever-increasing cost pressures, HHSC's salaries and benefits expense as a percentage of net patient service revenue was 88.2 percent for fiscal year 2019, as compared to the U.S. Not-for-Profit Healthcare System Median of 57.9 percent (per Standard & Poor's Global Ratings for 2017).

In fiscal year 2019, the State of Hawaii assessed HHSC a fringe benefit rate of 60.08 percent. The increase in the fringe benefit rate from fiscal year 2018 equates to almost $9.7 million in additional salaries and benefits expense. Cumulatively, since the start of fiscal year 2018, the mandated increases in the fringe benefit rate have burdened HHSC with an increase in cost of approximately $27.9 million over just two years. Other private hospitals across the United States pay a fringe benefit rate of between 25 to 30 percent. The impact to HHSC of the difference between its FY 2019 fringe benefit rate and the private hospital fringe rate of 30 percent is approximately $57.2 million in additional annual expense to HHSC.

Future Outlook

As long as the State of Hawaii continues to impose collective bargaining pay raises 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 just 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. In fiscal year 2020, HHSC has already had to absorb a further increase in the fringe benefit rate to 63.08 percent and anticipates having to pay even more in collective bargaining raises than the prior biennium once all of the Hawaii Government Employees Association (HGEA) bargaining units receive their interest arbitration awards.

HHSC is continuously analyzing how to better meet the challenges of delivering vital health care to the communities it serves. In doing so, HHSC continues to evaluate its current operations to see where there may be opportunities for the system as a whole to operate more efficiently and effectively in providing accessible, high-quality services that address the healthcare needs of Hawaii's unique island communities.

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 Hawaii Health Systems Corporation's corporate office at Hawaii Health Systems Corporation, 3675 Kilauea Avenue, Honolulu, HI 96816.

Statement of Net Position

June 30, 2019 and 2018

	2019	2018
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents (Note 2)	$ 112,739,307	$ 111,089,957
Cash and cash equivalents - State of Hawaii (Note 2)	5,290,501	14,420,501
Patient accounts receivable - Less allowance for doubtful accounts of $28,795,224 and $31,572,152 in 2019 and 2018, respectively (Notes 2 and 3)	55,519,424	63,118,681
Investments (Note 4)	7,608,485	7,293,429
Due from the State of Hawaii (Note 6)	41,726,770	53,812,700
Assets limited as to use - Current (Note 2)	5,000,000	-
Supplies and other current assets	11,316,331	11,179,130
Estimated third-party payor settlements	11,351,887	9,605,864
Total current assets	250,552,705	270,520,262
Assets Limited as to Use - Net of current portion (Note 2)	17,276,312	11,736,510
Capital Assets - Net (Note 5)	345,636,530	352,989,995
Other Assets	1,892,259	1,067,888
Total assets	615,357,806	636,314,655
Deferred Outflows of Resources		
Deferred outflows of resources - Pension (Note 8)	101,366,835	109,442,884
Deferred outflows of resources - Postemployment benefits other than pensions (Note 9)	89,984,918	83,150,367
Total deferred outflows of resources	191,351,753	192,593,251
Total assets and deferred outflows of resources	$ 806,709,559	$ 828,907,906

See notes to financial statements.

Statement of Net Position (Continued)

June 30, 2019 and 2018

	2019	2018
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 55,359,978	$ 64,544,248
Current portion of accrued vacation (Note 7)	15,945,360	14,871,289
Current portion of long-term debt (Note 10)	1,699,082	11,986,033
Current portion of capital lease obligations (Note 10)	1,957,410	2,541,521
Current portion of accrued workers' compensation (Note 11)	3,661,000	3,932,000
Other current liabilities	844,005	1,279,863
Total current liabilities	79,466,835	99,154,954
Long-term Debt - Net of current portion (Note 10)	33,953,949	24,291,662
Capital Lease Obligations - Net of current portion (Note 10)	5,968,521	4,939,228
Other Liabilities		
Accrued vacation - Less current portion (Note 7)	13,611,420	12,840,265
Accrued workers' compensation - Less current portion (Note 11)	8,037,000	8,100,000
Other postemployment liability (Note 9)	547,178,995	541,845,124
Due to the State of Hawaii (Note 6)	19,008,243	19,008,243
Pension liability (Note 8)	542,374,488	530,455,687
Other liabilities	27,898	25,948
Patients' safekeeping deposits	169,024	185,956
Total liabilities	1,249,796,373	1,240,847,067
Deferred Inflows of Resources		
Deferred inflows of resources - Pension (Note 8)	31,216,935	29,330,872
Deferred inflows of resources - Postemployment benefits other than pensions (Note 9)	10,973,503	1,125,188
Total deferred inflows of resources	42,190,438	30,456,060
Total liabilities and deferred inflows of resources	1,291,986,811	1,271,303,127
Net Position		
Unrestricted	(803,252,545)	(759,529,350)
Net investment in capital assets	309,317,653	317,035,159
Restricted for lender covenants and other (Note 2)	8,657,640	98,970
Total net position	(485,277,252)	(442,395,221)
Total liabilities, deferred inflows of resources, and net position	**$ 806,709,559**	**$ 828,907,906**

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenue		
Net patient service revenue (net of provision for doubtful accounts of $13,759,039 and $16,164,308 for 2019 and 2018, respectively)	$ 433,802,645	$ 432,902,499
Other revenue	14,081,001	13,995,358
Total operating revenue	447,883,646	446,897,857
Operating Expenses		
Salaries	227,942,144	241,453,293
Employee benefits	154,460,349	220,063,620
Medical supplies and drugs	47,964,892	47,099,184
Depreciation and amortization	38,932,208	41,122,426
Utilities	12,011,468	11,289,207
Repairs and maintenance	12,603,945	12,843,900
Other supplies	13,758,076	12,567,203
Purchased services	72,978,589	74,503,307
Professional fees	19,844,278	12,753,938
Insurance	7,925,398	9,685,164
Rent and lease	4,540,536	5,408,259
Other	11,161,257	13,169,041
Total operating expenses	624,123,140	701,958,542
Operating Loss	(176,239,494)	(255,060,685)
Nonoperating Income (Expense)		
General appropriations from the State of Hawaii	120,231,971	112,301,548
Transfers from State of Hawaii (Note 1)	-	30,480,914
Restricted contributions	1,025,643	764,352
Interest expense	(2,595,900)	(2,232,520)
Interest and dividend income	1,685,270	804,015
Other nonoperating revenue - Net	2,743,873	2,763,057
Total nonoperating income	123,090,857	144,881,366
Excess of Expenses Over Revenue before Capital Contributions and Transfers	(53,148,637)	(110,179,319)
Capital Contributions	10,266,606	25,138,791
Transfer Agreement Expense	-	(5,182,794)
Transfer of Liabilities to the State of Hawaii (Note 1)	-	403,451,094
(Decrease) Increase in Net Position	(42,882,031)	313,227,772
Net Position - Beginning of year	(442,395,221)	(755,622,993)
Net Position - End of year	$ (485,277,252)	$ (442,395,221)

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Cash received from government, patients, and third-party payors	$ 439,655,879	$ 465,602,633
Cash payments to employees for services	(361,910,854)	(385,713,854)
Cash payments to suppliers for services and goods	(201,601,563)	(207,226,809)
Other receipts from operations	14,081,001	13,995,358
Net cash used in operating activities	(109,775,537)	(113,342,672)
Cash Flows from Noncapital Financing Activities		
Appropriations from the State of Hawaii	120,231,971	112,301,548
Transfers from the State of Hawaii	-	30,480,914
Other nonoperating revenue - Net	2,743,873	2,763,057
Net cash provided by noncapital financing activities	122,975,844	145,545,519
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(6,775,170)	(5,897,951)
Interest paid	(2,595,900)	(2,232,520)
Repayments on long-term debt	(19,010,562)	(1,735,418)
Repayments on capital lease obligations	(2,673,319)	(4,875,617)
Restricted capital contributions	1,157,684	1,129,995
Proceeds from long-term debt	18,385,898	-
Net cash used in capital and related financing activities	(11,511,369)	(13,611,511)
Cash Flows from Investing Activities		
Interest and dividend income	1,685,270	804,015
Purchase of short-term investments and assets limited as to use	(10,854,858)	(8,461,272)
Net cash used in investing activities	(9,169,588)	(7,657,257)
Net (Decrease) Increase in Cash and Cash Equivalents	(7,480,650)	10,934,079
Cash and Cash Equivalents - Beginning of year	125,510,458	114,576,379
Cash and Cash Equivalents - End of year	**$ 118,029,808**	**$ 125,510,458**
Statement of Net Position Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 112,739,307	$ 111,089,957
Cash and cash equivalents - State of Hawaii	5,290,501	14,420,501
Total cash and cash equivalents	**$ 118,029,808**	**$ 125,510,458**

See notes to financial statements.

	2019	2018
A reconciliation of operating loss to net cash used in operating activities is as follows:		
Cash Flows from Operating Activities		
Operating loss	$ (176,239,494)	$ (255,060,685)
Adjustments to reconcile operating loss to net cash from operating activities:		
Provision for doubtful accounts	13,759,039	16,164,308
Depreciation and amortization	38,932,208	41,122,426
Loss on disposal of capital assets	126,684	2,483,126
Changes in assets and liabilities:		
Patient accounts receivable	(6,159,782)	19,032,421
Supplies and other assets	(961,572)	370,199
Accounts payable, accrued expenses, and other liabilities	(9,226,371)	(28,126,911)
Accrued workers' compensation liability	(334,000)	(708,000)
Postemployment benefit liability	5,333,871	305,749,616
Pension liability	11,918,801	(32,596,469)
Deferred outflows and inflows	12,975,876	(167,601,934)
Estimated third-party payor settlements	(1,746,023)	(2,481,887)
Accrued vacation	1,845,226	(11,688,882)
Net cash used in operating activities	$ (109,775,537)	$ (113,342,672)
Noncash Financing and Investing Activities		
Capital assets contributed by the State of Hawaii and others	$ 22,220,495	$ 25,435,029
Net change in accounts payable related to capital assets acquired	(408,739)	(485,183)
Change in due from the State of Hawaii	12,085,930	661,881
Assets acquired via capital lease	3,118,501	2,059,060
Noncash transfer agreement expense	-	5,182,794
Noncash transfer to the State of Hawaii	-	403,451,094

See notes to financial statements.

Note 1 - Organization

Structure

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

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

East Hawaii Region:

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

West Hawaii Region:

- Kona Community Hospital
- Kohala Hospital

Kauai Region:

- Kauai Veterans Memorial Hospital
- Samuel Mahelona Memorial Hospital

Oahu Region:

- Leahi Hospital
- Maluhia

Kahuku Medical Center

The operations of the following facilities were transferred to Kaiser Permanente on July 1, 2017:

Maui Region (or HHSC - Maui):

- Maui Memorial Medical Center (MMMC)
- Kula Hospital
- Lanai Community Hospital

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

Hawaii Health Systems Corporation 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 Hawaii Health Systems Corporation and the facilities and are not intended to present the financial position, results of operations, or cash flows of the Department of Health.

Note 1 - Organization (Continued)

Negotiations between Hawaii Health Systems Corporation 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, 2019. Accordingly, the assets, liabilities, and net assets of Hawaii Health Systems Corporation reflected in the accompanying statement of revenue, expenses, and changes in net position may be significantly different from those eventually included in the final settlement.

The financial statements are being presented for Hawaii Health Systems Corporation; Hawaii Health Systems Foundation (HHSF); Alii Community Care, Inc. (Alii); and Kona Ambulatory Surgery Center (KASC). HHSF and Alii are nonprofit organizations of which Hawaii Health Systems Corporation is the sole member. The purpose of HHSF is to raise funds and to obtain gifts and grants on behalf of Hawaii Health Systems Corporation. 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 on 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 Hawaii Health Systems Corporation 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 Hawaii Health Systems Corporation board of directors to 15 members, composed 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 Hawaii Health Systems Corporation 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 Hawaii Health Systems Corporation 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 Hawaii Health Systems Corporation 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 Hawaii Health Systems Corporation 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 Corporation's board of directors by adding five regional members appointed by the governor and making the five regional chief executive officers ex officio, nonvoting members.

Maui Region

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.

Note 1 - Organization (Continued)

Following the State of Hawaii Legislature passing Act 103, the Maui Region entered into a transfer agreement with Kaiser Permanente (Kaiser). As of July 1, 2017, operations of HHSC - Maui's facilities were transferred to Kaiser. HHSC - Maui continues to own all capital assets that are now leased to Kaiser as part of a lease agreement. As of the transfer date, the main economic function of the region is related to lease activity, and there will be no other significant revenue streams. See Note 11 for further discussion regarding lease activity.

As called for in Act 103, HHSC - Maui made severance payments to qualified employees during the fiscal year ended 2018, which was funded by the State. The severance approximated $30.5 million and is included within salaries and employee benefits within the statement of revenue, expenses, and changes in net position. The reimbursement from the State, also for approximately $30.5 million, is included within transfers from the State of Hawaii within nonoperating revenue in the statement of revenue, expenses, and changes in net position.

Act 103 also called for the transfer of certain liabilities from the Corporation to the State. These liabilities included the net pension liability and other postemployment benefit liability and any related deferred inflows and deferred outflows of resources. As part of Act 103, these liabilities were transferred back to the State. In total, the amount of deferred outflows of resources transferred to the State was $108,512,305, and the amount of deferred inflows of resources and liabilities transferred to the State was $511,963,399. The net impact from the removal of the deferred outflows of resources, deferred inflows of resources, and liabilities of $403,451,094 is included below excess of expenses over revenue within the statement of revenue, expenses, and changes in net position.

The transfer agreement resulted in all inventory of HHSC - Maui as of July 1, 2017 becoming the property of Kaiser. As of the transfer date, HHSC - Maui recognized $5,182,794 of transfer agreement expense to reflect the change in ownership of inventory, which is included below excess of expenses over revenue within the statement of revenue, expenses, and changes in net position.

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 Hawaii Health Systems Corporation in a manner and to an extent that was to be negotiated between Kahuku Hospital and Hawaii Health Systems Corporation. The act also specified that none of the liabilities of Kahuku Hospital were to become the liabilities of Hawaii Health Systems Corporation, that Hawaii Health Systems Corporation 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 years ended June 30, 2019 and 2018, Hawaii Health Systems Corporation incurred losses from operations of approximately $176 million and $255 million, respectively, and had negative cash flows from operations of approximately $110 million and $113 million, respectively. Management believes maintaining the current levels of service provided by Hawaii Health Systems Corporation will require continued funding by the State of Hawaii.

Note 2 - Significant Accounting Policies

Basis of Accounting

Hawaii Health Systems Corporation 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). Hawaii Health Systems Corporation's portion of this cash pool at June 30, 2019 and 2018 is indicated in the accompanying statement of net position as cash and cash equivalents - State of Hawaii. The Hawaii Revised Statutes authorize the director of finance to invest in obligations of, or guaranteed by, the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with state statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

Hawaii Health Systems Corporation has cash in financial institutions that is in excess of available depository insurance coverage. The amount of uninsured and uncollateralized deposits totaled approximately $110,472,000 and $110,131,000 at June 30, 2019 and 2018, respectively. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a financial institution failure, Hawaii Health Systems Corporation's deposits might not be returned to it. Hawaii Health Systems Corporation 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, Hawaii Health Systems Corporation 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 Hawaii Health Systems Corporation's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments is based on expected payment rates from payors based on current reimbursement methodologies.

Supplies

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

Note 2 - Significant Accounting Policies (Continued)

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 acquisition 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:

- Buildings and improvements and land and land improvements: 5-40 years
- Equipment: 3-20 years

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

Assets Limited as to Use

Assets limited as to use are restricted net position, patients' safekeeping deposits, restricted deferred contributions, board-designated cash, internally designated investments, 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 Hawaii Health Systems Corporation in a fiduciary capacity as custodian. Receipts and disbursements of these funds are not reflected in Hawaii Health Systems Corporation's operations.

At June 30, 2019 and 2018, assets limited as to use consisted of restricted cash of $22,276,312 and $11,736,510, respectively.

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. Hawaii Health Systems Corporation has two items that qualify for reporting in this category. They are the deferred outflows of resources related to the cost-sharing defined benefit pension plan (see Note 8) and the State of Hawaii OPEB plan (see Note 9).

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. Hawaii Health Systems Corporation has two items that qualify for reporting in this category. They are the deferred inflows of resources related to the cost-sharing defined benefit pension plan (see Note 8) and the State of Hawaii OPEB plan (see Note 9).

Accrued Vacation and Compensatory Pay

Hawaii Health Systems Corporation 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.

Note 2 - Significant Accounting Policies (Continued)

Postemployment Benefits

For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Pension

For the purpose 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' 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. The restricted net position at June 30, 2019 was composed of $178,627 restricted for capital purchases and $8,479,013 restricted by lender covenants. The restricted net position at June 30, 2018 was composed of $98,970 restricted for capital purchases. 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

Hawaii Health Systems Corporation has defined its operating revenue and expenses as those relating to the provision of healthcare services. The income and expenses relating to capital and related financing activities, noncapital financing activities, and investing activities are excluded from that definition.

Net Patient Service Revenue

Net patient service revenue is recorded on an accrual basis in the period in which the related services are provided at established rates, less contractual adjustments and provision for doubtful accounts. Hawaii Health Systems Corporation, as a safety net provider, provides charity care to certain patients; the specific cost of such care for the years ended June 30, 2019 and 2018 was approximately $1,180,000 and $1,280,000, respectively.

Hawaii Health Systems Corporation 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 2019 financial statements.

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

Note 2 - Significant Accounting Policies (Continued)

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

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

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

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

- 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) - Hawaii Health Systems Corporation has six facilities (Hale Ho'ola Hamakua, Kauai Veterans Memorial Hospital, Kahuku Medical Center, Ka'u Hospital, Kohala Hospital, and Samuel Mahelona Memorial Hospital) that are designated as critical access hospitals (CAHs) by the Centers for Medicare & 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 - Hawaii Health Systems Corporation has two facilities (Hilo Medical Center and Kona Community Hospital) that are designated as sole community hospitals by the CMS. Inpatient case rates for services rendered to Medicare beneficiaries are finally determined upon the filing of the annual Medicare cost reports.

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

Note 2 - Significant Accounting Policies (Continued)

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

State Appropriations

Hawaii Health Systems Corporation 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 (expense) 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

Hawaii Health Systems Corporation 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 Hawaii Health Systems Corporation. The bonds are obligations for the State, to be paid by the State's General Fund, and are not reported as liabilities of Hawaii Health Systems Corporation. For the years ended June 30, 2019 and 2018, interest expense totaled approximately $11,264,000 and $11,103,000, respectively.

Risk Management

Hawaii Health Systems Corporation 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 11.

Change in Accounting Principles

For the year ended June 30, 2019, the Corporation adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*. There was no impact to the June 30, 2019 statements as a result of this adoption.

For the year ended June 30, 2019, the Corporation adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The adoption of GASB 88 has been applied retroactively and impacts Note 10 to the financial statements.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. 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 financial statements for the year ending June 30, 2020.

Note 2 - Significant Accounting Policies (Continued)

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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 financial statements for the year ending June 30, 2021.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Corporation's financial statements for the June 30, 2021 fiscal year.

Note 3 - Accounts Receivable

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 is as follows:

	2019	2018
Medicare	30.00 %	33.00 %
Medicaid	30.00	27.00
HMSA	7.00	7.00
Other third-party payors	18.00	19.00
Patient and other	15.00	14.00
Total	100.00 %	100.00 %

Note 4 - Fair Value Measurements

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

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

Note 4 - Fair Value Measurements (Continued)

Hawaii Health Systems Corporation has the following recurring fair value measurements as of June 30, 2019 and 2018:

- U.S. Treasury securities of $4,860,701 and $4,511,717, respectively, are valued using quoted market prices (Level 2 inputs).
- U.S. government agencies of $2,685,167 and $2,678,367, respectively, are valued using a matrix pricing model (Level 2 inputs).
- Money market funds of $62,617 and $103,345, respectively, are valued using a matrix pricing model (Level 2 inputs).

The fair values of U.S. Treasury obligations, U.S. government agencies, and money market funds at June 30, 2019 and 2018 were determined primarily based on Level 2 inputs. Hawaii Health Systems Corporation estimates the fair value of these investments using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Hawaii Health Systems Corporation'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, Hawaii Health Systems Corporation 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 Hawaii Health Systems Corporation's investments are held by financial institutions registered in Hawaii Health Systems Corporation's name.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, Hawaii Health Systems Corporation's investment policy generally limits maturities on investments to not more than five years from the date of investment. All of Hawaii Health Systems Corporation's investments at June 30, 2019 and 2018 have an original maturity date within five years from the date of investment.

Credit Risk

Hawaii Health Systems Corporation's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating. As of June 30, 2019 and 2018, Hawaii Health Systems Corporation held investments in U.S. Treasury securities and U.S. government agency obligations.

Concentration of Credit Risk

Hawaii Health Systems Corporation'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 Hawaii Health Systems Corporation's total investments at June 30, 2019 and 2018.

Note 5 - Capital Assets

Capital asset activity of the Corporation's governmental activities for the years ended June 30, 2019 and 2018 were as follows:

	Balance July 1, 2018	Transfers and Adjustments	Additions	Retirements	Balance June 30, 2019
Assets not subject to depreciation:					
Land and land improvements	$ 7,814,855	$ 2,798,584	$ -	$ -	$ 10,613,439
Construction in progress	44,540,387	(36,039,370)	21,484,321	(33,858)	29,951,480
Subtotal	52,355,242	(33,240,786)	21,484,321	(33,858)	40,564,919
Assets subject to depreciation:					
Buildings and improvements	519,807,946	21,360,394	317,510	(4,012,521)	537,473,329
Equipment	255,415,180	11,876,979	9,903,596	(7,599,664)	269,596,091
Subtotal	775,223,126	33,237,373	10,221,106	(11,612,185)	807,069,420
Less accumulated depreciation:					
Buildings and improvements	264,142,322	31,291	22,396,085	(4,157,130)	282,412,568
Equipment	210,446,051	(34,704)	16,536,123	(7,362,229)	219,585,241
Subtotal	474,588,373	(3,413)	38,932,208	(11,519,359)	501,997,809
Capital assets - Net	$ 352,989,995	$ -	$ (7,226,781)	$ (126,684)	$ 345,636,530

	Balance July 1, 2017	Transfers and Adjustments	Additions	Retirements	Balance June 30, 2018
Assets not subject to depreciation:					
Land and land improvements	$ 7,814,855	$ -	$ -	$ -	$ 7,814,855
Construction in progress	35,179,719	(16,702,363)	26,130,803	(67,772)	44,540,387
Subtotal	42,994,574	(16,702,363)	26,130,803	(67,772)	52,355,242
Assets subject to depreciation:					
Buildings and improvements	505,483,896	14,157,553	166,497	-	519,807,946
Equipment	266,900,149	2,561,028	6,609,557	(20,655,554)	255,415,180
Subtotal	772,384,045	16,718,581	6,776,054	(20,655,554)	775,223,126
Less accumulated depreciation:					
Buildings and improvements	245,058,915	-	19,083,407	-	264,142,322
Equipment	206,631,014	16,218	22,039,019	(18,240,200)	210,446,051
Subtotal	451,689,929	16,218	41,122,426	(18,240,200)	474,588,373
Capital assets - Net	$ 363,688,690	$ -	$ (8,215,569)	$ (2,483,126)	$ 352,989,995

The State Department of Accounting and General Services and others transferred capital assets, including construction in progress, aggregating $22,220,495 and $25,435,029 to Hawaii Health Systems Corporation during the years ended June 30, 2019 and 2018, respectively.

Note 6 - State of Hawaii Advances and Receivable

The remaining amount due to the State of $19,008,243 at June 30, 2019 and 2018 is made up of cash advances to the Department of Health - Division of Community Hospitals, which was assumed by Hawaii Health Systems Corporation at the date of its formation.

At June 30, 2019 and 2018, $41,726,770 and $53,812,700, respectively, was due from the State for allotments made to Hawaii Health Systems Corporation before June 30, 2019 and 2018.

Note 7 - Accrued Vacation

Among the Corporation's short-term and long-term liabilities is accrued vacation.

Activity for the years ended June 30, 2019 and 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Accrued vacation - 2019	$ 27,711,554	$ 14,328,476	$ (12,483,250)	$ 29,556,780	$ 15,945,360	$ 13,611,420
Accrued vacation - 2018	39,400,436	14,092,866	(25,781,748)	27,711,554	14,871,289	12,840,265

Note 8 - Cost-sharing Defined Benefit Pension Plan

Plan Description

All full-time employees of Hawaii Health Systems Corporation 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' 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 5 years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2 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; Hawaii Health Systems Corporation 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 age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25 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. Hawaii Health Systems Corporation 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 5 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 8 - 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 years 2019 and 2018 was 17 percent. Contributions to the pension plan from the Corporation were approximately $36 million and $32 million for the fiscal years ended June 30, 2019 and 2018, respectively.

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, 2019 and 2018, the Corporation reported a liability of approximately $542 million and $530 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, 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, 2019 and 2018 relative to all other contributing employers. At June 30, 2019, the Corporation's proportion was 4.1 percent. At June 30, 2018, the Corporation's proportion was also 4.1 percent, which was a decrease from its proportion measurement at June 30, 2017 of 6.9 percent.

In connection with the Maui Region transfer agreement, employees of the Maui Region are no longer active state employees. Beginning in fiscal year 2018, the pension obligation and expense related to those employees is no longer allocated to the Corporation.

For the years ended June 30, 2019 and 2018, the Corporation recognized pension expense of approximately $57,612,000 and $82,864,000, respectively. At June 30, 2019 and 2018, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 9,905,817	$ (3,509,676)	$ 8,719,005	$ (5,892,473)
Net difference between projected and actual earnings on plan investments	18,077,051	(41,492,351)	33,389,913	(55,524,402)
Changes in assumptions	36,054,593	18,077,052	30,937,473	33,389,912
Changes in proportion	1,598,553	(4,291,960)	2,261,582	(1,303,909)
Employer contributions to the plan subsequent to the measurement date	35,730,821	-	34,134,911	-
Total	$ 101,366,835	$ (31,216,935)	$ 109,442,884	$ (29,330,872)

Note 8 - Cost-sharing Defined Benefit Pension Plan (Continued)

The $35,730,821 and $34,134,911 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2020 and 2019, respectively. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2020	$ 16,250,782
2021	13,580,598
2022	4,985,048
2023	(431,894)
2024	34,545

Actuarial Assumptions

The total pension liability in the June 30, 2018 and 2017 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2018
Inflation	2.5%
Salary increases	3.5%
Investment rate of return	7.0% per year, compounded annually, including inflation

	June 30, 2017
Inflation	2.5%
Salary increases	3.5%
Investment rate of return	7.0% per year, compounded annually, including inflation

There were no changes to ad hoc postemployment benefits, including COLA, in the June 30, 2018 and 2017 valuations.

Postretirement mortality rates are based on the 2016 Public Retirees of Hawaii Mortality Table, with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Preretirement mortality rates are based on multiples of the RP-2014 Mortality Table based on the occupation of the member.

The actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The ERS updates its experience studies every five years.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent as of June 30, 2018 and 2017, consistent with the rate used at the prior measurement date. 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.

Note 8 - 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 for June 30, 2018 was determined using a "top down approach" of the client-constrained simulation-based optimization model (a statistical technique known as "resampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS' board of trustees) 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 nominal rates of return (real returns and inflation) by the target asset allocation percentage. The long-term expected rate of return on pension plan investments for June 30, 2017 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 asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following tables for June 30, 2018 and 2017:

	2018	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63 %	7 %
Principal protection	7	3
Real return	10	4
Crisis risk offset	20	5

	2017	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63 %	6 %
Principal protection	7	1
Real return	10	4
Crisis risk offset	20	3

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Corporation at June 30, 2019 and 2018 calculated using the discount rate of 7.00 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 (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate:

	1 Percent Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percent Increase (8.00%)
Net pension liability - 2019	$ 705,496,543	$ 542,374,488	$ 407,905,404
Net pension liability - 2018	688,867,513	530,455,687	401,574,442

Note 8 - Cost-sharing Defined Benefit Pension Plan (Continued)

Pension Plan Fiduciary Net Position

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

Note 9 - Other Postemployment Benefit Plan

Plan Description

The State provides certain healthcare and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues a publicly available annual financial report that can be obtained at http://eutf.hawaii.gov.

Benefits Provided

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50 percent of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001 and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50 percent of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001 and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of 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 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.

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Corporation were $45,645,221 and $38,382,284 for the fiscal years ended June 30, 2019 and 2018, respectively. The Corporation is required to make all contributions for members.

Note 9 - Other Postemployment Benefit Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019 and 2018, the Corporation reported a net OPEB liability of approximately $547 million and $542 million, respectively. The net OPEB liability was measured as of July 1, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates. At June 30, 2019, the Corporation's proportion was 5.8171 percent, which was a decrease from its proportion measurement at June 30, 2018. At June 30, 2018, the Corporation's proportion was 6.7905 percent, which was an increase from its proportion measurement at June 30, 2017 of 0 percent.

There were no changes between the measurement dates, July 1, 2018 and 2017, and the reporting dates, June 30, 2019 and 2018, respectively, that are expected to have a significant effect on the net OPEB liability.

For the years ended June 30, 2019 and 2018, the Corporation recognized OPEB expense of approximately $53,993,000 and $56,823,000, respectively. At June 30, 2019 and 2018, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ (9,843,214)	$ -	$ (1,125,188)
Net difference between projected and actual earnings	-	(1,130,289)	-	-
Change in assumptions	5,957,412	-	-	-
Contributions subsequent to the measurement date	84,027,506	-	83,150,367	-
Total	$ 89,984,918	$ (10,973,503)	$ 83,150,367	$ (1,125,188)

The $84,027,506 and $83,150,367 reported as deferred outflows of resources related to OPEB resulting from the Corporation's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the years ending June 30, 2020 and 2019, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30	Amount
2020	$ (1,106,441)
2021	(1,106,441)
2022	(1,106,441)
2023	(864,144)
2024	(832,624)
Total	$ (5,016,091)

Note 9 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability in the July 1, 2018 and 2017 actuarial valuations was determined using the following actuarial assumptions adopted by the board of trustees of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii, on January 8, 2018, based on the experience study covering the five-year period ended June 30, 2015:

	July 1, 2018
Inflation	2.50 percent
Salary increases	3.50 percent to 7.00 percent including inflation
Investment rate of return	7.00 percent
Healthcare cost trend rates:	
PPO*	Initial rates of 10.00 percent, declining to a rate of 4.86 percent after 13 years
HMO*	Initial rates of 10.00 percent, declining to a rate of 4.86 percent after 13 years
Part B and base monthly contribution	Initial rates of 4.00 percent and 5.00 percent, declining to a rate of 4.70 percent after 12 years
Dental	Initial rates of 5.00 percent for first three years, followed by 4.00 percent
Vision	Initial rates of 0.00 percent for first three years, followed by 2.50 percent
Life insurance	0.00 percent

	July 1, 2017
Inflation	2.50 percent
Salary increases	3.50 percent to 7.00 percent including inflation
Investment rate of return	7.00 percent
Healthcare cost trend rates:	
PPO*	Initial rates of 6.60 percent and 9.00 percent, declining to a rate of 4.86 percent after 14 years
HMO*	Initial rate of 9.00 percent, declining to a rate of 4.86 percent after 14 years
Part B and base monthly contribution	Initial rates of 2.00 percent and 5.00 percent, declining to a rate of 4.70 percent after 14 years
Dental	3.50 percent
Vision	2.50 percent
Life insurance	0.00 percent

*Blended rates for medical and prescription drugs

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational morality improvement.

Note 9 - Other Postemployment Benefit Plan (Continued)

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments at June 30, 2019 and 2018 was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 asset class are summarized in the following table:

	2019	
	Target Allocation	Long-term Expected Real Rate of Return
Asset class:		
Private equity	10.00 %	8.65 %
U.S. microcap	7.00	7.00
U.S. equity	15.00	5.05
Non-U.S. equity	17.00	6.50
Global options	7.00	4.50
Core real estate	10.00	4.10
Private credit	6.00	5.25
Core bonds	3.00	1.30
TIPS	5.00	0.75
Long treasuries	6.00	1.90
Alternative risk premia	5.00	2.45
Trend following	9.00	3.00

	2018	
	Target Allocation	Long-term Expected Real Rate of Return
Asset class:		
U.S. equity	19.00 %	5.50 %
International equity	19.00	7.00
U.S. microcap	7.00	7.00
Private equity	10.00	9.25
REITs	6.00	5.85
Core real estate	10.00	3.80
Global options	7.00	5.50
Core bonds	3.00	0.55
Long treasuries	7.00	1.90
Trend following	7.00	1.75
TIPS	5.00	0.50

Note 9 - Other Postemployment Benefit Plan (Continued)

Discount Rate

The discount rate used to measure the net OPEB liability at June 30, 2019 was 7.00 percent, based on the expected rate of return on OPEB plan investments of 7.00 percent and the municipal bond rate of 3.62 percent (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-year Municipal GO AA index"). The discount rate used to measure the net OPEB liability at June 30, 2018 was 7.00 percent, based on the expected rate of return on OPEB plan investments of 7.00 percent and the municipal bond rate of 3.56 percent (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-year Municipal GO AA index"). Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenue is recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer 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 on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at http://eutf.hawaii.gov.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the Corporation's net OPEB liability calculated using the discount rate of 7.00 percent, as well as what the State's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00 percent) or 1 percentage point higher (8.00 percent) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability - 2019	$ 646,896,856	$ 547,178,995	$ 468,825,190
Net OPEB liability - 2018	635,954,172	541,845,124	465,691,360

The following table presents the State's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the State's net OPEB liability would be if it were calculated using the trend rate that is 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB liability - 2019	$ 464,554,910	$ 547,178,995	$ 654,406,904
Net OPEB liability - 2018	461,306,488	541,845,124	643,493,941

Note 10 - Long-term Debt

Long-term debt activity for the years ended June 30, 2019 and 2018 can be summarized as follows:

	2019				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Long-term debt	$ 36,277,695	$ 18,385,898	$ (19,010,562)	$ 35,653,031	$ 1,699,082
Capital leases	7,480,749	3,118,501	(2,673,319)	7,925,931	1,957,410

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Long-term debt	$ 38,013,113	$ -	$ (1,735,418)	$ 36,277,695	$ 11,986,033
Capital leases	10,297,306	2,059,060	(4,875,617)	7,480,749	2,541,521

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.

In 2019, Alii refinanced the note payable, maturing in 2029. The refinanced note payable requires monthly payments of $109,431, including interest at 4.53 percent, through October 2029. The note is collateralized by certain property and equipment. The outstanding amount on this note payable is $10,574,964 and $10,880,726 as of June 30, 2019 and 2018, respectively.

Note 10 - Long-term Debt (Continued)

Maui Bonds

In 2012, 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 the 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 purpose of construction of a physician clinic adjacent to the hospital, partial funding for a building renovation, and equipment associated with imaging services. Borrowing costs under the second agreement totaled $901,000. These bonds carried a variable interest rate that started 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 effective interest rate on the Series 2012B bonds as of June 30, 2018 and 2019 was 5.875 percent. 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. As of June 30, 2018 and 2019, MMMC was not in compliance with those covenants. As of June 30, 2018, a waiver of the covenant requirements for the Series 2012A bonds was granted. No such waiver was received for the Series 2012B bonds, which were shown as current for the year as a result. As of June 30, 2019, waivers of the covenant requirements for the Series 2012A and 2012B bonds were granted.

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 as of June 30, 2018 and 2019. In connection with the Revenue Bond Number 3, MMMC is subject to certain financial covenants. As of June 30, 2018, MMMC was not in compliance with those covenants, and, as a result, Revenue Bond Number 3 is shown as current in the financial statements. As of June 30, 2019, a waiver of the covenant requirements was granted.

During 2019, MMMC executed an agreement to replace the lessor on the two capital leases with a new lessor. The agreement was part of an overall refinancing done on various debt and capital leases of HHSC entities. The arrangement results in overall financial savings for MMMC specific to interest expense over the remaining lease life. As part of the transaction, MMMC agreed to pledge assets as security for this lease, which are restricted by the lender's covenants. The restricted amount at June 30, 2019 is $8,479,013.

Hilo Residency Training Program

In June 2001, Hawaii Health Systems Corporation 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, Hawaii Health Systems Corporation assumed HRTP's outstanding balances on the loans and notes payable of $5.9 million from Central Pacific Bank and the United States Department of Agriculture (USDA). The assets and related liabilities have been recorded in the region'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 Group, Inc. This note was refinanced during 2019 and is held by American Savings Bank.

Note 10 - Long-term Debt (Continued)

During the year ended June 30, 2018, the debt of two capital leases with a vendor was transferred to Hilo Medical Center from HHSC in the amount of $776,098. The term for the leases ranges from 55 to 60 months, with total monthly payments ranging from $1,414 to $12,589. These leases are collateralized by the equipment. Interest is included in the capital payments. No capital leases were transferred to the region during the year ended June 30, 2019.

At June 30, 2019 and 2018, the balance outstanding under lease agreements was $1,402,735 and $2,389,811, respectively. The gross amount of assets recorded under capital leases at June 30, 2019 and 2018 was $6,731,646 and $6,963,612, respectively. Accumulated amortization related to assets recorded under capital leases at June 30, 2019 and 2018 was $6,049,966 and $5,719,692, respectively. Amortization expense on capital leases is recorded within depreciation expense on the statement of revenue, expenses, and changes in net position and totaled $330,274 and $290,105 at June 30, 2019 and 2018.

Kahuku Medical Center

During 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 required monthly payments of $4,188, which included an interest component. The note matured in June 2019. The outstanding amount on this note is $0 and $6,697 as of June 30, 2019 and 2018, respectively.

In April 2014, Kahuku Medical Center entered into a note to acquire land with monthly payments of $12,481, including interest at 4.75 percent. The note was collateralized by land owned by the Facility. The note matured in April 2019. The outstanding amount on this note is $0 and $122,007 as of June 30, 2019 and 2018, respectively.

Kauai Region

During 2019, Kauai entered into three separate capital lease agreements for equipment The gross amount of assets recorded under capital leases at June 30, 2019 was $2,921,501. Accumulated amortization related to assets under capital lease at June 30, 2019 was $28,036. Amortization expense on capital assets under capital lease is recorded within depreciation expense in the statement of revenue, expenses, and changes in net position and totaled $28,036 during the year ended June 30, 2019. Two of Kauai's capital leases are considered direct borrowings. Both leases have a term of 60 months and an interest rate of 3.58 percent.

Hawaii Health Systems Corporation has entered into various capital leases, including a lease with Siemens for the financing of an electronic medical records system. The capital leases require monthly payments aggregating approximately $625,000, including interest, per month. The capital leases expire at various times through 2027.

Note 10 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

The table below indicates the future scheduled principal and interest payments as of June 30, 2019. While presentation of the statement of net position contains certain amounts that are included within current portion of long-term debt, the schedule below has been prepared based on contractually scheduled payments as of June 30, 2019:

	Long-term Debt		Capital Lease Obligation	
Years Ending June 30	Principal	Interest	Principal	Interest
2020	$ 1,699,082	$ 1,349,262	$ 1,957,410	$ 175,793
2021	1,765,813	1,279,563	1,711,463	126,217
2022	1,834,858	1,208,179	1,544,895	86,754
2023	1,912,300	1,134,351	943,879	51,720
2024	1,992,577	1,058,193	748,320	26,949
2025-2029	11,012,862	4,018,894	1,019,964	30,410
2030-2034	6,247,882	2,339,230	-	-
2035-2039	4,024,062	1,377,387	-	-
Thereafter	5,163,595	515,842	-	-
Total	$ 35,653,031	$ 14,280,901	$ 7,925,931	$ 497,843

Significant Terms

The outstanding obligations discussed above contain events of default with finance-related consequences. There are provisions that (a) if certain financial covenants are not met or (b) payments are not made according to normal schedules, the lender could accelerate payment of the principal amounts due, if those provision violations are not waived.

Note 11 - Commitments and Contingencies

Professional Liability

Hawaii Health Systems Corporation maintains professional and general liability insurance with a private insurance carrier with a $35 million limit per claim and a $39 million aggregate. Hawaii Health Systems Corporation has also purchased additional excess insurance with a $10 million per claim and aggregate limit. Hawaii Health Systems Corporation's general counsel advises that, in the unlikely event any judgments rendered against Hawaii Health Systems Corporation exceed Hawaii Health Systems Corporation's professional liability coverage, such amounts would likely be paid from an appropriation from the State's General Fund. Settled claims have not exceeded the coverage provided by the insurance carrier in any of the past three fiscal years. The Corporation has accrued approximately $1,200,000 and $1,380,000 as of June 30, 2019 and 2018, respectively, as accounts payable and accrued expenses on the statement of net position.

Workers' Compensation Liability

Hawaii Health Systems Corporation is self-insured for workers' compensation claims. Hawaii Health Systems Corporation 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. Hawaii Health Systems Corporation 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. Hawaii Health Systems Corporation has accrued a liability of $11,698,000 and $12,032,000 for unpaid claims as of June 30, 2019 and 2018, respectively.

Note 11 - Commitments and Contingencies (Continued)

	2019	2018	2017
Estimated liability - Beginning of year	$ 12,032,000	$ 12,740,000	$ 13,462,000
Estimated claims incurred - Including changes in estimates	3,379,000	3,304,000	3,301,000
Claim payments	(3,713,000)	(4,012,000)	(4,023,000)
Estimated liability - End of year	$ 11,698,000	$ 12,032,000	$ 12,740,000

Operating Leases

MMMC and Alii entered into various operating leases and related sublease agreements. Future minimum lease payments and sublease receipts at June 30, 2019 are as shown in the below table. Additionally, MMMC now receives lease income as a result of transferring hospital operations to Kaiser. The lease income amounts are shown in the table, and a description of the income is provided below the table.

Years Ending June 30	Lease Payments	Lease Income
2020	$ 1,319,678	$ 1,502,966
2021	1,359,147	1,477,874
2022	1,266,908	1,558,913
2023	1,039,134	1,471,719
2024	88,776	1,370,838
Thereafter	274,201	22,607,794
Total	$ 5,347,844	$ 29,990,104

Lease Income

In relation to the transfer of the HHSC - Maui hospital operations to Kaiser in 2018, the two parties signed a lease agreement wherein Kaiser leases the property and equipment owned by the region. The lease was effective as of July 1, 2017, has a 30-year term, and calls for monthly payments to the Corporation for annual base minimum rent and for reimbursement of capital leases to which the Corporation remains obligated. Total lease income included within other operating revenue in the statement of revenue, expenses, and changes in net position for the year ended June 30, 2019 and 2018 was approximately $1,958,000 and $2,171,000, respectively.

Annually, payments for minimum base rent range from approximately $1,067,000 in the first year of the lease to $1,555,000 in the 26th year of the lease, and payments for principal and interest on capital lease obligations range from approximately $1,062,000 in the first year of the lease to approximately $170,000 in the 10th year of the lease, which is the last year payments are required for capital lease obligations. The future minimum lease payments for these leases are shown in the lease income column of the above 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.

Note 11 - Commitments and Contingencies (Continued)

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.

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 $2.1 million and adjust each specific agency's payments accordingly.

For the years ended June 30, 2019 and 2018, there were no payments made to OHA.

Litigation

Hawaii Health Systems Corporation 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 Hawaii Health Systems Corporation's financial statements.

Note 12 - Employee Benefits

Sick Leave

Accumulated sick leave as of June 30, 2019 and 2018 was approximately $59,533,000 and $57,768,000, respectively. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded in the accompanying financial statements.

Required Supplemental Information

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

Years Ended June 30

	2019	2018	2017	2016	2015	2014
Corporation's proportion of the net pension liability	4.1 %	4.1 %	6.9 %	7.1 %	7.3 %	7.2 %
Corporation's proportionate share of the net pension liability	$ 542,374,488	$ 530,455,687	$ 916,111,059	$ 623,325,233	$ 583,997,239	$ 638,368,793
Corporation's covered payroll	$ 191,534,713	$ 172,037,521	$ 282,760,136	$ 288,121,862	$ 285,988,382	$ 268,597,949
Corporation's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	283.2 %	308.3 %	324.0 %	216.3 %	204.2 %	237.7 %
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	55.5 %	54.8 %	51.3 %	62.4 %	63.9 %	58.0 %

See note to pension required supplemental information schedules.

Required Supplemental Information
Schedule of Pension Contributions
Employees' Retirement System of the State of Hawaii

Years Ended June 30

	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 38,354,000	$ 33,088,000	$ 50,418,500	$ 51,584,604	$ 49,213,969	$ 53,279,576
Contributions in relation to the contractually required contribution	38,354,000	33,088,000	50,418,500	51,584,604	50,272,620	47,500,308
Contribution (Excess) Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ (1,058,651)**	**$ 5,779,268**
Corporation's Covered Payroll	$ 191,534,713	$ 172,037,521	$ 282,760,136	$ 288,121,862	$ 285,988,382	$ 268,597,949
Contributions as a Percentage of Covered Payroll	20.0 %	19.2 %	17.8 %	17.9 %	17.6 %	17.7 %

See note to pension required supplemental information schedules.

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 pension 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 pension contributions are schedules required in the implementation of 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 pension contributions is a comparison of the Corporation's contributions to the actuarially determined contributions.

The information presented in the schedule of pension 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.

The valuation methods and assumptions used to determine contribution for the fiscal year ended June 30, 2019 are as follows:

Actuarial cost method	Entry age, normal
Amortization method	Level percent, closed
Remaining amortization period	26 years
Asset valuation method	Market
Inflation	2.5 percent
Salary increases	3.5 percent wage inflation
Investment rate of return	7.0 percent per year, compounded annually, including inflation

Required Supplemental Information
Schedule of the Proportionate Share of the Net OPEB Liability

Last Two Fiscal Years
Years Ended June 30

	2019	2018
Corporation's proportion of the net OPEB liability	5.81710 %	6.79050 %
Corporation's proportionate share of the net OPEB liability	$ 547,178,995	$ 541,845,124
Corporation's covered payroll	$ 197,656,054	$ 191,546,061
Corporation's proportionate share of the net OPEB liability as a percentage of its covered payroll	276.83 %	282.88 %
Plan fiduciary net position as a percentage of total OPEB liability	12.10 %	8.63 %

See note to OPEB required supplemental information schedules.

Required Supplemental Information
Schedule of OPEB Contributions

Last Two Fiscal Years
Years Ended June 30

	2019	2018
Contractually required contribution	$ 43,988,025	$ 43,306,409
Contributions in relation to the contractually required contribution	45,645,221	38,382,284
Contribution Excess (Deficiency)	**$ 1,657,196**	**$ (4,924,125)**
Corporation's Covered Payroll	$ 197,656,054	$ 191,546,061
Contributions as a Percentage of Covered Payroll	23.09 %	20.04 %

See note to OPEB required supplemental information schedules.

The actuarial valuation information relative to the determination of contributions is as follows:

Valuation date	The actuarially determined valuation for the fiscal year ended June 30, 2019 was developed in the July 1, 2017 valuation.
Methods and Assumptions:	
Actuarial cost method	Entry age normal
Discount rate	7.00 percent
Inflation	2.50 percent
Amortization method	Level percent. Closed bases are established at each valuation for new unfunded liabilities.
Equivalent single amortization period	26.0 as of fiscal year ended June 30, 2019
Payroll growth	3.50 percent
Salary increase	3.50 percent to 7.00 percent, including inflation
Demographic assumptions	Based on experience study covering the five-year period ended June 30, 2015, as conducted for the Hawaii Employees' Retirement System (ERS)
Healthcare cost trend rates:	
PPO*	Initial rates of 6.60 percent and 9.00 percent, declining to a rate of 4.86 percent after 14 years
HMO*	Initial rate of 9.00 percent, declining to a rate of 4.86 percent after 14 years
Part B and base monthly contribution	Initial rates of 2.00 and 5.00, declining to a rate of 4.70 percent after 14 years
Dental	3.50 percent
Vision	2.50 percent
Life insurance	0.00 percent

*Blended rates for medical prescription drugs

Other Supplemental Information

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

	June 30, 2019
Cash and Cash Equivalents - State of Hawaii	
Special funds:	
Appropriation symbol S-18-303-H	$ 525,040
Appropriation symbol S-19-350-H	1,826,207
Appropriation symbol S-19-351-H	71,331
Appropriation symbol S-17-352-H	29,937
Appropriation symbol S-10-355-H	154
Appropriation symbol S-10-371-H	3,847
Appropriation symbol S-10-358-H	1
Appropriation symbol S-19-365-H	386,451
Appropriation symbol S-19-312-H	440,387
Appropriation symbol S-17-359-H	471,641
Appropriation symbol S-17-373-H	408,434
Appropriation symbol S-17-353-H	99,618
Appropriation symbol S-17-354-H	1,027,453
Total per State	5,290,501
Assets Limited as to Use - Patient Funds	
Appropriation symbol T-04-923-H	9,493
Appropriation symbol T-04-919-H	15,368
Total per State	24,861
Reconciling Items	
Patients' safekeeping deposits held by financial institutions	198,304
Restricted assets held by financial institutions	22,053,147
Total per HHSC	**$ 27,566,813**

Statement of Net Position of Facilities

June 30, 2019

Assets and Deferred Outflows of Resources	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital
Current Assets								
Cash and cash equivalents	$ 31,243,818	$ 10,135	$ 28,045	$ 6,484,542	$ 13,081,675	$ 2,357,757	$ 16,890,618	$ 1,600,644
Cash and cash equivalents - State of Hawaii	1,826,207	71,331	29,837	-	1,027,453	99,618	154	3,847
Patient accounts receivable - Less allowances for doubtful accounts	25,241,430	1,208,702	801,857	1,207,488	13,146,418	1,409,231	-	-
Investments	7,608,485	-	-	-	-	-	-	-
Due from the State of Hawaii	9,027,000	684,000	143,000	-	3,088,000	878,000	5,800,000	864,000
Due from affiliates - Net	-	19,234,809	2,320,531	-	4,154,975	-	3,086,244	131,853
Assets limited as to use - Current	-	-	-	-	5,000,000	-	-	-
Supplies and other current assets	5,578,478	218,687	203,426	15,872	2,948,710	65,024	54,425	9
Estimated third-party payor settlements	3,577,035	719,741	272,986	-	1,982,238	213,802	214,081	51,509
Total current assets	84,102,451	22,213,515	3,898,792	7,711,902	44,909,467	5,123,432	26,033,522	2,658,666
Assets Limited as to Use - Net of current portion	15,720	14,233	11,186	-	5,186,840	-	10,977,841	-
Capital Assets - Net	58,521,898	15,098,753	4,416,026	20,360,348	38,774,221	4,953,386	112,566,102	15,867,785
Other Assets	890,158	-	-	-	529,807	-	951,053	-
Total assets	143,530,215	37,326,501	8,327,004	28,072,250	89,380,135	10,076,818	150,529,318	18,527,451
Deferred Outflows of Resources								
Deferred outflows of resources - Pension	44,145,257	3,578,249	2,270,817	-	17,141,132	2,318,934	-	-
Deferred outflows of resources - Postemployment benefits other than pensions	38,985,482	3,161,701	2,032,133	-	15,165,850	2,002,260	-	-
Total assets and deferred outflows of resources	$ 226,660,954	$ 44,066,451	$ 12,629,754	$ 28,072,250	$ 121,686,917	$ 14,398,012	$ 150,529,318	$ 18,527,451

Assets and Deferred Outflows of Resources	Lanai Community Hospital	Leahi Hospital	Maluhia	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities	Hawaii Health Systems Corporation	Eliminations
Current Assets								
Cash and cash equivalents	$ 354,727	$ 7,383,494	$ 7,804,683	$ 10,449,831	$ 45,450	$ 98,349,221	$ 11,348,880	$ -
Cash and cash equivalents - State of Hawaii	1	440,387	388,451	471,641	408,434	4,765,461	525,040	-
Patient accounts receivable - Less allowances for doubtful accounts	-	1,322,677	1,428,083	3,308,218	2,631,380	51,864,074	-	-
Investments	-	-	-	-	-	7,608,485	-	-
Due from the State of Hawaii	902,000	5,421,000	3,214,000	4,185,000	5,644,000	40,132,000	-	-
Due from affiliates - Net	-	2,325,253	181,751	-	8,342,333	39,757,649	2,328,007	(40,301,453)
Assets limited as to use - Current	-	-	-	-	-	5,000,000	-	-
Supplies and other current assets	-	112,815	157,705	1,569,918	231,855	11,151,934	250,718	-
Estimated third-party payor settlements	-	843,801	809,177	1,950,789	918,820	11,351,887	-	-
Total current assets	1,260,728	17,829,227	13,782,480	21,834,197	18,420,352	269,980,711	14,452,645	(40,301,453)
Assets Limited as to Use - Net of current portion	-	84,520	61,781	9,493	15,388	16,366,992	833,996	-
Capital Assets - Net	5,132,853	15,363,114	11,552,777	18,284,737	9,319,558	328,211,547	560,187	-
Other Assets	-	-	-	-	-	2,371,018	-	-
Total assets	6,393,581	33,306,661	25,397,028	38,228,427	27,755,278	616,930,868	15,846,828	(40,301,453)
Deferred Outflows of Resources								
Deferred outflows of resources - Pension	-	8,538,161	5,281,312	10,006,525	4,399,321	96,440,408	4,926,427	-
Deferred outflows of resources - Postemployment benefits other than pensions	-	5,741,919	4,768,144	8,780,830	3,860,037	85,478,256	4,506,662	-
Total assets and deferred outflows of resources	$ 6,393,581	$ 47,586,741	$ 35,446,584	$ 57,015,782	$ 36,014,637	$ 798,849,532	$ 25,279,917	$ (40,301,453)

Assets and Deferred Outflows of Resources	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Kona Ambulatory Surgery Center	Kahuku	Eliminations	HHSC Consolidated
Current Assets								
Cash and cash equivalents	$ 109,698,101	$ 39,474	$ 1,291,829	$ 1,194,534	$ 206,533	$ 308,836	$ -	$ 112,739,307
Cash and cash equivalents - State of Hawaii	5,290,501	-	-	-	-	-	-	5,290,501
Patient accounts receivable - Less allowances for doubtful accounts	51,864,074	-	258,851	595,837	202,002	2,598,660	-	55,518,424
Investments	7,608,485	-	-	-	-	-	-	7,608,485
Due from the State of Hawaii	40,132,000	-	-	-	-	1,588,770	-	41,720,770
Due from affiliates - Net	1,784,203	-	-	-	-	-	(1,784,203)	-
Assets limited as to use - Current	5,000,000	-	-	-	-	-	-	5,000,000
Supplies and other current assets	11,402,652	-	49,023	78,450	23,823	643,857	(879,074)	11,318,331
Estimated third-party payor settlements	11,351,887	-	-	-	-	-	-	11,351,887
Total current assets	244,131,903	39,474	1,598,703	1,868,821	432,158	5,146,123	(2,663,277)	250,552,705
Assets Limited as to Use - Net of current portion	17,200,988	-	-	-	-	75,324	-	17,276,312
Capital Assets - Net	328,771,734	-	6,864,078	237,262	2,655,029	7,088,427	-	345,636,530
Other Assets	2,371,018	-	-	50,240	-	-	(529,807)	1,892,250
Total assets	592,476,243	39,474	8,463,781	2,154,131	3,087,187	12,309,874	(3,192,884)	615,357,808
Deferred Outflows of Resources								
Deferred outflows of resources - Pension	101,366,835	-	-	-	-	-	-	101,366,835
Deferred outflows of resources - Postemployment benefits other than pensions	89,984,918	-	-	-	-	-	-	89,984,918
Total assets and deferred outflows of resources	$ 783,827,996	$ 39,474	$ 8,463,781	$ 2,154,131	$ 3,087,187	$ 12,309,874	$ (3,192,884)	$ 806,709,568

Statement of Net Position of Facilities (Continued)

June 30, 2019

Liabilities, Deferred Inflows of Resources, and Net Position	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital
Current Liabilities								
Accounts payable and accrued expenses	$ 20,569,263	$ 1,783,758	$ 1,017,182	$ 876,015	$ 8,742,719	$ 615,644	$ 642,641	$ 17,613
Current portion of accrued vacation	7,024,640	455,742	288,968	82,173	2,384,436	414,985	-	-
Current portion of long-term debt	395,884	-	-	-	-	-	410,821	-
Current portion of capital lease obligations	518,007	-	-	-	417,517	-	408,424	-
Due to affiliates - Net	23,353,685	-	-	573,820	-	2,454,890	-	-
Current portion of accrued workers' compensation	923,000	148,000	17,000	-	596,000	47,000	942,000	386,000
Other current liabilities	-	2,192	-	100,770	-	-	210,000	-
Total current liabilities	52,784,289	2,389,692	1,323,150	1,612,578	12,150,672	3,532,619	2,611,886	403,613
Long-term Debt - Less current portion	7,207,873	-	-	-	-	-	17,063,689	-
Capital Lease Obligations - Less current portion	884,728	-	-	-	710,308	-	2,014,312	-
Other Liabilities								
Accrued vacation - Less current portion	5,399,368	350,296	222,111	-	1,518,618	263,195	-	-
Accrued workers' compensation - Less current portion	3,239,000	234,000	198,000	-	1,532,000	196,000	139,000	39,000
Other postemployment liability	236,940,742	19,225,625	12,356,968	-	82,218,065	12,175,317	-	-
Due to the State of Hawaii	-	508,153	-	-	7,805,205	528,149	-	-
Pension liability	219,486,123	19,482,946	12,046,612	-	93,532,488	11,328,082	-	-
Other liabilities	-	1,500	-	-	3,033	-	-	-
Patients' safekeeping deposits	15,720	14,233	11,186	-	-	-	-	-
Total liabilities	530,957,843	42,194,445	26,158,025	1,612,578	209,272,180	28,023,342	21,828,887	442,613
Deferred Inflows of Resources								
Deferred inflows of resources - Pension	13,584,975	1,101,958	699,259	-	5,278,784	683,651	-	-
Deferred inflows of resources - Postemployment benefits other than pensions	4,751,772	385,564	247,815	-	1,849,424	244,172	-	-
Total deferred inflows of resources	18,336,747	1,487,522	947,074	-	7,128,208	927,823	-	-
Total liabilities and deferred inflows of resources	549,304,590	43,681,967	27,105,099	1,612,578	216,400,398	28,951,165	21,828,887	442,613
Net Position								
Unrestricted	(372,179,230)	(14,714,269)	(18,891,371)	6,080,324	(132,427,401)	(19,805,539)	20,283,551	2,217,055
Net investment in capital assets	49,515,594	15,098,753	4,416,026	20,360,348	37,646,395	4,953,386	99,830,943	15,867,783
Restricted for lender covenants and other	-	-	-	-	67,525	-	8,485,937	-
Total net position	(322,663,636)	384,484	(14,475,345)	26,459,672	(94,713,481)	(14,852,153)	128,700,431	18,084,838
Total liabilities, deferred inflows of resources and net position	$ 226,640,954	$ 44,066,451	$ 12,629,754	$ 28,072,250	$ 121,686,917	$ 14,298,912	$ 150,529,318	$ 18,527,451

Liabilities, Deferred Inflows of Resources, and Net Position	Lanai Community Hospital	Leahi Hospital	Maluhia	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities	Hawaii Health Systems Corporation	Eliminations
Current Liabilities								
Accounts payable and accrued expenses	$ 1,091	$ 2,240,377	$ 1,099,452	$ 3,936,029	$ 1,248,800	$ 49,399,384	$ 2,535,180	$ -
Current portion of accrued vacation	-	1,227,481	904,426	1,391,108	487,871	14,641,828	801,185	-
Current portion of long-term debt	-	-	-	-	-	806,505	-	-
Current portion of capital lease obligations	-	-	-	387,635	67,167	1,798,750	121,080	-
Due to affiliates - Net	3,183,278	-	1,983,396	8,716,776	35,608	40,301,453	-	(40,301,453)
Current portion of accrued workers' compensation	-	243,000	147,000	141,000	71,000	3,661,000	-	-
Other current liabilities	7	-	-	38,078	20,000	371,047	1,000	-
Total current liabilities	3,185,174	3,710,858	4,734,276	14,600,824	1,928,536	110,978,167	3,458,425	(40,301,453)
Long-term Debt - Less current portion	-	-	-	-	-	24,271,562	-	-
Capital Lease Obligations - Less current portion	-	-	-	1,859,284	361,989	5,830,621	-	-
Other Liabilities								
Accrued vacation - Less current portion	-	1,100,908	1,183,290	1,548,245	998,109	12,564,140	738,263	-
Accrued workers' compensation - Less current portion	-	480,000	402,000	617,000	355,000	7,631,000	406,000	-
Other postemployment liability	-	34,915,362	28,994,059	58,475,738	23,472,055	519,774,949	27,404,046	-
Due to the State of Hawaii	-	6,416,791	481,450	1,043,345	2,417,150	19,008,243	-	-
Pension liability	-	41,069,602	33,810,708	64,905,863	25,434,695	520,076,899	22,297,589	-
Other liabilities	-	-	-	17,985	4,580	27,098	-	-
Patients' safekeeping deposits	-	87,891	35,571	(11,758)	14,024	166,867	-	-
Total liabilities	3,185,174	87,791,432	69,831,354	144,256,326	54,986,137	1,220,330,346	54,304,323	(40,301,453)
Deferred Inflows of Resources								
Deferred inflows of resources - Pension	-	2,013,492	1,626,402	3,346,455	1,354,815	29,699,791	1,517,144	-
Deferred inflows of resources - Postemployment benefits other than pensions	-	700,217	581,467	1,192,767	470,725	10,423,923	549,580	-
Total deferred inflows of resources	-	2,713,709	2,207,869	4,539,222	1,825,540	40,123,714	2,066,724	-
Total liabilities and deferred inflows of resources	3,185,174	90,495,141	71,839,223	148,795,548	56,811,677	1,260,454,060	56,371,047	(40,301,453)
Net Position								
Unrestricted	(1,924,446)	(60,191,314)	(47,670,151)	(103,981,413)	(29,688,488)	(772,953,682)	(31,530,257)	-
Net investment in capital assets	5,132,853	15,363,114	11,552,777	14,037,618	8,890,404	302,765,994	439,127	-
Restricted for lender covenants and other	-	-	24,535	4,129	1,044	8,583,170	-	-
Total net position	3,208,407	(44,828,200)	(36,392,839)	(89,919,666)	(20,797,040)	(461,604,528)	(31,091,130)	-
Total liabilities, deferred inflows of resources and net position	$ 6,393,581	$ 45,666,941	$ 35,446,384	$ 58,875,882	$ 36,014,637	$ 798,849,532	$ 25,279,917	$ (40,301,453)

Liabilities, Deferred Inflows of Resources, and Net Position	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Kona Ambulatory Surgery Center	Kahuku	Eliminations	HHSC Consolidated
Current Liabilities								
Accounts payable and accrued expenses	$ 51,934,564	$ -	$ 134,719	$ 1,110,441	$ 68,801	$ 2,111,453	$ -	$ 55,359,978
Current portion of accrued vacation	15,443,013	-	-	-	-	502,347	-	15,945,360
Current portion of long-term debt	806,505	-	892,577	-	-	-	-	1,699,082
Current portion of capital lease obligations	1,919,010	-	-	-	-	39,400	-	1,957,410
Due to affiliates - Net	-	-	-	1,298,913	5,756	1,358,608	(2,663,277)	-
Current portion of accrued workers' compensation	3,661,000	-	-	-	-	-	-	3,661,000
Other current liabilities	372,047	-	471,754	204	-	-	-	844,005
Total current liabilities	74,135,139	-	1,499,050	2,409,558	74,557	4,011,808	(2,663,277)	79,466,835
Long-term Debt - Less current portion	24,271,562	-	9,682,387	-	-	-	-	33,953,949
Capital Lease Obligations - Less current portion	5,830,621	-	-	-	-	137,900	-	5,968,521
Other Liabilities								
Accrued vacation - Less current portion	13,302,403	-	-	309,017	-	-	-	13,611,420
Accrued workers' compensation - Less current portion	8,037,000	-	-	-	-	-	-	8,037,000
Other postemployment liability	547,178,995	-	-	-	-	-	-	547,178,995
Due to the State of Hawaii	19,008,243	-	-	-	-	-	-	19,008,243
Pension liability	542,374,488	-	-	-	-	-	-	542,374,488
Other liabilities	27,098	-	-	-	-	-	-	27,098
Patients' safekeeping deposits	166,867	-	-	-	-	2,157	-	169,024
Total liabilities	1,234,333,216	-	11,181,437	2,718,575	74,557	4,151,865	(2,663,277)	1,249,796,373
Deferred Inflows of Resources								
Deferred inflows of resources - Pension	31,216,935	-	-	-	-	-	-	31,216,935
Deferred inflows of resources - Postemployment benefits other than pensions	10,973,503	-	-	-	-	-	-	10,973,503
Total deferred inflows of resources	42,190,438	-	-	-	-	-	-	42,190,438
Total liabilities and deferred inflows of resources	1,276,523,654	-	11,181,437	2,718,575	74,557	4,151,865	(2,663,277)	1,291,986,811
Net Position								
Unrestricted	(804,483,949)	39,474	993,230	(801,706)	357,601	1,172,412	(529,607)	(803,252,545)
Net investment in capital assets	303,205,121	-	(3,690,886)	237,262	2,655,029	6,911,127	-	309,317,653
Restricted for lender covenants and other	8,583,170	-	-	-	-	74,470	-	8,657,640
Total net position	(492,695,658)	39,474	(2,697,656)	(564,444)	3,012,630	8,158,009	(529,607)	(485,277,252)
Total liabilities, deferred inflows of resources and net position	$ 783,827,996	$ 39,474	$ 8,483,781	$ 2,154,131	$ 3,087,187	$ 12,309,874	$ (3,192,884)	$ 806,709,559

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

Year Ended June 30, 2019

	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital
Operating Revenue								
Net patient service revenue	$ 186 845 017	$18 851 041	$ 9 197 000	$ 14 717 703	$ 89 657 089	$ 6 569 916	$ -	$ -
Other revenue	3 305 480	42 014	36 997	-	396 918	5 376	2 169 008	-
Total operating revenue	190 150 497	18 893 055	9 233 996	14 717 703	90 054 007	6 575 292	2 169 008	-
Operating Expenses								
Salaries	68 343 831	8 028 137	5 349 442	5 498 369	35 831 165	4 742 056	-	-
Employee benefits	65 898 430	5 543 627	3 321 444	479 850	26 020 480	3 810 366	(1 543 308)	231 785
Medical supplies and drugs	27 772 507	618 373	352 562	673 287	12 743 824	34 879	-	-
Depreciation and amortization	9 431 338	782 144	508 031	761 414	4 310 569	302 739	12 505 142	1 565 252
Utilities	3 817 905	617 522	285 120	1 057 780	1 681 785	195 774	-	-
Repairs and maintenance	5 498 889	373 265	114 012	117 280	2 929 707	185 675	-	-
Other supplies	4 808 501	874 400	344 544	713 539	1 638 189	588 463	-	-
Purchased services	33 392 417	1 749 852	863 860	1 193 807	21 433 620	2 453 841	1 483 921	15 792
Professional fees	5 783 736	1 294 555	603 281	51 584	818 321	478 181	-	-
Insurance	2 552 000	219 783	144 028	1 565 881	713 844	(32 856)	212 322	-
Rent and lease	1 727 181	68 308	107 974	37 984	868 521	77 462	1 818	-
Other	3 041 422	188 433	244 220	846 822	1 792 568	382 407	56 241	33 823
Total operating expenses	252 379 967	20 166 480	12 238 518	12 998 397	110 400 403	13 281 187	12 808 134	1 846 752
Operating (Loss) Income	(62 229 470)	(273 425)	(3 004 522)	1 718 306	(20 346 396)	(4 705 895)	(10 639 126)	(1 846 752)
Nonoperating Income (Expense)								
General appropriations from the State of Hawaii	48 406 000	2 436 000	1 815 000	-	21 052 000	1 989 000	-	-
Restricted contributions	549 791	60 672	21 750	-	393 732	5 905	(5 818)	-
Interest expense	(473 887)	-	(178)	-	(42 069)	(3 560)	(884 219)	(63)
Interest and dividend income	551 585	4 989	1 046	41 584	124 676	11 454	399 683	-
Corporate allocation to affiliates	(3 181 397)	(254 804)	(153 419)	-	(2 081 399)	(249 719)	(1 292 147)	-
Other nonoperating revenue - Net	1 339 985	137 315	273 617	(11 148)	(9 247 878)	42 842	(38 825)	-
Total nonoperating income (expense)	47 182 057	2 384 152	1 957 827	30 446	10 189 064	1 795 514	(1 821 324)	(63)
Excess of Revenue (Under) Over Expenses	(15 047 413)	2 110 727	(1 046 695)	1 748 752	(10 157 332)	(2 910 381)	(12 459 450)	(1 846 815)
Capital Contributions	4 406 253	884 000	143 000	-	2 058 531	336	(654 786)	40 408
Transfer (to) from Affiliate	(351 268)	(30 371)	(17 088)	-	(146 099)	(17 088)	-	-
(Decrease) Increase in Net Position	(10 990 428)	2 774 356	(920 783)	1 748 752	(8 245 900)	(2 927 133)	(13 118 216)	(1 806 407)
Net Position - Beginning of year	(311 673 208)	(2 389 872)	(13 554 562)	24 710 920	(86 467 581)	(11 725 020)	141 818 647	19 891 245
Net Position - End of year	$ (322,663,636)	$ 384,484	$ (14,475,345)	$ 26,459,672	$ (94,713,481)	$ (14,652,153)	$ 128,700,431	$ 18,084,838

	Lanai Community Hospital	Leahi Hospital	Maluhia	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities	Hawaii Health System Corporation	Eliminations
Operating Revenue								
Net patient service revenue	$ 19 121	$ 14 781 911	$ 14 144 736	$ 38 479 725	$ 17 486 786	$ 413 752 148	$ -	$ -
Other revenue	3 058	242 834	78 670	422 507	12 366	6 712 126	-	-
Total operating revenue	22 179	15 024 745	14 223 406	38 902 232	17 499 152	420 464 274	-	-
Operating Expenses								
Salaries	-	12 804 855	11 181 127	21 083 136	8 884 813	203 386 931	9 181 371	-
Employee benefits	(53 000)	10 950 637	7 722 211	13 438 822	6 525 678	142 148 122	7 594 050	-
Medical supplies and drugs	1 000	383 818	411 683	2 430 270	261 020	45 683 221	-	-
Depreciation and amortization	315 676	1 233 039	885 365	2 813 973	874 240	38 448 922	237 866	-
Utilities	-	916 798	871 262	980 912	418 473	10 723 309	331 504	-
Repairs and maintenance	-	354 036	303 100	377 020	126 852	10 364 746	1 272 910	-
Other supplies	-	935 577	838 709	658 774	635 062	11 818 766	790 343	-
Purchased services	15 524	582 942	708 974	4 443 881	2 203 507	70 542 818	-	-
Professional fees	-	145 735	43 [illegible]	5 181 880	604 581	14 813 675	275 009	-
Insurance	-	167 301	177 791	578 250	78 873	6 374 997	48 048	-
Rent and lease	-	47 728	3 647	282 810	31 308	3 064 550	214 147	-
Other	1 044	118 472	78 443	644 466	200 182	7 638 743	1 070 821	-
Total operating expenses	280 244	28 226 834	23 047 343	53 512 754	21 922 689	563 108 802	20 975 789	-
Operating (Loss) Income	(258 065)	(13 202 189)	(8 823 935)	(14 610 522)	(4 423 537)	(142 644 528)	(20 975 789)	-
Nonoperating Income (Expense)								
General appropriations from the State of Hawaii	-	9 815 000	8 434 000	10 829 000	3 008 909	107 884 909	10 546 972	-
Restricted contributions	-	-	-	-	-	1 025 643	-	-
Interest expense	(14)	(1 016)	(227)	(7 961)	(211)	(1 413 411)	(4 078)	-
Interest and dividend income	-	7 306	7 593	120 340	7 337	1 283 063	398 185	-
Corporate allocation to affiliates	-	(503 302)	(428 098)	(1 055 160)	(412 557)	(9 632 000)	9 632 000	-
Other nonoperating revenue - Net	-	26 351	-	149 678	538 387	(8 789 716)	222 451	-
Total nonoperating income (expense)	(14)	9 344 419	8 013 270	10 141 895	3 141 935	92 358 178	20 795 512	-
Excess of Revenue (Under) Over Expenses	(258 079)	(3 857 770)	(810 665)	(4 468 627)	(1 281 602)	(50 285 350)	(180 257)	-
Capital Contributions	(368 133)	1 266 956	1 126 754	(109 767)	1 662 034	10 296 806	-	-
Transfer (to) from Affiliate	-	(41 764)	(37 962)	(74 050)	(30 372)	(748 082)	(708 000)	-
(Decrease) Increase in Net Position	(626 212)	(2 630 578)	278 107	(4 652 444)	350 060	(40 786 626)	(888 257)	-
Net Position - Beginning of year	3 834 619	(42 197 622)	(36 670 946)	(85 267 222)	(21 147 100)	(420 837 702)	(30 202 873)	-
Net Position - End of year	$ 3,208,407	$ (44,828,200)	$ (36,392,839)	$ (89,919,666)	$ (20,797,040)	$ (461,604,628)	$(31,091,130)	$ -

	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Kona Ambulatory Surgery Center	Kahuku	Eliminations	HHSC Consolidated
Operating Revenue								
Net patient service revenue	$ 413 752 148	$ -	$ -	$ 4 589 684	$ 1 277 196	$14 183 615	$ -	$ 433 802 845
Other revenue	6 712 126	-	4 719 669	1 924 192	4 280	720 734	-	14 081 001
Total operating revenue	420 464 274	-	4 719 669	6 513 876	1 281 476	14 904 349	-	447 883 646
Operating Expenses								
Salaries	212 568 302	-	-	7 484 682	980 005	6 899 155	-	227 942 144
Employee benefits	149 742 172	-	-	1 777 964	11 978	2 928 335	-	154 460 349
Medical supplies and drugs	45 683 221	-	-	414 355	843 779	1 023 537	-	47 964 892
Depreciation and amortization	38 686 788	-	813 962	64 847	180 605	1 065 806	-	38 932 208
Utilities	11 054 813	-	438 089	22 859	-	495 707	-	12 011 468
Repairs and maintenance	11 637 656	-	67 070	199 371	361 758	338 082	-	12 603 945
Other supplies	12 609 011	-	431 029	43 261	-	614 775	-	13 758 076
Purchased services	70 542 818	-	48 705	818 393	-	1 587 673	-	72 978 589
Professional fees	15 088 684	-	2 719 286	(34 789)	580 781	1 490 315	-	19 844 278
Insurance	6 423 045	-	84 034	1 364 053	-	54 266	-	7 925 398
Rent and lease	3 278 697	-	174 130	902 535	-	185 174	-	4 540 536
Other	8 709 364	197	175 191	1 147 944	-	1 128 561	-	11 161 257
Total operating expenses	584 084 571	197	5 052 496	14 204 374	2 969 104	17 812 396	-	624 123 140
Operating (Loss) Income	(163 620 297)	(197)	(332 828)	(7 690 498)	(1 687 628)	(2 908 047)	-	(176 239 494)
Nonoperating Income (Expense)								
General appropriations from the State of Hawaii	118 431 871	-	-	-	-	1 800 000	-	120 231 871
Restricted contributions	1 025 643	-	-	-	-	-	-	1 025 643
Interest expense	(1 417 487)	-	(1 173 438)	834	-	(5 808)	-	(2 595 900)
Interest and dividend income	1 681 828	-	3 442	-	-	-	-	1 685 270
Corporate allocation to affiliates	-	-	-	-	-	-	-	-
Other nonoperating revenue - Net	(6 567 265)	-	-	7 679 648	-	-	1 631 290	2 743 673
Total nonoperating income (expense)	113 154 680	-	(1 169 997)	7 680 482	-	1 794 192	1 631 290	123 090 657
Excess of Revenue (Under) Over Expenses	(50 465 607)	(197)	(1 502 826)	(9 816)	(1 687 626)	(1 113 855)	1 631 290	(53 148 837)
Capital Contributions	10 296 806	-	-	-	1 769 000	-	(1 769 000)	10 296 806
Transfer (to) from Affiliate	(1 456 082)	-	1 456 082	-	-	-	-	-
(Decrease) Increase in Net Position	(41 855 083)	(197)	(46 744)	(9 816)	81 374	(1 113 855)	(137 710)	(42 882 031)
Net Position - Beginning of year	(451 040 575)	39 671	(2 050 812)	(554 628)	2 931 256	9 271 664	(391 897)	(442 395 221)
Net Position - End of year	$ (492,895,658)	$ 39,474	$ (2,097,556)	$ (564,444)	$ 3,012,630	$ 8,158,809	$ (529,607)	$ (485,277,252)

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 (the "Corporation"), which comprise the basic statement of net position as of June 30, 2019 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 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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 Corporation'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 2019-01, 2019-02, 2019-04, 2019-05, 2019-06, and 2019-07 to be material weaknesses. 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 deficiency described in the accompanying schedule of findings as Finding 2019-03 to be a significant deficiency.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did identify deficiencies in internal control that we consider to be material weaknesses. However, additional material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.*

To Management and the Board of Directors
Hawaii Health Systems Corporation

The Corporation's Responses to the Findings

The Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings. The 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 the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

December 3, 2019

Financial Statement Audit Findings

Reference Number	Finding
2019-01	**Finding Type** - Material weakness, Alii Community Care, Inc.

Criteria - Accounts receivable should be reviewed during the year to ensure that all proper allowances have been recorded and that they are adjusted to the appropriate net realizable value.

Condition - Valuation of year-end balances is not performed with appropriate reserves being recorded for receivables existing as of year end to reflect net realizable value.

Context - Allowance for bad debt was not recorded as of the year end relating to year-end receivables.

Cause - An adjustment to bad debt allowance of approximately $343,000 needed to be recorded in fiscal year 2019.

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 an analysis be performed at year end to calculate the bad debt allowance on accounts receivable as of year end to reflect expected future collections.

Views of Responsible Officials - Alii Community Care, Inc.'s accountants will work with management to modify existing evaluation of accounts receivable to improve tracking of separate allowances against accounts receivable balances. These amounts will be reviewed by management monthly to ensure an accurate valuation of accounts receivable is being performed and that ledger amounts are being updated properly.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2019-02	**Finding Type** - Material weakness, Alii Community Care, Inc.
	Criteria - A schedule of net position should be maintained to ensure proper recording and tracking of balances year over year.
	Condition - No schedule of net position was maintained by management.
	Context - Balances recorded relating to net position did not agree to prior year financial information.
	Cause - Entries of approximately $400,000 were recorded to correctly state the net position.
	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 that management review the balances and maintain a rollforward schedule to track net position and compare amounts to prior year financial statements.
	Views of Responsible Officials - Alii Community Care, Inc.'s accountants have made necessary adjustments to correct the tracking of net position on the accrual basis going forward.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2019-03	**Finding Type** - Significant deficiency, Alii Community Care, Inc.

Criteria - Property and equipment lapse schedules for Roselani Place should be maintained by the entity to track capital assets and the related depreciation on them. 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 Place. Also, depreciation expense had not been recorded correctly in fiscal year 2019.

Context - Capital asset amounts recorded in the general ledger did not have adequate supporting documentation.

Cause - A schedule needed to be updated for current year capital asset activity, and an entry of $16,179 needed to be recorded in fiscal year 2019.

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 Place perform a 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 properly captured.

Views of Responsible Officials - Alii Community Care, Inc.'s board management liaison will work directly with Roselani Place's accountant to review property and equipment accounts to ensure what is being reported is properly supported by lapse schedules or other detailed reports. This 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.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2019-04	**Finding Type** - Material weakness, Kauai Region

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

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

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

(1) Cash
(2) Accounts receivable
(3) Third-party settlements
(4) Due from affiliates
(5) Prepaid expenses and other current assets
(6) Capital assets
(7) Accounts payable
(8) Accrued salaries and wages
(9) Accrued vacation

These adjustments resulted in an overall increase to net position of approximately $2,500,000, in addition to passed adjustments.

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

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

Recommendation - We would recommend that Kauai Veterans Memorial Hospital and Samuel Mahelona Memorial Hospital put appropriate controls in place to ensure balances are appropriately stated at the end of each period.

Views of Responsible Officials - Personnel have dedicated abundant time and resources streamlining practices to improve the efficiency and effectiveness of the accounting function for the hospitals. As a result of the executed plan, management has corrected these account balances at June 30, 2019 and is working to implement appropriate procedures going forward.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2019-05	**Finding Type** - Material weakness, East Hawaii Region

Criteria - Generally accepted accounting principles require that capital assets be placed into service and depreciated as projects are completed and assets are ready for use. Additionally, capital asset accounts should be reconciled on a timely basis during the year.

Condition - Capital assets were not properly placed into service as they were completed and ready for use during the year. Capital asset accounts were not reconciled in a timely basis during the year.

Context - Capital assets acquired during the year were placed into construction in progress and not reclassified and capitalized when the assets were completed and ready for use. This resulted in an overstatement of construction in progress of approximately $20.6 million and an understatement of depreciation expense of approximately $2.5 million during the year. Capital asset reconciliations required revisions when received and were not prepared in a timely manner.

Cause - When projects were completed and placed into service, there was little or no communication with the accounting department to identify that the asset should be placed into service and depreciated. Due to turnover in the accounting department, the reconciliation of capital asset accounts was not performed timely during the year.

Effect - Adjustments to capital asset accounts and depreciation were identified as a result of audit procedures, resulting in approximately $20.6 million of capital assets being placed into service from construction in progress and recording of additional depreciation expense of approximately $2.5 million.

Recommendation - We recommend the East Hawaii Region implement policies and procedures to assist in determining when projects are completed and ready to be placed into service. We recommend that the East Hawaii Region implement policies and procedures to ensure that capital asset account reconciliations are performed in a timely manner.

Views of Responsible Officials - Management has corrected the error and continues to improve procedures relating to capital assets.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2019-06	**Finding Type** - Material weakness, Kahuku Medical Center

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

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

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

(1) Accounts receivable
(2) Amounts due from the State of Hawaii
(3) Fixed assets
(4) Accounts payable
(5) Accrued payroll expenses
(6) Intercompany amounts with HHSC
(7) Restricted fund balance

These adjustments resulted in an increase to expenses of approximately $270,000 and an increase to revenue of approximately $334,000. In addition, passed adjustments were identified to increase revenue by approximately $90,000 and to increase expenses by approximately $114,000.

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

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

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

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

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2019-07	**Finding Type** - Material weakness, Kahuku Medical Center

Criteria - Management should ensure that documentation is maintained regarding changes in personnel pay rates and associated approvals. In addition, management should ensure that the payroll system is paying employees at the correct rates for vacation time taken and properly accruing employees' vacation time.

Condition - There are insufficient records maintained currently with respect to changes in personnel pay rates and the associated approvals. In addition, there are certain departments for which inaccurate pay rates are used by the payroll system for vacation time taken by employees. Finally, there are certain departments for which inaccurate vacation accruals are being calculated by the payroll system.

Context - There were no significant financial statement impacts of this material weakness as of June 30, 2019.

Cause - Lack of sufficient recordkeeping and testing of the payroll system

Effect - As a result of these issues, employees could be paid incorrect amounts.

Recommendation - We recommend appropriate controls be put into place to ensure appropriate reporting of payroll expenses.

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

Independent Auditor's Report

To the Board of Directors
Hawaii Health Systems Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Hawaii Health Systems Corporation (the "Corporation"), a component unit of the State of Hawaii, which comprise the statement of net position as of June 30, 2019 and the related 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 3, 2019.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with the Borrowing Base covenant as of June 30, 2019 as defined in Section 1.01 of the Financing Sublease Agreement, dated April 30, 2019, with American Savings Bank, insofar as it relates to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Financing Sublease Agreement, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of directors and management of Hawaii Health Systems Corporation and American Savings Bank and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 3, 2019

HAWAII HEALTH SYSTEMS
CORPORATION
Quality Healthcare For All

Attachment B
Projected Revenues and Capital Improvement Projects FY 2019

December 2019

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HAWAII HEALTH SYSTEMS CORPORATION
PROJECTED REVENUES FOR FISCAL YEAR 2020
AMOUNTS IN $'000'S
NOTE: Amounts represent estimated cash collections, not accrual basis revenues

Hilo	205,563
Hamakua	19,813
Ka'u	9,719
Kona	92,772
Kohala	8,832
KVMH	37,379
SMMH	15,750
Leahi	14,654
Maluhia	14,151
TOTAL	**418,633**

CIP Annual Report			
Act/Yr	**Item No.**	**Project Title and Brief Project Description**	**FY 20 Apprn**
40/2019	E-2	Hale Ho'ola Hamakua, Hospital Renovations	2,100,000
40/2019	E-3	Kau Hospital, Hospital Renovations	500,000
40/2019	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Hilo Medical Center, Acute Hospital Renovations	6,980,000
40/2019	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Hilo Medical Center, Renovate/redesign first floor lobby; add outpatient pharmacy to first floor lobby	1,400,000
40/2019	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Kau Hospital, Hospital Renovations	200,000
40/2019	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Kohala Hospital, General Hospital Renovation	500,000
40/2019	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Kona Community Hospital, Mechanical Replacements	1,000,000
40/2019	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Kona Community Hospital, Upgrades Electrical and Mechanical & HVAC.	1,000,000
40/2019	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Kona Community Hospital, Replace Oncology Building	920,000
40/2019	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Kona Community Hospital, Renovate Dayroom, and Physical Therapy departments	1,000,000
40/2019	E-5	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - KVMH, CT Scan Room Renovation	1,400,000
40/2019	E-5	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - SMMH, Upgrade Electrical	1,400,000
40/2019	E-5	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - SMMH, Structural Repairs	1,416,000
40/2019	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Leahi Hospital, Upgrade Patient Rooms and Bathrooms	879,391
40/2019	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Leahi Hospital, Replace Heat Pumps in Sinclair and Young	100,000
40/2019	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Leahi Hospital, Demolish Spiral Staircase	200,000
40/2019	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Leahi Hospital, Reroof Walkways	308,000
40/2019	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Maluhia, Upgrade Second Floor Air Conditioning System	1,000,000
40/2019	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Maluhia, Renovate Offices	220,609
40/2019	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Maluhia, Upgrade Gutter System	75,000
40/2019	E-7	Samuel Mahelona Memorial Hospital, CT Scan Room Renovation	1,400,000
			23,999,000

HAWAII HEALTH SYSTEMS
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Attachment C
Regional Reports

December 2019

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EAST HAWAII REGION 2019 LEGISLATIVE REPORT

EAST HAWAII REGION

The East Hawaii Region, consisting of Hilo Medical Center (HMC), Hale Ho'ola Hamakua, Ka'u Hospital, and 13 outpatient specialty clinics, is the largest region in the Hawaii Health Systems Corporation (HHSC). The Region is the largest employer on Hawaii Island, with nearly 1,300 employees.

Hilo Medical Center originated in 1897 as a 10-bed hospital, created by the Hawaiian Government. HMC has grown to the present facility of 192-licensed beds, consisting acute, long term care, and psychiatric beds. Hilo Medical Center is the only 4-star ranked hospital by Centers for Medicaid & Medicare on Hawaii Island. Built in 1984, the facility sits on roughly 20.5 acres of land, next to the 95-bed Yukio Okutsu Veterans Home, Hawaii's first State Veterans Home, and the previous site of the "old Hilo Hospital."

Hilo Medical Center has been nationally recognized for exceptional care as a "Top Performing" hospital. Since 2016, CMS ranked HMC 4 stars for Overall Quality, putting HMC among the top 10% of hospitals in the nation, among the top in the state, and the only 4-star ranked hospital on Hawaii Island. HMC also received national recognition and "A" ratings by Healthgrades and Leapfrog for leading in patient safety excellence.

HMC campus houses Behavioral Health, Family Medicine, Hawaii Pacific Oncology Center, Cardiology, Neurology Clinics, Orthopedics, and the Veteran's Administration (VA) Community-Based Outpatient Clinic. Other off-campus clinics include Surgery, Orthopedics, Otolaryngology, and Urology.

Hilo Medical Center 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: Diagnostic & Interventional Cardiology, Echocardiography, Thallium Stress Treadmills, Pacemakers, Cardiac Telemetry
- EEG
- Endoscopy
- Food and Nutrition Services and Counseling
- Hospitalist Services
- Imaging Services – X-ray, CT, MRI, Angiography/Cardiac Catheterization, Interventional Radiology, Nuclear Medicine, Ultrasound
- Inpatient and Outpatient Rehabilitation Services – Physical, Occupational, and Speech Therapies
- Inpatient 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 – Behavioral Health, Cardiology, Primary Care/Family Medicine, Oncology, Orthopedics, Neurology, ENT, Surgery, and Urology
- Inpatient Pediatrics
- Respiratory Therapy
- Skilled Nursing and Long Term Care
- Social Services and Case Management
- Support Groups—COPD, Diabetes, Ostomy, Rat Lungworm, Stroke,
- Surgical Services—Same Day Surgery, Post-Anesthesia Care, and Special Procedures
- Subspecialty Surgical Services—Orthopedics, Ophthalmology, Otorhinolaryngology, and Urology
- Telemedicine—Endocrinology, Nephrology, Psychiatry, Radiology, and Stroke
- Wound and Ostomy Care

PATIENT CENSUS FY 2019

- Admissions 8,427
- ER Visit 49,215
- Births 1,138
- Clinic Visits 56,783

COMMUNITY-BASED FOUNDATION SUPPORT OF HILO MEDICAL CENTER

Total Grants	$136,609
Total Fundraising	$156,925
Total Private Donations	$121,881
Total	**$415, 415**

VOLUNTEER SERVICES

- Number of Active Volunteers: 100
- Number of Total Volunteer Hours: 10,200
- Volunteer Auxiliary Contributions: $15,000

In FY 2019, **Hale Hoʻola Hamakua** (HHH) was ranked 5 stars for long term care by the Centers for Medicaid & Medicare. HHH, originally known as Honokaʻa Hospital, has served the healthcare needs of the communities of Hamakua, North Hawaii and South Kohala since 1951. In November 1995, a fifty-bed (50) facility was opened above the old hospital, to provide long-term-care services. The facility was renamed Hale Hoʻola Hamakua (Haven of Wellness in Hamakua) in 1997 to reflect its new focus. HHH employs 122 (FTE, FY19) employees, of which a significant number are residents of the area who were former employees or related to employees of the Hamakua Sugar Company that phased out in 1994. The Hamakua Sugar Company Infirmary, which became the Hamakua Health Center, provides primary care and behavioral health services to the community in a building owned and leased from HHH and adjacent to the hospital.

The greater part of the "old" Honoka'a 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.

HHH was converted as a Critical Access Hospital (CAH) in November 2005, which resulted in bed configuration changes and the provision of new Emergency Room (ER) and expanded ancillary services. In 2010, the Maile Wing was added to HHH, bringing the total number of beds to 77 and increasing its capacity. HHH employs 122 dedicated medical professionals who care for the communities in North Hawaii and along the Hamakua Coast.

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 and Outpatient Rehabilitation Services for Physical, Occupational, and Speech Therapies
- 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 265
- ER Visits 1,877

Ka'u Hospital, in Pahala, is a 21-swing bed facility with 75 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. 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 has been growing steadily.

Services provided by Ka'u Hospital include:

- 24-hour Emergency Services
- Acute Care
- Intermediate and Skilled Level Care
- Inpatient and Physical Rehabilitation
- Inpatient and Outpatient Radiology
- Inpatient and Outpatient Laboratory Services
- Family Practice Rural Health Clinic

PATIENT CENSUS

- Admissions 94
- ER Visits 2,992
- Clinic Visits 4,964

COMMUNITY- BASED FOUNDATION SUPPORT OF KA'U HOSPITAL

Total Private Donations - $18,200

TOTAL -$18,200

VOLUNTEER SERVICES

- Total Number of Active Volunteers: 11
- Total Number of Total Volunteer Hours: 456

East Hawaii Region Foundations Supporting HHSC Hospitals
Background / Contact Information

Hilo Medical Center Foundation

Founded in 1995, the Foundation supports the healthcare of the community and its visitors by assisting 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: Chuck Erskine
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

Ka`u Hospital Charitable Foundation
Ka'u Hospital Charitable Foundation was created to raise funds for the benefit of Ka'u Hospital and Rural Health Clinic 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: Vacant
Foundation Vice President/Director: Wayne Kawachi
Contact information:
Ka`u Hospital Charitable Foundation
P.O. Box 773
Pahala, HI 96777
KauHCF@gmail.com
https://www.facebook.com/4KauHospital/

Hawaii Health Systems Corporation East Hawaii Region Accomplishments

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

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

People

Physicians and Nurse Practitioners
The East Hawaii Region welcomed 20 new physicians to the community, specializing in anesthesia, cardiology, family medicine, internal medicine, obstetrics, emergency medicine, radiology, and orthopedic. Successes in physician recruitment have been key in cardiology with three interventional cardiologists, a general cardiologist and a nurse practitioner. The region was

also successful in recruiting a full-time general orthopedic surgeon and a part-time general orthopedic surgeon with a specialty in hands. In addition, the Hawaii Island Family Medicine Residency Program welcomed the fifth class of five residents and graduated three residents in its third class.

Nursing

Hilo Medical Center's Nurse Residency Program graduated 26 nurses in the class of 2019 and welcomed them onto our nursing staff. Twenty-four new nurses entered our program as the class of 2020. In total, the 50 new nurses represent a total of $7.5 million investment in the future of nursing at Hilo Medical Center.

Regional Board

In FY 2019, the East Hawaii Regional Board appointed new members, Jay Ignacio and Clarysse Nunokawa. The board also mourned the passing of board members Dennis Nutting and Barry Taniguchi.

Quality

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

- The Center for Medicare and Medicaid Services (CMS) national rankings for Overall Hospital Quality Star Ratings named Hilo Medical Center was one of just four hospitals statewide to achieve the coveted four-star ranking and the only hospital on Hawaii Island to receive the ranking. The ranking also placed HMC among the top 10% of hospitals nationwide.
- Hilo Medical Center received another "A" rating with the Leapfrog Hospital Safety Grade for the fifth year in a row. Hospitals that repeatedly earn an "A" grade have attained the nation's most prestigious honor for patient safety.
- Hilo Medical Center was the only hospital in the state to receive Healthgrades Patient Safety Excellence award.
- CMS released the national rankings for Overall Nursing Home Quality Star Ratings and ranked Hilo Medical Center's Extended Care Facility and Hale Ho`ola Hamakua in the top 10% of 46 nursing homes statewide to achieve the five-star ranking. HMC and HHH are one of over 15,000 Medicare- and Medicaid-participating nursing homes that are included in the nationwide rating for quality of care and staffing information.
- The American Association of Critical Care Nursing awarded HMC's Progressive Care Unit (PCU) the Beacon Award for Excellence for employing evidence-based practices to improve patient outcomes. PCU joins Hilo Medical Center's Intensive Care Unit as a Beacon Unit, making our hospital the only one in the state to have two units that have demonstrated excellence in care.

Growth

Imaging

Hilo Medical Center's Imaging Department is in the final phase of its modernization and renovation project. Our state-of-the-art, 96-channel MRI system was hoisted up by a crane and set at its new home on the first floor. This MRI equipment is the only one on the island to offer the highest functionality and a full suite of flexible coils to accommodate a patient's ability to be scanned in a comfortable position. The technology improves the scanning time from an hour to 15 minutes without contrast. The shorter bore magnet also has a shorter tunnel to reduce claustrophobia.

Growing Cardiology Program

In addition to welcoming the new cardiologists, Hilo Medical Center's Cardiology Program increased staffing and beds on its Beacon designated Progressive Care Unit and staffing supporting the operations of the Cath Lab. The Cardiology Clinic exceeded 6,000 patients in FY2019 and is expect exponential growth. The Ornish Lifestyle Medicine program, established in 2018 to reverse heart disease, graduated nearly 200 participants this year.

Finance

Hilo Medical Center

Total Operating Revenue for FY 2019 was $189M compared to a budget of $174M, a 9% favorable variance. FY 2019 Total Operating Expense was $235.2M versus a budget of $234.9M, a 0.2% variance. Operating Income (Loss) for FY 2019 was ($46M) compared to a budget of ($61M). After Corporate Overhead and other appropriations, the Net Income was $11.5M for FY 2019 versus a budget of ($17.2M).

Hale Ho'ola Hamakua

Total Operating Revenue for FY 2019 was $19.8M compared to a budget of $17.4M, a 13% favorable variance. FY 2019 Total Operating Expense was $19.0M versus a budget of $20.1M, a 5% favorable variance. Operating Income for FY 2019 was $0.8M compared to a budget of ($2.7M). After Corporate Overhead and other appropriations, the Net Income was $3.2M for FY 2019 versus a budget of ($0.3M).

Ka'u Hospital

Total Operating Revenue for FY 2019 was $9.1M compared to a budget of $8.2M, a 12% favorable variance. FY 2019 Total Operating Expense was $11.5M versus a budget of $11.5M, a 0.3% favorable variance. Operating Income (Loss) for FY 2019 was ($2.4M) compared to a budget of ($3.3M). After Corporate Overhead and other appropriations, the Net Income (Loss) was ($0.4M) for FY 2019 versus a budget of ($1.6M).

WEST HAWAII REGION 2019 LEGISLATIVE REPORT

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. Our facility accommodates 67 acute beds; 7 labor, delivery, postpartum beds in the Obstetrics unit; 11 beds behavioral health unit; and, a 9 bed intensive care unit. It is located in Kealakekua, Kona, 18 miles south of Kona International Airport. The hospital has expanded considerably from its initial wooden structure with 52 beds built in 1941. Rehabilitation Services (PT, OT, Speech Therapy)

Currently housed in a three-story structure constructed in 1975, this facility employs 477 (FTE, FY19) employees. There are over 77 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
- Acute Inpatient Care: Obstetrics/Gynecology, Medical/Surgical, Intensive Care, Behavioral Health
- Hospitalist Services
- Outpatient Nursing Services (Infusion and Chemotherapy)
- Rehabilitation Services (PT, OT, Speech Therapy)
- Respiratory Therapy – Inpatient and Outpatient
- Pharmacy
- Laboratory and Pathology Services
- Imaging Center: MRI, 128-slice CT Scan, Ultrasound, Echocardiogram, Nuclear Medicine, Cardiac telemetry monitoring
- Radiation Therapy
    - Elekta-Infinity® linear accelerator (newly installed)
- Physician Specialties (General Surgery, Internal Medicine, Cardiology, Medical Oncology, Radiation Oncology, Pediatrics, OB/GYN, ENT, Ophthalmology, Plastic Surgery, Orthopedics, Psychiatry, Gastroenterology)

PATIENT CENSUS

- Admissions 3,579
- Patient Days 19,067
- Births 502
- ER Visits 22,182

COMMUNITY-BASED KONA HOSPITAL FOUNDATION SUPPORT OF HHSC FACILITIES

Total Private Donations	$ 31,000
Total Fundraising	36,594
Total Federal / State / Private Grants	104,500
TOTAL	**$172,094**

VOLUNTEER SERVICES

- Number of Active Volunteers: 40
- Number of Total Volunteer Hours: 2979
- Volunteer Auxiliary Contributions: $12,000

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 is a designated Critical Access Hospital (CAH). It employs 61 (FTE, FY19) employees, has 26 licensed acute, skilled 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)
- Rehabilitation Services (PT, OT)

PATIENT CENSUS

- Number of Admissions: 69
- Patient Days: 8,660
- Emergency Visits: 1,722

COMMUNITY-BASED KOHALA HOSPITAL CHARITABLE FOUNDATION SUPPORT OF HHSC FACILITIES

Total Private Donations	$ 12,518
Total Fundraising	.00
Total Federal / State / Private Grants	.00
TOTAL	**$ 12,518**

VOLUNTEER SERVICES – Kohala Hospital

- Number of Active Volunteers: 5
- Number of Total Volunteer Hours: 780
- Volunteer Auxiliary Contributions: $0.00

Kona Community Hospital Foundation

The Kona Hospital Foundation is dedicated to improving Kona Community Hospital for the entire community. The Foundation's mission is to support medical technology, expanded services and enhanced facilities that would otherwise be unavailable. Since its inception in 1984, the Foundation has provided over five million dollars in equipment and facilities to Kona Community Hospital. The volunteer six-member Board of Trustees in completely separate from the management of the hospital.

As the fundraising arm of the Kona Community Hospital, the Kona Hospital Foundation raises funds needed to support the programs and services that many community members have come to rely on every day. It is through generous financial support from our community that the Foundation is able to make our local hospital even better. The fingerprints of the Foundation can be found in the Radiation Oncology Center, the Imaging Center, Nuclear Medicine Suite and the Outpatient Chemotherapy Building as well as the Adopt-a-Room and Buy-a-Bed projects and the funding of medical equipment for various hospital departments including the Cardiology Clinic, the Obstetrics Unit and the Surgical Services department.

Donna Hiranaka, Foundation President, and Ikaika Hauanio, Foundation Vice Chair

Contact information:
Kona Hospital Foundation www.khfhawaii.org
79-1019 Haukapila Street
Kealakekua, HI 96750
Tel: 808-322-4587
Fax: 808-322-6963
Email: info@khfhawaii.org

Kohala Hospital Charitable Foundation

The Kohala Hospital Charitable 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.

Dixie Adams, Foundation President, and Shoshana Matsumura, Foundation Vice President

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

OAHU REGION 2019 LEGISLATIVE REPORT

The Hawaii Health Systems Corporation ("HHSC") Oahu Region provides essential services to our community's most vulnerable populations through its operation of two long-term care facilities, Maluhia and Leahi Hospital. Located respectively in lower Alewa Heights and Kaimuki. Maluhia and Leahi provide in-patient skilled nursing and intermediate care services to the elderly, disabled and otherwise incapacitated population – most of whom are covered under Medicare and Medicaid programs. Maluhia and Leahi also provide access to much needed Adult Day Health Centers (two of only four remaining on Oahu) and both facilities partner with Hawaii Meals on Wheels to provide nearly 400 hot meals per week for disabled elders on Oahu, which enables them to sustain their independence at home and in the community.

Additionally, Maluhia provides Medical services through its Geriatric Outpatient Physician's Clinic. For many of our clinic patients, nursing home residents and day health participants – especially those receiving Medicaid benefits due to a lack of personal assets (approximately 80% of our inpatients), the Oahu Region's facilities are often the only options for quality post-acute and community-based health care services.

Leahi Hospital, located in the heart of Kaimuki in Honolulu, Hawaii, was first established in 1901. Leahi Hospital is licensed for 159 beds: 155 nursing home beds (dual certified for Skilled Nursing and Intermediate Care) and 4 acute beds in Leahi's tuberculosis ("TB") unit, the only unit of its kind on the island of Oahu. Individuals requiring long-term care, short-term restorative care or TB treatment are admitted to our nursing facility/acute beds. Care is provided by an interdisciplinary team of experienced healthcare professionals. Currently, Leahi Hospital employs approximately 225 people.

Long-Term Care Inpatient Services:
- Operating 122 Dual Certified Skilled Nursing and Intermediate Care Beds

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

Outpatient Services:
- Adult Day Health Center
- Collaboration with Meals on Wheels to provide 100 meals per week (Monday through Friday) to residents in the Kaimuki / Kapahulu area

Patient Census and Other Services

	Long Term Care	TB
Admitted	125	5
Patient Days	39,460	37

	Adult Day Health
Participant Days	6,703
Baths Provided	692

	Meals On Wheels
Meals Provided	5,316

Volunteer Services:

- Number of Active Volunteers: 110
- Number of Total Volunteer 3,944
- Volunteer Auxiliary $9,000

Maluhia, located in lower Alewa Heights in Honolulu, Hawaii, is licensed to operate 158 skilled nursing and intermediate care facility beds and employs approximately 200 employees. Established in 1923, Maluhia continues to evolve in order to meet the changing needs of the community and provides the following services:

Long-Term Care Inpatient Services:

- Operating 120 Dual Certified Skilled Nursing and Intermediate Care Beds

Support:

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

Outpatient Services:

- Primary Care Geriatric Physician Outpatient Clinic
- Adult Day Health Center
- Collaboration with Meals on Wheels to provide nearly 300 meals per week (Monday through Friday) to residents in Kalihi/Liliha/Windward areas

Patient Census and Other Services:

	Long Term Care
Admitted	148
Patient Days	38,926

	Adult Day Health
Participant Days	13,218 Baths
Provided	2,005

	Outpatient Clinic
Clinic Visits	1,216

	Meals on Wheels
Meals Provided	12,791

Volunteer Services:

- Number of Active Volunteers: 66
- Number of Total Volunteer Hours: 5,234
- Volunteer Auxiliary Contributions: approx.$12,833

In fiscal year 2019, the Oahu Region's ability to effectively provide the long term care needs for our aged, blind and disabled community continued to be a financial challenge. Over the years, delayed payments and insufficient reimbursement levels from insurance providers (especially Medicaid) have had the anticipated adverse impact on our revenue stream. Additionally, having to fund the collective bargaining increases negotiated by the State of Hawaii has significantly increased our expenditures.

Due to the general fund and capital improvement project subsidies granted by the Legislature and the Oahu Region's implementation of new operational efficiencies and other cost-saving measures, however, we have been able to continue providing long-term care services and support for the people who reside in our facilities and hundreds of others in the community that are provided care through the Adult Day Health Programs and Geriatric Outpatient Physician Clinic.

Our clinic doctor, in addition to caring for many of our adult day health participants, works with the ARC in Hawaii, a not for profit organization that serves people with intellectual and developmental disabilities. She serves as the primary care physician for a tremendous amount of patients in need. Currently half of the ARC participants who are recipients of Medicaid services and unable to find a physician depend on our clinic doctor for their care.

In addition to our existing services, we continue to make efforts to develop and improve programs to support our seniors with community-based services. Our programs provide support for caregivers which, in turn, enable them to continue caring for their family members in the comfort of their own homes.

The Oahu Region received Capital Improvement Project funding for the development of a Leahi Master Plan. The Master Plan is a work-in-progress strategic planning effort developed to include community services and a partnership with the Department of Health, Adult Mental Health Division, and Hawaii State Hospital. We believe that this approach would increase our outreach to the community and ensure that ancillary services and facilities are more accessible and sustainable. Additionally, we are working with a number of government agencies to effectively and fully utilize our Leahi campus to provide facilities for critical community healthcare services. The Oahu Region intends to play an active role in the development and control of the new operations.

Additional components of the Master Plan includes continued partnership with the Kapiolani Community College ("KCC") and its health, institutional foods and other programs. We believe this partnership results in a collective increase in learning opportunities for both KCC students and employed staff and creates a corridor for additional collaborative ventures. In regard to financial sustainability, we are also exploring potential partnerships with private healthcare entities to increase our revenue stream.

Capital Improvement Projects:

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

Leahi Hospital	**Cost ($)**
Replace fire alarm system	939,000
Total	$939,000

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

Maluhia	**Cost ($)**
Repaint exterior of building	673,894
Replace windows	1,161,218
Upgrade plumbing	489,268
Replace chill waterline insulation	673,894
Total	$2,998,274

Ongoing Projects: **Leahi Hospital**	**Cost ($)**
Trotter parking lot	600,000
New accessible walkways	470,066
Renovate Young basement	743,229
Relocate TB Unit	150,000
Upgrade patient rooms	1,000,000
Covered walkway repairs	200,000
Upgrade Sinclair, Trotter and Atherton elevators	900,000
Upgrade air conditioning	880,000
Additional parking	222,600
Repair soffits	350,000
Trotter Parking Lot	600,000
Total	$5,515,895

Ongoing Projects: **Maluhia**	**Cost ($)**
Upgrade 3rd Floor AC	1,000,000
Installation of Patient Wandering System	250,000
Waterproof sundeck	100,000
Replace retaining wall in parking lot	100,000
Upgrade first floor and basement AC	250,000
Keola Road parking lot	693,000
Replace walk in freezer	125,000
Replace nurse call system	600,000
Replace exterior doors	40,000
Total	$3,158,000

Additional parking	222,600
Repair soffits	350,000
Trotter Parking Lot	600,000
Total	$5,515,895

Ongoing Projects: **Maluhia**	**Cost ($)**
Upgrade 3rd Floor AC	1,000,000
Installation of Patient Wandering System	250,000
Waterproof sundeck	100,000
Replace retaining wall in parking lot	100,000

Upgrade first floor and basement AC	250,000
Keola Road parking lot	693,000
Replace walk in freezer	125,000
Replace nurse call system	600,000
Replace exterior doors	40,000
Total	$3,158,000

Nursing

The overall census at Leahi Hospital and Maluhia remains high (>90%) and the complexity of the health conditions of residents has been greater than in previous years, with many residents being afflicted with multiple chronic conditions with mental/behavioral, physical, and functional impairments. The staff is dedicated to person-centered and quality care for our residents. Through training and hands-on support, we continuously strive to be recognized as high-performing long-term care facilities.

The Oahu Region facilities have successfully passed the annual re-licensure survey and achieved a CMS 5-star and 4-star Quality Measures rating for Maluhia and Leahi Hospital, respectively. Both facilities have proven to be in compliance with the Centers for Medicare and Medicaid Services Requirements of Participation ("RoP") Phase One and Two and have greatly improved the quality of care provided to our residents by integrating person-centered values and Electronic Medical Record system practices. We are preparing for the final RoP Phase Three requirements which will be fully implemented by November 28, 2019.

After selecting Point Click Care, our new electronic medical record system ("EMR"), Leahi and Maluhia began its implementation in 2017. Earlier this year, Maluhia and Leahi successfully implemented its final major phase, the electronic medication administration record application. The software system implemented was off the shelf without customization. As a result, no additional Information Technology staff was hired to implement and support the system. Furthermore, software updates are integrated seamlessly. Since the implementation of Point Click Care, our nursing care documentation has significantly improved both in timeliness and content, and enabled both facilities to have more efficient work flow processes.

The Oahu Region Infection Control and Prevention Program continues to play a pivotal role in ensuring patient and staff safety through the development of a region-wide surveillance system that promotes the early identification and treatment of infections utilizing standardized assessment tools and evidence-based protocols. The program integrates best practice interventions including immunization, hand hygiene, environmental infection control and antibiotic stewardship. Influenza immunization rates for our residents have successfully reached greater than 95% consistently. The impact of high immunization rates results in minimal morbidity and mortality associated with influenza in frail and otherwise immunocompromised populations. As hand washing provides the single most important intervention to prevent infection, the Region has developed a robust program that includes monthly monitoring in addition to annual competency validation for every employee.

The Regional Antibiotic Stewardship program continues to be embraced by both facilities and meets the CMS RoP. It is aligned with national standards for the treatment of infections, reduces the risk of adverse events and antibiotic resistance and minimizes the development of infections.

The Oahu Region continues to support the students and faculty of local universities and community colleges as clinical facility practicum sites. Leahi serves as a clinical site for Chaminade University's Bachelor of Science in Nursing students and Kapiolani Community College's ("KCC") Associate Degree Registered Nursing and Practical Nursing students. Nursing students from Chaminade University engage in conducting evidence based study projects at Leahi. Both facilities serve as clinical sites for KCC's Nurse Aide students. Additionally, KCC students from the Occupational Therapy Assistant, Respiratory Therapy and Community Case Worker programs came to both facilities as part of their clinical training.

Quality Assurance Performance Improvement

October 1, 2018 marked the beginning of transformative changes in regulatory, reimbursement, and quality measurement for Skilled Nursing Facilities. To address the Protecting Access to Medicare Act of 2014 (PAMA), CMS implemented the Skilled Nursing Facility 30-Day All-Cause Readmission Measure. A part of the SNF Value Based Purchasing Program focuses on improving the quality of care being provided by nursing homes rather than based on the volume of care that is provided, including hospital readmission calculations. The calculation rate includes all causes and conditions of unplanned hospital readmissions by residents of nursing homes within 30 days of prior inpatient admission to a hospital, Critical Access Hospital, or psychiatric hospital.

To prepare for the transition from fee-for-service to value-based care, both Leahi and Maluhia have participated in the training program, the "Road to Reducing Avoidable Hospital Admissions/Readmissions Nursing Home Collaborative" through Mountain Pacific Quality Health, which is Hawaii's Medicare Quality Improvement Organization. The collaborative goal is to reduce hospital admissions and readmissions by 5%. We have incorporated best practices to reduce our readmissions rate by: (a) forming a Readmission Review Committee to discuss all cases sent to the hospital to identify areas of improvement, (b) consistently using the INTERACT® tool to implement admission/readmission reduction interventions and (c) after each discharge from the facility, making a series of follow-up phone calls to support former patient and family members. As reported at the Oahu Region Board's Quality Assurance Committee, from June 2018 to June 2019, Maluhia has demonstrated a significant reduction in all-cause readmission rates from a high of 29% to 0.

Award

Both of the Oahu Region facilities received a "Pursuit of Excellence Award" from Mountain-Pacific Quality Health in recognition of their ongoing efforts to improve the quality of care and quality of life of nursing home residents:

- through participation in the National Nursing Home Quality Care Collaborative
- for achieving and maintaining a 6.0% or less for twelve cycles of CMS provided Composite Score reports comprised of 13, publically reported, long-stay quality measures that represent larger systems

On October 1, 2019, CMS began implementing a new payment model for skilled nursing services, Patient Driven Payment Model (PDPM), which replaces the current Prospective Payment System (PPS) Resource Utilization Group (RUG-IV) system. It is based on a completely different method to calculate reimbursements. PDPM focuses on the unique, individualized needs, characteristics and goals of each resident while maintaining quality and medical necessity. Both facilities' Nursing, Therapy, Medical Records and Business Office staff have been preparing for this significant change. Unlike the current payment model where therapy minutes determined payment, PDPM focuses on the patient's needs, patient's characteristics, patient's services and treatment provided.

Personnel
Full Time Equivalent ("FTE") figures are as follows:

FY **19** – 428.28
FY **18** – 413.30
FY **17** – 403.22
FY **16** – 405.39 (Reduction in Force)
FY **15** – 597.97
FY **14** – 642.20
FY **13** – 626.72

Financial
Approximately 80% of the Oahu Region's patients receive benefits through Hawaii's managed Medicaid program, which is administered by the State of Hawaii Department of Human Services (more commonly known as the Quest Integration program). The Oahu Region's revenues and cash flow are dependent on the reimbursement rates and timeliness of payments provided by the Medicaid programs. Although Medicaid reimbursement rates were recently adjusted in an attempt to account for inflation and the increasing costs to provide health care in Hawaii, such adjustment, while helpful, was inadequate to cover our actual inflationary shortfalls.

Given the low Medicaid reimbursement rates, inflation and the increased costs of providing quality health care, the Oahu Region remains unable to maintain its provision of services without continued General Fund support from the Legislature. Another issue heavily impacting the Oahu Region's ability to continue serving its community is that, in recent years, the Legislature has not appropriated the General Funds necessary to completely fund the collective bargaining payroll increases that were negotiated and agreed to by the State.

Special funded agencies like HHSC are required to fund a significant portion of payroll and the entire fringe benefit increases through its special fund. With regard to HHSC, the "special fund" is, in actuality, simply the revenues derived from its facilities' operations. The Oahu Region expends approximately $481 per day per Medicaid resident and receives $312 per day in Medicaid and uncompensated care reimbursements, creating a daily shortfall of $159 per Medicaid resident. Since the bulk of the Oahu Region's revenues are derived from Medicaid reimbursements and we have no control over the reimbursement rates, the Oahu Region is simply unable to make any operational modifications that would enable it to sufficiently cover the increased costs related to negotiated wage and benefit increases.

Electronic Medical Records
The Oahu Region selected Point Click Care ("PCC") as our EMR software provider. The planned phased implementation project for PCC is nearly complete for the Oahu Region.

Over the past year, the scope of the use of PCC for the Oahu Region has broadened. The Adult Day Health Centers at Maluhia and Leahi are live with financial and clinical modules. Having a single EMR solution for all aspects of our operations provides for efficiencies in documentation, training, support, and management.

The PCC EMR solution includes specific Long Term Care Quality Measurements, National Benchmarks and protocols. Electronic scoreboards provide bi-weekly snap shots of important operational metrics at each facility. Implementing an EMR has improved operational efficiencies; more importantly, PCC has been an invaluable tool to improve the residents' quality of care.

The Maluhia Out-Patient Clinic continues to successfully utilize a separate EMR system, eClinical Works that is specifically designed for independent physician practices. Implementing an EMR last year enabled the practice to improve patient care and increase the patient census.

Oahu Region continues to address the CMS 2016 Requirements of Participation revisions. The

CMS revisions emphasize the strengthening and modernizing of the nation's post-acute health care system. Technology effectively and efficiently aids the facilities in improving care delivery practices and supports the exchange of information across an individual's continuum of care. The intent of the CMS revisions, combined with the Oahu Region's continuous efforts to improve its delivery of quality long-term care services to the community, have led the Oahu Region to continue making the EMR project a top priority for this and upcoming fiscal years.

Strategic Planning

The Oahu Region is unique from other HHSC regions in terms of our core operations and the potential for expanded use of our facilities. While earlier Strategic Plans focused solely on our long-term care population with an eye toward projects that could be implemented within our operating and capital funding budgets, the Oahu Region Board of Directors and management shifted our priorities and planning goals to address the recent legislative call for more community mental health and substance abuse services.

Our current strategic planning efforts are centered around two primary aims. First, it is our intent to work with key partners to utilize designated areas on our campuses to address important community mental health and substance abuse needs. Second, as financial sustainability remains an important consideration for any operation, we are continuing to explore potential healthcare-related ventures that will generate additional revenues and minimize our continued dependence on legislative subsidies.

A more specific and comprehensive report on our updated Strategic Plan will be provided to the legislature under separate cover.

Risk Management

Improving the quality of life and providing care that is unique to a patient's needs are areas that we focus on every day. This focus aligns us with CMS regulations and the Requirement of Participation standards as implemented in Phase One, Phase Two and soon Phase Three with compliance due by November 28, 2019. Since November 28, 2017, the new licensure requirements are surveyed based on these new clinical standards and facility assessments. To ensure that we are in compliance with these new requirements, throughout the year, our staff attended education and training sessions provided by the Healthcare Association of Hawaii, American Health Care Association, Mountain Pacific Quality Health and other health care organizations. We also updated our policies and procedures to reflect the new regulations and continuously look for better ways to improve our care and work processes.

The Leahi-Maluhia Foundation

Established in 2003, the mission of the Leahi-Maluhia Foundation is to support the work of Leahi and Maluhia Hospitals, also known as Leahi Hospital and Maluhia Long Term Care Center in their mission, development, and the provision of quality health and long term care.

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

Board of Director Members for FY 2019

Michelle Kato, President
Jane Schramko, Vice-President
Shari Shinsato, Treasurer Jerilyn
Yamashiro, Secretary

Laurie Narahara, Director
Sean Sanada, Director
Sean Simmons, Director
Joan Watanabe, Director
Neal Yanagihara, Director

Total Private Donations:	$13,208
Total Fundraising:	N/A
Total Federal/State/Private Grants	$1,301.00
Total:	$14,509

Contact Information:

Leahi-Maluhia Foundation c/o
Maluhia
1027 Hala Drive
Honolulu, HI 96817
Telephone: (808) 832-3001

KAUAI REGION 2019 LEGISLATIVE REPORT

Hawaii Health Systems Corporation (HHSC) – Kauai Region; Kauai Veterans Memorial Hospital (KVMH), a Joint Commission accredited hospital was founded in October 1957 and dedicated to the Veterans of the Korean War. KVMH was built to meet the healthcare needs of all citizens of the surrounding communities. Accredited as a Critical Access Hospital (CAH), KVMH has 45 licensed beds, comprised of 25 acute and 20 long-term care beds. Today, KVMH has approximately 289 employees and provides the following services:

- 24-Hour Emergency Services (ER)
- Imaging/Radiology
- Acute Care
- Long Term Care (LTC)
- Rehabilitation
    - Physical Therapy
    - Occupational Therapy
    - Speech Therapy
- Social Services
- Inpatient Pharmacy
- Laboratory
- Intensive Care Unit
- Operating Room/Surgical Services
- Obstetrics and Nursery
- Respiratory Therapy
- Pediatrics

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

- Ho'ola La Hui Hawai'i (FQHC)
- Liberty Dialysis (outpatient)
- Clinical Labs

KVMH Patient Volumes:

Inpatient Admissions	1,321
LTC Admissions	14
Births	254
ER Visits	6,899
Outpatient Ancillary Visits	5,668
Outpatient Clinic Visits	29,652
Same Day Surgery	778

Average Daily Census:

Acute	6.92
Swing	4.98
LTC	19.80
Total	31.70

In comparison to the prior year, inpatient admissions decreased by 27.7%, outpatient clinic visits increased by 2.5% and outpatient surgeries decreased by 18%. Births decreased by 1 birth. There was a 1.2% increase in ER visit volume and LTC census was 100% with a waitlist of residents due to unavailability of beds.

Samuel Mahelona Memorial Hospital (SMMH) is the oldest operating hospital on Kauai, and is designated a Critical Access Hospital. Founded in 1917 as a tuberculosis hospital, it received its name from a member of the Wilcox family, who died of TB as a young man. In the 1960s, with a cure for TB well established, SMMH gradually transitioned to providing acute care, psychiatric care, skilled nursing care, and ancillary inpatient and outpatient services. Today, SMMH has 80 licensed beds, with 66 long-term care beds, 9 adult inpatient psychiatric beds, and 5 acute care beds. The hospital has approximately 138 employees. Currently, SMMH patient services include:

- 24-Hour Emergency Services (ER)
- Imaging/Radiology
- Rehabilitation
    - Physical Therapy
    - Occupational Therapy
    - Speech Therapy
- Social Services
- Inpatient Pharmacy
- Laboratory
- Acute Care
- Long Term Care
- Inpatient Adult Behavioral Health (Only facility on Kauai)

Additional services are provided on this campus by Ho'ola La Hui Hawai'i who lease space on the grounds at SMMH.

SMMH Patient Volumes:

Inpatient Admissions	198
LTC Admissions	35
ER Visits	5641
Outpatient Ancillary Visit	1570

Average Daily Census:

Psych	2.87
LTC	48.01
Total	49.82

Inpatient psychiatric admissions decreased by 10% over the prior year; long term care days increased by 1.54%

The Kauai Region Clinics consist of five clinics located in Waimea, Port Allen, Kalaheo, Poipu and Kapaa which offer the following services:

The Clinic at Waimea

- OB
- Surgery
- Pediatrics
- Primary Care

The Clinic at Port Allen

- Pediatrics
- Primary Care

The Clinic at Kalaheo

- Primary Care

The Clinic at Poipu

- Primary Care
- Urgent Care

CHARITABLE ORGANIZATIONS SERVING THE KAUAI REGION

Kauai Veterans Memorial Hospital Charitable Foundation, Inc.

The KVMH Foundation was founded in the fall of 1998. The foundation's main focus is to support the many services, equipment purchases, and programs that KVMH provides for its island communities. Through donations and fundraising the Foundation has been able to purchase equipment utilized for the comfort and safety of patients.

Steven Kline, Foundation President
Kelly Liberatore, Foundation Secretary

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

Active Foundation Volunteers

- Total active volunteers 6
- Number of Volunteer Hours provided 1000
- Volunteer Foundation Contributions $80,000 ($78,000 from Vidinha Grant)

KVMH Auxiliary (Cheryl)

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

Active Auxiliary Volunteers

Number of Active Volunteers:	24
Number of Total Volunteer Hours:	2878
Volunteer Auxiliary Contributions:	$1680 spent - $35,000 ear marked for upcoming hospital project

2019 LEGISLATIVE BRIEF
KAUAI REGION ACCOMPLISHMENTS

On behalf of the Kauai Region of the Hawaii Health Systems Corporation, we are pleased to submit our report highlighting the accomplishments in fiscal year 2019.

The HHSC Kauai Region includes Kauai Veterans Memorial Hospital, Samuel Mahelona Memorial Hospital, and The Clinics at Waimea, Port Allen, Kalaheo, Poipu and Kapaa.

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

This report is organized into four areas: People, Quality, Facilities and Operations.

PEOPLE

Mrs. Stephanie Iona serves as Chair of the Kauai Regional Board which includes Mrs. Laurel Loo, Mr. Patrick Gegen, Mrs. Donna Okada-Asher, Mr. Tito Villanueva, and Mr. Dee Crowell. Mr. Lance K. Segawa leads the Kauai Region as Chief Executive Officer.

The Kauai Region's medical staff totals 27 active staff members with full privileges at KVMH and SMMH. During 2018-2019 the Region experienced no change to the employed physician staff. We are currently recruiting for a total of five (4) providers; two (2) primary care practitioners, one (1) geriatrician and one (1) Chief Medical Officer. These additions to the medical staff will be necessary to address current year's departures, relieve burdensome call schedules, and increase patient access to primary care. Two providers were successfully recruited, one pediatrician and one Nurse Practitioner (primary care/urgent care). Both providers will be active in FY 2020.

Our current employee turnover rate is 10.5% in comparison to the national healthcare turnover rate of 20.6%. A total of 51 staff members separated from HHSC Kauai Region in 2018-2019. Of the 51, 65% resigned their position; 25% retired, and 10% were terminated due to performance. The number of total staff today as compared to 12 months ago is relatively unchanged. Currently, the Kauai Region employs 428 individuals.

QUALITY

In 2018 and 2019, the Kauai Region participated in a total of 6 surveys between Medicare / State Office of Healthcare Assurance, Centers for Medicare & Medicaid Federal Licensure. Kauai Veterans Memorial Hospital, Samuel Mahelona Memorial Hospital, and the Kauai Region Clinics were recertified for state licensure. KVMH was accredited in good standing with the Joint Commission in 2017 and we are looking forward to similar results in 2020.

Recognition and Programs

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

- Participation with National Healthcare Safety Network (NHSN) for infection prevention initiatives including utilization of central line insertion checklists, and limiting indwelling urinary catheters to prevent UTIs.
- KVMH participates in the American Heart Association Get with the Guidelines Stroke initiative.
- KVMH is meeting or exceeding the threshold for Evidence-Based care and Safety for 2019. Our Mortality rate is declining with no excess of unexpected deaths.
- KVMH received the Premier HIIN award for Excellence in Patient Safety Across the Board for 2018. KVMH is the only hospital in the State of Hawaii to receive this award.
- 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 to ensure that we keep the residents engaged with life and participating in enrichment programs to facilitate their psychological well-being.
- A regional Falls Prevention task force is in place to evaluate and ensure patient safety and strive for not only a reduction in falls but to eliminate all falls in the region.

HHSC Kauai Region has just implemented a new Electronic Medical Record (EMR) into the Kauai Region Clinics and at both KVMH and SMMH. With this installation, the hospital is improving the communication across the region to ensure a continuation of patient quality and safety as well as meeting and exceeding standards mandatory for reporting and compliance with federally mandated regulatory initiatives. EMR has improved clinical documentation; Quality measures/reporting data analytics and with the advanced integration of the clinics with the hospital there should be better continuation of communication and efficiency. The facility has successfully attested to CMS/Medicaid for Meaningful Use, Stage 2 which resulted in receipt of financial incentives for meeting those standards and will be completing Stage 3 in 2019 submission with our new EMR System. To better assist us in tracking our ongoing performance on specific quality measures, KVMH continues participation in HMSA's advanced hospital care program and successfully meets the statements of work associated with the specific measures.

FACILITIES

Capital improvements to the facilities of the Kauai Region in 2018-2019 included projects to address patient care needs, quality of life issues for our patients and residents, and the replacement of aging plant infrastructure.

Kauai Region completed $1,566,339 in capital projects:

- SMMH Nurses Station Renovation
- SMMH Road Resurfacing (road to staff housing and rear of property)
- SMMH Exterior Doors
- SMMH Endoscopy Suite
- KVMH LTC Renovation (ADA shower change order)
- KVMH Irrigation Upgrades

Ongoing projects of $4,047,675 include:

- KVMH Electrical Upgrades
- KVMH Electrical Room Refurbishment
- KVMH R&M
- SMMH Psych Renovation
- SMMH Asset Analysis
- SMMH R&M
- SMMH LTC Renovations

OPERATIONS

Comparatively speaking, the overall operations of the Kauai Region remained relatively stable from FY 2018, with minimal to no growth in hospital volume indicators, with the exception of the Kauai Region Clinics. The Urgent Care Clinic in Poipu opened in January 2019 and has steadily increased in patient volumes averaging 30 patients per day. Provider recruitment remains a priority with recruitment efforts targeting two (2) primary care physicians, one (1) geriatrician and a Chief Medical Officer. FY 2019 was the start of our primary care transformation as the Kauai Region became a member of the HHP/HMSA ACO. This initiative embraces the transition from fee for service to a capitated model whereby primary care practices receive a per member, per month (PMPM), stipend in place of episodic payment. Emphasis is on preventive care and enhanced chronic care management.

The Kauai Region implemented a new integrated electronic medical records (EMR) system. The Kauai Region Clinics went live on February 1, 2019 with KVMH and SMMH following on July 1, 2019. The Kauai Region selected Cerner Community Works as our EMR partner to implement an enterprise wide system. The new EMR connects the hospitals and the clinics allowing vital clinical information to be communicated electronically. This function enhances quality of care and streamlines the management of patients across the region.

The Kauai Region is in the process of modernizing the hospitals. This effort entails renovating the physical plant at both KVMH and SMMH. In addition, major diagnostic equipment (CT scanner) is earmarked for replacement and upgrading to provide clinicians with needed tools to care for patients. Generally, the Kauai Region is two technology cycles behind (10 years) in utilizing state of the art equipment. CIP for life and safety repairs is targeted for our aging facilities due to changes in building codes and expiration of CMS waivers that once provided grandfathering of certain rules and regulations, but are now no longer available. As planned, the Kauai Region spent $1.0 million of operating funds in FY 2019 to replace essential equipment that was broken or obsolete.

The Kauai Region's journey to excellence began in July 2018. Becoming a high performing organization starts with employees embracing new principles that influence how they think and ultimately behave. All employees of the Kauai Region personalize the nine high performance principles. As we create this new culture of performance, we will provide higher quality of care to our patients. This process will take time and commitment from executive leadership. Modernizing our facilities combined with an enhanced work culture will benefit our community. Kauai Region staff will be more engaged with higher job satisfaction. Management training will be emphasized in FY 2020 as the role of management and leadership is vital to our transformation.