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

DEPT. COMM. NO. 406

January 31, 2024

PCEO – 24 – 003

The Honorable Ronald D. Kouchi,
President and Members of the Senate
Thirty-second State Legislature
State Capitol, Room 409
Honolulu, HI 96813

The Honorable Scott K. Saiki, Speaker
And Members of the House of Representatives
Thirty-second State Legislature
State Capitol, Room 431
Honolulu, HI 96813

Aloha President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information, I am transmitting a copy of the Hawaii Health Systems Corporation's annual audit and report for Fiscal Year 2023.

Pursuant to section 93-16, Hawaii Revised Statutes, this report may be viewed online at:

https://www.hhsc.org/about-us/hhsc-reports/

Sincerely,

Edward N. Chu
President and Chief Executive Officer
Hawaii Health Systems Corporation

Enclosures
C: Legislative Reference Bureau
Hawaii State Library System (2)
Hamilton Library

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

REPORT TO THE THIRTY-SECOND HAWAII STATE LEGISLATURE FOR FISCAL YEAR 2023

January 2024

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

Report to the Legislature
Hawaii Health Systems Corporation Annual Audit and Report for FY2023;
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 FY2023 and a list of capital improvement projects planned for implementation in FY2023; 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's system of healthcare. 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 Hoʻola Hamakua, and Kaʻu 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: Aliʻi Community Care, Inc: Roselani Place – Maui; Aliʻi 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 (MHS), 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 2023, HHSC's facilities experienced increasing patient volumes that either met or exceeded pre-Coronavirus pandemic levels. HHSC's acute admissions for fiscal year 2023 increased almost 4% from fiscal year 2022, and long-term care admissions for fiscal year 2023 increased over 10% from fiscal year 2022. HHSC's acute patient days for fiscal year 2023 increased over 10% from fiscal year 2022, and long-term care patient days for fiscal year 2023 increased almost 4% from fiscal year 2022. HHSC's emergency department visits for fiscal year 2023 increased approximately 23% from fiscal year 2022. The significant increase in acute patient days appears to be due to a variety of reasons, including: 1) deferred care during the Coronavirus pandemic resulting in sicker patients, 2) staffing shortages in long-term care and other post-acute care facilities resulting in delayed discharges as patients wait for the appropriate beds to become available (which is the cause of 70% of "wait-listed" patients), and 3) patients with behavioral issues, medical insurance challenges, and medically complex issues making them hard to place in other care settings. Increasing acute care volumes are occurring statewide, as the statewide average daily acute census increased from 1,970 in calendar year 2019 to 2,399 in calendar year-to-date November 30, 2023. In the face of these increasing patient volume levels, HHSC suffered from clinical staffing shortages as a result of the lack of available staff due to economic conditions such as high cost of living and the scarcity of affordable housing, and the limited capacity of Hawaii colleges and universities to accept and graduate nursing students and clinical technicians. As a result, HHSC has had to supplement its staff with contracted nursing and other clinical personnel. In fiscal year 2023, HHSC spent approximately $42.5 million in contracted nursing and other clinical personnel as compared to $14.4 million in fiscal year 2021, essentially tripling its cost for contracted clinical personnel over a two-year period. Recognizing the need to develop workforce programs that would allow HHSC's facilities to grow its own local healthcare workforce, HHSC's regions implemented a variety of workforce initiatives with community partners. These programs include establishing surgical technologist programs and nurse residency programs working with community colleges and local banks, specialized nursing certificate programs, establishing a certified nurse assistant program to prepare students as early as the high school level to hire students as entry-level nursing assistants working with local high schools, the Healthcare Association of Hawaii, and the Good Jobs Hawaii Program, and the establishment of the Hawaii Island Family Residency Program at Hilo Medical Center.

The increasing patient volumes demonstrate how HHSC's facilities are critical in terms of access to health care in the State of Hawaii, particularly on the neighbor islands. In fiscal year 2023, HHSC's acute discharges for the four HHSC regions were 13,278, which accounts for approximately 12% of all acute care discharges in the State of Hawaii. In fiscal year 2023, HHSC's emergency department visits for the four HHSC regions were 87,879, representing approximately 18.3% of all emergency department visits statewide. The impact of HHSC's facilities on the neighbor islands is even more impressive. For residents of the County of Hawaii, HHSC's facilities cared for almost

70% of all acute care discharges and over 81% of all emergency department visits. For residents of the County of Kauai, HHSC's facilities cared for approximately 22.5% of all acute care discharges and 38.7% 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 due to agreements between the State of Hawaii and public sector unions retroactive to July 1, 2021 and expiring on June 30, 2025. These raises are projected to cost HHSC a cumulative total of over $90 million at projected fringe benefit rates over the four-year period of the agreements. 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 addition, the State assessed HHSC a fringe benefit rate of 52.83% for fiscal year 2023. This represents a decrease in the fringe benefit rate assessed in fiscal year 2020 of 63.08%, resulting from the State of Hawaii's decision to temporarily suspend the statutory funding requirement for its retiree health insurance program. Unfortunately, the State of Hawaii has advised HHSC that the fringe benefit rate is expected to increase back up to 64.25% starting in fiscal year 2024. 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 23 fringe benefit rate and the private hospital fringe rate of 30% is approximately $45.7 million in additional annual expense to HHSC.

As a result of these ever-increasing cost pressures, HHSC's salaries & benefits expense as a % of net patient service revenue was 75.5% for fiscal year 2023, as compared to the U.S. Not-for-Profit Healthcare System Median of 57.6% (per Standard & Poors Global Ratings for 2021).

HHSC recognizes the need to continually seek new ways to fund its operations outside of seeking additional general fund appropriations from the State of Hawaii, and has implemented several initiatives to improve services to the community and improve HHSC's financial performance:

- *Focus on Achieving Third-Party Payor Rates on Par with Private Hospitals in the State of Hawaii:* Utilizing the resources of a consulting firm and published payment rates available as a result of federal price transparency legislation, HHSC negotiated contracts for its commercial lines of business with its largest commercial payors that will bring HHSC's reimbursement rates for healthcare services up to par with those of the private hospitals in the State of Hawaii. This has been a large part of HHSC's revenue growth in fiscal year 2023, and will continue into the future as new contracts are negotiated.
- *Establishment of Professional Provider Organizations:* HHSC's regions have established not-for-profit professional provider organizations for its physician and

clinic operations to allow for more efficient delivery of those types of services to the communities where they operate.

- *<u>Focus on Revenue-Generating Services that Improve Services to the Community:</u>* Both Hilo Medical Center and Kauai Veterans Memorial Hospital (KVMH) have established retail pharmacies that provide retail and specialty drugs to the community, and allow hospital inpatients to receive their prescribed medications upon discharge without having to go to another location to fill those prescriptions. HHSC's facilities have also developed other revenue generating services such as cardiology services at Hilo Medical Center and the expansion of specialty care services at KVMH such as urology, podiatry, and gastrointestinal services.
- *<u>Maximizing Federal Funding Opportunities:</u>* HHSC's East Hawaii and Kauai Regions have converted several of their outpatient clinics to rural health clinics to achieve enhanced Medicare and Medicaid reimbursement for those services. HHSC has also received over $1 million from the Federal Communications Commission in Coronavirus Telehealth Grants to update aging telecommunications equipment and upgrade its network infrastructure. HHSC also worked with the State of Hawaii MedQUEST Division to establish a public hospital uncompensated care pool which provides federal funds to partially subsidize HHSC's losses from providing care to Medicaid, MedQUEST, and uninsured patients. In fiscal year 2023, HHSC received over $60 million in funds from this program.
- *<u>Seeking Philanthropy:</u>* HHSC's facilities have always worked with their associated foundations to provide funding for medical equipment and other needed items for the facilities. Recently, HHSC's Hawaii Island facilities have received two very large unrestricted contributions from private donors.
- *<u>Collaborating with Other Private Hospitals on Services:</u>* HHSC's West Hawaii Region entered into an agreement with Queens Health Systems to implement the EPIC electronic medical records system at Kona Community Hospital and Kohala Hospital, which went live on June 1, 2023. Once West Hawaii Region has optimized the EPIC system, it is expected to greatly improve the efficiency of operations, coordination of care with other private hospitals in the State of Hawaii, and improve charge capture. Kauai Region is also in a partnership with Hawaii Pacific Health Wilcox Hospital to establish island-wide radiologist coverage for the three hospitals on the island of Kauai.

One of the issues that HHSC faces going forward will be the increased need for State general fund appropriations for fiscal years 2024 and beyond due to the loss of federal funds (e.g. Provider Relief Fund grants, Small Business Association Paycheck Protection Program loans, American Rescue Plan Act funds, and the increased federal matching percentage from the CARES Act) that helped HHSC reduce its need for general fund appropriations during fiscal years 2020-2023. HHSC received over $172 million in those types of funding during that time period, and with those sources of funding no longer anticipated to be available going forward, those funds will need to be replaced with State general fund appropriations or other sources of funds just to continue the services that HHSC currently provides. Combined with the anticipated increase in pharmaceutical and medical supply inflation, growing costs of obtaining hospital general and professional liability insurance, and the impacts of labor shortages at all levels of the healthcare industry in Hawaii, HHSC's need for operational funding will continue to grow. The other major issue results from the devastating wildfires that destroyed Lahaina and impacted other parts of Maui. While HHSC no longer operates facilities on Maui, the economic impact of the loss of revenue from those devastated communities combined with the significant need for funds to rebuild homes and businesses and provide assistance to those who have basically lost everything will cause a significant drain on State finances, which will mean there will be less State general funds available to meet the needs of all the agencies that the State of Hawaii operates. Further, the demand for construction resources to rebuild Lahaina will likely cause other construction projects to be delayed or significantly increase the costs of those projects.

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 a "clean" unqualified consolidated audit for every fiscal year from FY 2000 through FY2023.

The following information is attached in accordance with section 323F-22, HRS: (1) projected revenues for each facility for FY2024, (2) proposed capital improvement projects during FY2024; 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,

Edward N. Chu	Joyce M. Tamori
Chief Executive Officer	Chief Financial Officer

ATTACHMENT A

Hawaii Health Systems Corporation

Financial Report
with Supplementary Information
June 30, 2023

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Independent Auditor's Report

To the Board of Directors
Hawaii Health Systems Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hawaii Health Systems Corporation (the "Corporation"), a component unit of the State of Hawaii, as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of Hawaii Health Systems Corporation as of June 30, 2023 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Kahuku Medical Center, a blended component unit, which represents 2 percent of total assets, (4) percent of net deficit, and 4 percent of revenue as of June 30, 2023. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Kahuku Medical Center, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

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, 2023 or the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

As discussed in Note 2 to the financial statements, as of July 1, 2022, the Corporation adopted new accounting guidance, Governmental Accounting Standards Board 96, *Subscription-Based Information Technology Arrangements* (SBITAs). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

To the Board of Directors
Hawaii Health Systems Corporation

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary 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 is the responsibility of management and, 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 supplementary 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.

To the Board of Directors
Hawaii Health Systems Corporation

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hawaii Health Systems Corporation's basic financial statements. The supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 19, 2023 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 solely 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 effectiveness of Hawaii Health Systems Corporation's 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 Systems Corporation's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 19, 2023

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, 2023 and 2022. Please read it in conjunction with the Corporation's financial statements, which begin on page 10.

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 10. 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, 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 Corporation adopted GASB 96, *Subscription-Based Information Technology Arrangements* (SBITAs), as of July 1, 2022.

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 pages 10 and 11. The Corporation's net position increased by $62,003,449 and $77,988,916 in 2023 and 2022, respectively.

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

Summarized financial information of Hawaii Health Systems Corporation's statement of net position as of June 30, 2023 and 2022 is as follows:

	2023	2022
Assets		
Current assets	$ 411,804,545	$ 380,731,947
Capital assets - Net	364,459,180	356,582,674
Other	105,236,961	68,054,305
Total assets	881,500,686	805,368,926
Deferred Outflows of Resources	97,136,799	91,465,229
Total assets and deferred outflows of resources	978,637,485	896,834,155
Liabilities		
Current liabilities	121,937,851	108,407,399
Other postemployment liability	459,810,487	491,488,746
Due to the State of Hawaii	19,008,243	19,008,243
Pension liability	555,205,199	509,459,725
Other liabilities	86,654,357	67,151,641
Total liabilities	1,242,616,137	1,195,515,754
Deferred Inflows of Resources	156,778,197	184,078,699
Total liabilities and deferred inflows of resources	1,399,394,334	1,379,594,453
Net Position (Deficit)		
Net investment in capital assets	322,849,458	313,074,628
Restricted	5,145,863	5,147,621
Unrestricted	(748,752,170)	(800,982,547)
Total net position (deficit)	$ **(420,756,849)**	$ **(482,760,298)**

At June 30, 2023 and 2022, Hawaii Health Systems Corporation's current assets approximated 47 percent of total assets. Current assets increased by approximately $31 million in 2023 primarily due to an increase in accounts receivable because of increased volumes and an increase in cash and cash equivalents because of American Rescue Plan funds passed through State of Hawaii appropriations, as disclosed in Note 2.

At June 30, 2023 and 2022, Hawaii Health Systems Corporation's current liabilities approximated 10 and 9 percent, respectively, of total liabilities. Current liabilities increased by approximately $15 million in 2023 primarily due to the increase in accounts payable and accrued expenses.

At June 30, 2023 and 2022, 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 $323 million and $313 million, respectively. Total net position was approximately $(421) million in 2023 and $(483) million in 2022.

Capital Assets

At June 30, 2023 and 2022, Hawaii Health Systems Corporation's capital assets, net of accumulated depreciation, comprised approximately 41 and 44 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 increase in the net capital assets is due to additional capital expenditures across the regions.

A summary of Hawaii Health Systems Corporation's capital assets as of June 30, 2023 and 2022 is as follows:

	2023	2022
Land and land improvements	$ 11,278,017	$ 10,807,306
Building and improvements	627,012,467	592,070,235
Equipment	268,938,348	267,231,909
Leased assets	29,940,182	25,717,982
Construction in progress	48,023,598	49,601,137
Total cost	985,192,612	945,428,569
Less accumulated depreciation and amortization	(620,733,432)	(588,845,895)
Capital assets - Net	**$ 364,459,180**	**$ 356,582,674**

Long-term Debt

At June 30, 2023 and 2022, Hawaii Health Systems Corporation had long-term debt totaling approximately $35 million and $34 million, respectively. The increase of $1 million in 2023 was due to modest new debt taken on, and the decrease of $7 million in 2022 was due to repayment of current amounts due and the forgiveness of Paycheck Protection Program loans. More detailed information about Hawaii Health Systems Corporation's long-term debt 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, 2023 and 2022 is as follows:

	2023	2022
Operating Revenue	$ 636,579,336	$ 570,224,618
Operating Expenses		
Salaries and wages	309,689,509	283,474,103
Employee benefits	112,621,950	113,439,213
Purchased services and professional fees	156,169,052	118,644,469
Medical supplies and drugs	72,521,875	68,743,384
Depreciation and amortization	41,435,312	37,062,462
Insurance	7,923,399	7,585,887
Other	69,720,290	65,115,517
Total operating expenses	770,081,387	694,065,035
Operating Loss	(133,502,051)	(123,840,417)
Nonoperating Revenue		
General appropriations from the State of Hawaii	118,989,303	83,185,903
Other nonoperating revenue - Net	9,132,111	3,441,205
Contributions - CARES Act and other	1,783,657	21,887,143
Contributions - American Rescue Plan funds	41,238,400	60,221,100
Forgiveness of Paycheck Protection Program loans		2,949,184
Total nonoperating revenue	171,143,471	171,684,535
Excess of Revenue Over Expenses before Capital Contributions	37,641,420	47,844,118
Capital Contributions	24,362,029	30,144,798
Increase in Net Position	**$ 62,003,449**	**$ 77,988,916**

Operating Losses

For the years ended June 30, 2023 and 2022, Hawaii Health Systems Corporation's operating expenses exceeded its operating revenue by $133.5 million and $123.8 million, respectively. General appropriations from the State of Hawaii totaled $118.9 million and $83.1 million in 2023 and 2022, respectively. In addition, appropriations from the State of Hawaii for capital contributions totaled $24.4 million and $30.1 million in 2023 and 2022, respectively. Additionally, the Corporation saw a decrease in CARES contributions of approximately $20 million and $24 million in 2023 and 2022, respectively, due to the winding down of the CARES Act funding. The Corporation also received new funding of $41 million in 2023 and $60 million in 2022 through the American Rescue Plan. These items, along with the other nonoperating revenue and the transfer of certain liabilities to the State of Hawaii, contributed to an increase in net position of $62.0 million and $77.9 million in 2023 and 2022, respectively.

Operating expenses for the fiscal years ended June 30, 2023 and 2022 totaled $770.1 million and $694.1 million, respectively.

Operating revenue for the fiscal years ended June 30, 2023 and 2022 increased by approximately 11.6 and 15.2 percent from 2022 and 2021, respectively, as patient service volumes rebounded from the coronavirus pandemic.

Systemwide Outlook

In fiscal year 2023, HHSC's facilities experienced increasing patient volumes that either met or exceeded pre-coronavirus pandemic levels. HHSC's acute admissions for fiscal year 2023 increased by almost 4 percent from fiscal year 2022, and long-term care admissions for fiscal year 2023 increased by over 10 percent from fiscal year 2022. HHSC's acute patient days for fiscal year 2023 increased by over 10 percent from fiscal year 2022, and long-term care patient days for fiscal year 2023 increased by almost 4 percent from fiscal year 2022. HHSC's emergency department visits for fiscal year 2023 increased by approximately 23 percent from fiscal year 2022. The significant increase in acute patient days appears to be due to a variety of reasons, including: (1) deferred care during the coronavirus pandemic, resulting in sicker patients; (2) staffing shortages in long-term care and other post-acute-care facilities, resulting in delayed discharges as patients wait for the appropriate beds to become available (which is the cause of 70 percent of waitlisted patients); and (3) patients with behavioral issues, medical insurance challenges, and medically complex issues making them hard to place in other care settings. Increasing acute-care volumes are occurring statewide, as the statewide average daily acute census increased from 1,970 in calendar year 2019 to 2,399 in calendar year-to-date November 30, 2023. In the face of these increasing patient volume levels, HHSC suffered from clinical staffing shortages as a result of the lack of available staff due to economic conditions, such as high cost of living and the scarcity of affordable housing, and the limited capacity of Hawaii colleges and universities to accept and graduate nursing students and clinical technicians. As a result, HHSC has had to supplement its staff with contracted nursing and other clinical personnel. In fiscal year 2023, HHSC spent approximately $42.5 million in contracted nursing and other clinical personnel as compared to $14.4 million in fiscal year 2021, essentially tripling its cost for contracted clinical personnel over a two-year period. Recognizing the need to develop workforce programs that would allow HHSC's facilities to grow its own local health care workforce, HHSC's regions implemented a variety of workforce initiatives with community partners. These programs include the establishment of surgical technologist programs and nurse residency programs, working with community colleges and local banks; specialized nursing certificate programs; the establishment of a certified nurse assistant program to prepare students as early as the high school level to be entry-level nursing assistants, working with local high schools; the Healthcare Association of Hawaii; the Good Jobs Hawaii Program; and the establishment of the Hawaii Island Family Residency Program at Hilo Medical Center.

The increasing patient volumes demonstrate how HHSC's facilities are critical in terms of access to health care in the State of Hawaii, particularly on the neighbor islands. In fiscal year 2023, HHSC's acute discharges for the four HHSC regions were 13,278, which accounts for approximately 12 percent of all acute-care discharges in the State of Hawaii. In fiscal year 2023, HHSC's emergency department visits for the four HHSC regions were 87,879, representing approximately 18.3 percent of all emergency department visits statewide. The impact of HHSC's facilities on the neighbor islands is even more impressive. For residents of the County of Hawaii, HHSC's facilities cared for almost 70 percent of all acute-care discharges and over 81 percent of all emergency department visits. For residents of the County of Kauai, HHSC's facilities cared for approximately 22.5 percent of all acute-care discharges and 38.7 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 due to agreements between the State of Hawaii and public sector unions retroactive to July 1, 2021 and expiring on June 30, 2025. These raises are projected to cost HHSC a cumulative total of over $90 million at projected fringe benefit rates over the four-year period of the agreements. 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 make it difficult for HHSC to operate its facilities efficiently and cost effectively.

In addition, the State assessed HHSC a fringe benefit rate of 52.83 percent for fiscal year 2023. This represents a decrease in the fringe benefit rate assessed in fiscal year 2020 of 63.08 percent, resulting from the State of Hawaii's decision to temporarily suspend the statutory funding requirement for its retiree health insurance program. Unfortunately, the State of Hawaii has advised HHSC that the fringe benefit rate is expected to increase back up to 64.25 percent starting in fiscal year 2024. Other private hospitals across the United States pay a fringe benefit rate between 25-30 percent. The impact to HHSC of the difference between its fiscal year 2023 fringe benefit rate and the private hospital fringe rate of 30 percent is approximately $45.7 million in additional annual expense to HHSC.

As a result of these ever-increasing cost pressures, HHSC's salaries and benefits expense as a percent of net patient service revenue was 75.5 percent for fiscal year 2023, as compared to the U.S. Not-for-Profit Health Care System Median of 57.6 percent (per Standard & Poor's Global Ratings for 2021).

HHSC recognizes the need to continually seek new ways to fund its operations outside of seeking additional General Fund appropriations from the State of Hawaii and has implemented several initiatives to improve services to the community and improve HHSC's financial performance:

Focus on Achieving Third-party Payor Rates on Par with Private Hospitals in the State of Hawaii: Utilizing the resources of a consulting firm and published payment rates available as a result of federal price transparency legislation, HHSC negotiated contracts for its commercial lines of business with its largest commercial payors that will bring HHSC's reimbursement rates for health care services up to par with those of the private hospitals in the State of Hawaii. This has been a large part of HHSC's revenue growth in fiscal year 2023 and will continue into the future as new contracts are negotiated.

Establishment of Professional Provider Organizations: HHSC's regions have established not-for-profit professional provider organizations for its physician and clinic operations to allow for more efficient delivery of those types of services to the communities where they operate.

Focus on Revenue-generating Services that Improve Services to the Community: Both Hilo Medical Center and Kauai Veterans Memorial Hospital (KVMH) have established retail pharmacies that provide retail and specialty drugs to the community and allow hospital inpatients to receive their prescribed medications upon discharge without having to go to another location to fill those prescriptions. HHSC's facilities have also developed other revenue-generating services such as cardiology services at Hilo Medical Center and the expansion of specialty care services at KVMH, such as urology, podiatry, and gastrointestinal services.

Maximizing Federal Funding Opportunities: HHSC's East Hawaii and Kauai Regions have converted several of their outpatient clinics to rural health clinics to achieve enhanced Medicare and Medicaid reimbursement for those services. HHSC has also received over $1 million from the Federal Communications Commission in Coronavirus Telehealth Grants to update aging telecommunications equipment and upgrade its network infrastructure. HHSC also worked with the State of Hawaii MedQUEST Division to establish a public hospital uncompensated care pool that provides federal funds to partially subsidize HHSC's losses from providing care to Medicaid, MedQUEST, and uninsured patients. In fiscal year 2023, HHSC received over $60 million in funds from this program.

Seeking Philanthropy: HHSC's facilities have always worked with their associated foundations to provide funding for medical equipment and other needed items for the facilities. Recently, HHSC's Hawaii Island facilities have received two very large unrestricted contributions from private donors.

Collaborating with Other Private Hospitals on Services: HHSC's West Hawaii Region entered into an agreement with Queens Health Systems to implement the EPIC electronic medical records system at Kana Community Hospital and Kohala Hospital, which went live on June 1, 2023. Once West Hawaii Region has optimized the EPIC system, it is expected to greatly improve the efficiency of operations, coordination of care with other private hospitals in the State of Hawaii, and improve charge capture. Kauai Region is also in a partnership with Hawaii Pacific Health Wilcox Hospital to establish island-wide radiologist coverage for the three hospitals on the island of Kauai.

Future Outlook

One of the issues that HHSC faces going forward will be the increased need for state General Fund appropriations for fiscal years 2024 and beyond due to the loss of federal funds (e.g., Provider Relief Fund grants, Small Business Administration Paycheck Protection Program loans, American Rescue Plan Act funds, and the increased federal matching percentage from the CARES Act) that helped HHSC reduce its need for General Fund appropriations during fiscal years 2020-2023. HHSC received over $172 million in those types of funding during that time period, and with those sources of funding no longer anticipated to be available going forward, those funds will need to be replaced with state General Fund appropriations or other sources of funds just to continue the services that HHSC currently provides. Combined with the anticipated increase in pharmaceutical and medical supply inflation, growing costs of obtaining hospital general and professional liability insurance, and the impacts of labor shortages at all levels of the health care industry in Hawaii, HHSC's need for operational funding will continue to grow. The other major issue results from the devastating wildfires that destroyed Lahaina and impacted other parts of Maui. While HHSC no longer operates facilities on Maui, the economic impact of the loss of revenue from those devastated communities combined with the significant need for funds to rebuild homes and businesses and provide assistance to those who have basically lost everything will cause a significant drain on state finances, which will mean there will be less state General Funds available to meet the needs of all the agencies that the State of Hawaii operates. Further, the demand for construction resources to rebuild Lahaina will likely cause other construction projects to be delayed or significantly increase the costs of those projects.

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

Statement of Net Position

	June 30, 2023
Assets and Deferred Outflows of Resources	
Current Assets	
Cash and cash equivalents (Note 2)	$ 191,522,088
Cash and cash equivalents - State of Hawaii (Note 2)	15,396,460
Lease receivable (Note 11)	1,409,994
Patient accounts receivable - Less allowance for doubtful accounts of $27,515,437 (Notes 2 and 3)	86,322,863
Investments (Note 4)	21,977,253
Due from the State of Hawaii (Note 6)	47,399,521
Assets limited as to use (Note 2)	15,090,802
Supplies and other current assets	19,367,583
Estimated third-party payor settlements	13,317,981
Total current assets	411,804,545
Assets Limited as to Use - Net of current portion (Note 2)	43,827,513
Investments - Net of current portion (Note 4)	13,838,370
Subscriptions (Note 5)	28,833,377
Lease Receivable - Net of current portion (Note 11)	18,737,701
Capital Assets - Net (Note 5)	364,459,180
Total assets	881,500,686
Deferred Outflows of Resources	
Pension (Note 8)	61,781,118
Postemployment benefits other than pensions (Note 9)	35,355,681
Total deferred outflows of resources	97,136,799
Total assets and deferred outflows of resources	$ **978,637,485**

See notes to financial statements.

	June 30, 2023
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)	
Current Liabilities	
Accounts payable and accrued expenses	$ 79,706,243
Current portion of accrued vacation (Note 7)	19,545,033
Current portion of long-term debt (Note 10)	10,402,599
Current portion of subscription obligations (Note 10)	4,190,014
Current portion of lease obligations (Note 10)	4,056,855
Current portion of accrued workers' compensation (Note 13)	2,527,000
Other current liabilities	1,510,107
Total current liabilities	121,937,851
Long-term Debt - Net of current portion (Note 10)	24,148,106
Subscriptions - Net of current portion (Note 10)	13,563,459
Lease Obligation - Net of current portion (Note 10)	14,082,066
Other Liabilities	
Accrued vacation - Less current portion (Note 7)	20,881,350
Accrued workers' compensation - Less current portion (Note 13)	9,321,000
Other postemployment liability (Note 9)	459,810,487
Due to the State of Hawaii (Note 6)	19,008,243
Pension liability (Note 8)	555,205,199
Other liabilities	4,442,138
Patients' safekeeping deposits	216,238
Total liabilities	1,242,616,137
Deferred Inflows of Resources	
Pension (Note 8)	60,017,223
Postemployment benefits other than pensions (Note 9)	77,066,613
Leases (Note 11)	19,694,361
Total deferred inflows of resources	156,778,197
Total liabilities and deferred inflows of resources	1,399,394,334
Net Position (Deficit)	
Unrestricted	(748,752,170)
Net investment in capital assets	322,849,458
Restricted for lender covenants and other (Note 2)	5,145,863
Total net position (deficit)	(420,756,849)
Total liabilities, deferred inflows of resources, and net position (deficit)	$ **978,637,485**

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended June 30, 2023
Operating Revenue	
Net patient service revenue (net of provision for doubtful accounts of $22,183,887)	$ 559,466,684
Uncompensated care revenue	64,404,910
Other revenue	12,707,742
Total operating revenue	636,579,336
Operating Expenses	
Salaries	309,689,509
Employee benefits	112,621,950
Medical supplies and drugs	72,521,875
Depreciation and amortization	41,435,312
Utilities	15,389,401
Repairs and maintenance	15,028,147
Other supplies	15,933,273
Purchased services	133,248,980
Professional fees	22,920,072
Insurance	7,923,399
Rent and lease	6,181,049
Other	17,188,420
Total operating expenses	770,081,387
Operating Loss	(133,502,051)
Nonoperating Income (Expense)	
General appropriations from the State of Hawaii	118,989,303
Restricted contributions	2,025,066
Interest expense	(2,125,287)
Interest and dividend income	7,071,984
Contributions - CARES Act Provider Relief Fund and other	1,783,657
Contributions - State of Hawaii appropriations American Rescue Plan funds (Note 2)	41,238,400
Other nonoperating revenue - Net	2,160,348
Total nonoperating income	171,143,471
Excess of Revenue Over Expenses before Capital Contributions	37,641,420
Capital Contributions	24,362,029
Increase in Net Position	62,003,449
Net Position (Deficit) - Beginning of year	(482,760,298)
Net Position (Deficit) - End of year	$ **(420,756,849)**

See notes to financial statements.

Statement of Cash Flows

	Year Ended June 30, 2023
Cash Flows from Operating Activities	
Cash received from government, patients, and third-party payors	$ 621,561,792
Cash payments to employees for services	(435,199,418)
Cash payments to suppliers for services and goods	(297,537,757)
Other receipts from operations	12,707,742
Net cash used in operating activities	(98,467,641)
Cash Flows from Noncapital Financing Activities	
Appropriations from the State of Hawaii	118,989,303
Contributions - CARES Act Provider Relief Fund	535,734
Contributions - American Rescue Plan funds	41,238,400
Other nonoperating revenue - Net	2,160,348
Net cash provided by noncapital financing activities	162,923,785
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(14,546,965)
Interest paid	(2,125,287)
Repayments on long-term debt	(1,912,300)
Repayments on lease and subscription obligations	(18,184,693)
Restricted capital contributions	2,025,066
Proceeds from long-term debt	2,470,793
Net cash used in capital and related financing activities	(32,273,386)
Cash Flows from Investing Activities	
Interest and dividend income	7,071,984
Purchase of short-term investments and assets limited as to use	(7,161,698)
Net cash used in investing activities	(89,714)
Net Increase in Cash and Cash Equivalents	32,093,044
Cash and Cash Equivalents - Beginning of year	174,825,504
Cash and Cash Equivalents - End of year	**$ 206,918,548**
Statement of Net Position Classification of Cash and Cash Equivalents	
Cash and cash equivalents	$ 191,522,088
Cash and cash equivalents - State of Hawaii	15,396,460
Total cash and cash equivalents	**$ 206,918,548**

See notes to financial statements.

Year Ended June 30, 2023

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

Cash Flows from Operating Activities	
Operating loss	$ (133,502,051)
Adjustments to reconcile operating loss to net cash from operating activities:	
Provision for doubtful accounts	22,183,887
Depreciation and amortization	41,435,312
Gain on disposal of capital assets	239,528
Changes in assets and liabilities:	
Patient accounts receivable	(20,286,485)
Supplies and other assets	(3,416,045)
Accounts payable, accrued expenses, and other liabilities	14,196,877
Accrued workers' compensation liability	(119,000)
Postemployment benefit liability	(31,678,259)
Pension liability	45,745,474
Deferred outflows and inflows	(32,972,072)
Estimated third-party payor settlements	(1,786,399)
Accrued vacation	3,912,397
Medicare advance funds	(3,041,757)
Lease receivable	620,952
Net cash used in operating activities	$ **(98,467,641)**
Noncash Financing and Investing Activities	
Capital assets contributed by the State of Hawaii and others	$ 25,823,228
Change in due from the State of Hawaii	1,461,199
Assets acquired via lease and subscription	28,344,482

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 a 15-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

West Hawaii Region:

- Kana Community Hospital
- Kohala Hospital

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.

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, 2023. 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 following entities are being presented as part of Hawaii Health Systems Corporation: Hawaii Health Systems Foundation (HHSF); Ali'i Community Care, Inc. (Ali'i); Ali'i Health Center (AHC); East Hawaii Medical Group (EHMG); East Hawaii Health Pharmacy (EHH); Kauai Region Medical Group (KRMG); Kauai Region Pharmacy - West (KRPW); and Kauai Region Recovery Services (KRRS). The purpose of HHSF is to raise funds and to obtain gifts and grants on behalf of Hawaii Health Systems Corporation. The purpose of Ali'i is to own, manage, and operate assisted living and other health care facilities in the state.

Note 1 - Organization (Continued)

Kona Ambulatory Center (KASC), located in Kailua, Hawaii, on the island of Hawaii, was an outpatient surgical facility that provided services to residents and visitors of the Kona district of Hawaii County. On July 29, 2022, AHC and KASC entered into an asset purchase agreement. As part of the agreement, KASC agreed to sell substantially all of its assets to AHC. The transaction date was effective as of December 31, 2022. In accordance with Governmental Accounting Standards Board (GASS) Statement No. 69, *Government Combinations and Disposals of Government Operations,* the merger transaction is recorded as though the entities had been combined at the beginning of the continuing entity's reporting period, July 1, 2022.

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, 2 at-large members at the governor's discretion, 2 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 5 regional chief executive officers; 1 representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards; 2 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.

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.

Note 1 - Organization (Continued)

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.

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.

Oahu Region

In June 2021, the Legislature passed SB628 SD2 HD2 CD1, effective July 6, 2021, which initiated the transition of the region into the State of Hawaii Department of Health and required the transfer to be completed no later than December 31, 2022. During fiscal year 2022, HB1579 HD2 was passed by the Legislature, which extended the deadline to complete the transition to December 31, 2025.

In July 2022, the Legislature passed **H.B.** 1893, which requires the region to take ownership of the Daniel K. Akaka veterans home (the "VA Home") upon completion. The facility is currently under construction with an expected completion date in fiscal year 2024 and is being funded by the Department of Defense.

Liquidity

During the year ended June 30, 2023, Hawaii Health Systems Corporation incurred losses from operations of approximately $134 million and had negative cash flows from operations of approximately $98 million. 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 in accordance with accounting principles generally accepted in the United States of America, as prescribed by Governmental Accounting Standards Board.

Use of Estimates

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

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of three months or less. It also includes amounts held in the State Treasury. The state director of finance is responsible for the safekeeping of all moneys paid into the State Treasury (cash pool). Hawaii Health Systems Corporation's portion of this cash pool at June 30, 2023 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 and certificates of deposit, as described in Note 4, in financial institutions that are in excess of available depository insurance coverage. The amount of uninsured and uncollateralized deposits for cash and cash equivalents totaled approximately $237,188,000 at June 30, 2023. 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.

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. Capital assets are defined by the Corporation as assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year. Donated buildings, equipment, and land are recognized as revenue when all eligibility requirements have been met, generally at the date of donation. 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.

Note 2 - Significant Accounting Policies (Continued)

Leases

Lessee

The Corporation has a policy to recognize a lease liability and a right-to-use lease asset (lease asset) in the financial statements. The Corporation recognizes lease liabilities with an initial, individual value of $25,000 or more with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Corporation initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the Corporation has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the Corporation determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Corporation uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Corporation generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Corporation is reasonably certain to exercise.

The Corporation monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right to use along with other capital assets, and lease liabilities are reported with long-term liabilities on the statement of net position.

Lessor

The Corporation is a lessor for the Maui hospital location, and serving as the lessor for this location is the Maui Region's sole operating purpose, as such the rent revenue received has been recorded as other operating revenue. The Corporation recognizes leases receivable and deferred inflows of resources in the financial statements. Variable payments based on future performance of the lessee or usage of the underlying asset should not be included in the measurement of the lease receivable.

At the commencement of a lease, the Corporation initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

Note 2 - Significant Accounting Policies (Continued)

Key estimates and judgments include how the Corporation determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Corporation uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The Corporation monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Subscriptions

The Corporation has a policy to recognize a subscription-based liability and a right-to-use asset (subscription asset) in the financial statements. The Corporation recognized subscription liabilities with an initial, individual value of $50,000 or more with a subscription term greater than one year. Variable payments based on future performance of the Corporation, usage of the underlying IT asset, or number of user seats are not included in measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments incurred.

At the commencement of SBITA, the Corporation initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

Subscription assets are recorded at the amount of initial measurement of the subscription liabilities, less any payments made to the SBITA vendor before the commencement of the subscription term, and capitalizable initial implementation cost, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

Costs associated with a SBITA, other than subscription payments, are accounted for as follows:

- **Preliminary Project Stage:** Outlays are expensed as incurred.
- **Initial Implementation Stage:** Outlays are capitalized as an addition to the subscription asset.
- **Operation and Additional Implementation Stage:** Outlays are expensed as incurred unless they meet specific capitalization criteria.

Upon adoption, the Corporation elected to exclude the capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage that were incurred prior to the implementation of this statement in the measurement of subscription assets as of July 1, 2022.

Subscription assets are reported in long-term assets and subscription liabilities are reported with long-term liabilities on the statement of net position.

Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the Corporation has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

Key estimates and judgments related to SBITA include how the Corporation determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

Note 2 - Significant Accounting Policies (Continued)

- The Corporation uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Corporation generally uses its incremental borrowing rate as the discount rate for SBITA.
- The subscription term includes the noncancelable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the Corporation is reasonably certain to exercise.
- The Corporation monitors changes in circumstances that would require a remeasurement of its subscription liability and will remeasure the subscription receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the subscription receivable.

Assets Limited* as *to Use

Assets limited as to use include patients' safekeeping deposits, restricted contributions to be earned, board-designated cash, internally designated investments, cash in escrow accounts related to future lease draws, and restricted net position, which have restrictions that 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, 2023, assets limited as to use consisted of restricted cash of $58,918,315.

Grant Revenue

Revenue received for grants is considered a nonexchange transaction and is recognized as the eligibility requirements of the grants have been met. Grant funding received in advance of eligibility requirements being met is recorded as unearned revenue.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 and authorizes $100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. These CARES Act funds were distributed to qualifying health care entities through various general and targeted distributions between 2020 and 2023. There was also an additional $8.5 billion in funds appropriated under the American Rescue Plan (ARP) Act of 2021, which was distributed in December 2021 to eligible health care providers.

Note 2 - Significant Accounting Policies (Continued)

Through June 30, 2023, the Corporation received $69.1 million as part of general and targeted distributions of the CARES Act Provider Relief Fund and ARP Rural payments under the American Rescue Plan Act of 2021, which were distributed between April 2020 and December 2021. Of these funds received, $67.9 million of revenue was recognized in previous years. The final $1.2 million was recognized as contribution revenue within nonoperating income (expense) on the statement of revenue, expenses, and changes in net position in 2023 as a result of the Corporation concluding that the terms and conditions of the funding had been met. These payments are not subject to repayment, provided the Corporation is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for health care-related expenses or lost revenue attributed to COVID-19. Based on an analysis of compliance and reporting requirements of the Provider Relief Fund and ARP Rural payment and the impact of the pandemic on the Corporation's operating results through June 30, 2023, the Corporation believes there is reasonable assurance the applicable terms and conditions required to retain the funds are met as of June 30, 2023.

The U.S. Department of Health and Human Services' (HHS) requirements for the uses of the CARES Act funds and ARP Rural payments are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as contribution revenue during the year ended June 30, 2023. If the Corporation is unable to attest to or comply with future terms and conditions, the ability to retain some or all of the distributions may be impacted. Any changes in amounts recognized as a result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.

Additionally, in the year ended June 30, 2023, Hawaii Health Systems Corporation received $41 million in American Rescue Plan funds passed through State of Hawaii appropriations. These payments are not subject to repayment, and there are no required terms and conditions related to the appropriation funding; therefore, all amounts received have been recognized as nonoperating revenue as of June 30, 2023.

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 and the State of Hawaii OPES plan.

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 various items that qualify for reporting in this category. They are the deferred inflows of resources related to the cost-sharing defined benefit pension plan and the State of Hawaii OPES plan, leases, and subscription-based information technology agreements.

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, 2023 was composed of $145,863 restricted for capital purchases and $5,000,000 restricted by lender covenants. Unrestricted net position is the remaining net assets that do not meet the definition of net investment in capital assets or restricted.

Operating Revenue and Expenses

Hawaii Health Systems Corporation has defined its operating revenue and expenses as those relating to the provision of health care 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 year ended June 30, 2023 was approximately $400,000.

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 2023 financial statements.

Hawaii Health Systems Corporation participates in the State of Hawaii Hospital Uncompensated Care Program. Under this program, governmentally operated hospitals receive supplemental payments from participating Medicaid HMO plans. The program is intended to provide funding to cover the loss of providing hospital and nursing facility services to Medicaid managed-care subscribers.

Note 2 - Significant Accounting Policies (Continued)

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

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

- 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 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 health care facility, or (3) be certified by the State as being a necessary provider of health care services to residents in the area. These facilities are paid an interim reimbursement rate throughout the year based on each facility's expected costs per inpatient day or the allowable outpatient cost to charge. After the close of each fiscal year, the facility would receive retrospective settlements for the difference between interim payments received and the total allowable cost, as documented in the Medicare cost reports.

- 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.

- 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.

- 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.

Note 2 - Significant Accounting Policies (Continued)

- 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.

Medicare Accelerated Payments

During 2020, Hawaii Health Systems Corporation requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to 6 months of accelerated Medicare payments for acute-care hospitals. Effective October 1, 2020, the repayment term of the accelerated payments began one year after the first payment was issued, and the payments are initially recouped at 25 percent of the Medicare payments to the Corporation for 11 months. After 11 months, the recoupment will increase to 50 percent of the Medicare payments to the Corporation for 6 additional months (or until all amounts are repaid). Any unapplied accelerated payment amounts that are unpaid after this 17-month period are due to CMS, plus interest at a rate of 4 percent on the outstanding balance. As of June 30, 2022, the Corporation received approximately $14 million from these accelerated Medicare payment requests. As of June 30, 2023, approximately $14 million was recouped by CMS and no liability remained.

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 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 year ended June 30, 2023, interest expense totaled approximately $9,694,000.

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 13.

Note 2 - Significant Accounting Policies (Continued)

Change in Accounting Principle

In May 2020, the Governmental Accounting Standards Board issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires recognition of a subscription liability and an intangible right-to-use subscription asset for SBITAs. The Corporation adopted this statement effective July 1, 2022, recording assets and liabilities of approximately $9.7 million as of the implementation date. Subscription activity is further described in Note 12.

Upcoming Accounting Pronouncements

In June 2022, the Governmental Accounting Standards Board issued Statement No. 100, *Accounting Changes and Error Corrections,* which enhances the accounting and financial reporting requirements for accounting changes and error corrections. The provisions of this statement are effective for the Corporation's financial statements for the year ending June 30, 2024. The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted.

In June 2022, the Governmental Accounting Standards Board issued Statement No. 101, *Compensated Absences,* which updates the recognition and measurement guidance for compensated absences under a unified model. This statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means and establishes guidance for measuring a liability for leave that has not been used. It also updates disclosure requirements for compensated absences. The provisions of this statement are effective for the Corporation's financial statements for the year ending June 30, 2025. The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted.

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, 2023 is as follows:

Medicare	41.00 %
Medicaid	25.00
HMSA	8.00
Other third-party payors	17.00
Patient and other	9.00
Total	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, and 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 where 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, 2023:

- U.S. Treasury securities of $25,087,992 are valued using quoted market prices (Level 2 inputs).
- U.S. government agencies of $9,274,697 are valued using a matrix pricing model (Level 2 inputs).
- Municipal obligations of $1,364,961 (Level 2 inputs)
- Money market funds of $87,973 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, 2023 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, including certificates of deposit, 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 no more than five years from the date of investment. All of Hawaii Health Systems Corporation's investments at June 30, 2023 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, 2023, Hawaii Health Systems Corporation held investments in U.S. Treasury securities and U.S. government agencies.

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 except for the certificates of deposit that individually exceed 5 percent of Hawaii Health Systems Corporation's total investments at June 30, 2023.

Note 5 - Capital Assets and Subscriptions

Capital asset and subscription activity of the Corporation's governmental activities for the year ended June 30, 2023 was as follows:

	Balance July 1, 2022	Additions	Retirements	Transfers	Balance June 30, 2023
Assets not subject to depreciation and amortization:					
Land and land improvements	$ 10,569,221	$ 708,796	$	$	$ 11,278,017
Construction in progress	47,357,619	32,161,342		(31,495,363)	48,023,598
Subtotal	57,926,840	32,870,138		(31,495,363)	59,301,615
Assets subject to depreciation:					
Buildings and improvements	601,202,343	770,499	(910,904)	25,950,529	627,012,467
Equipment	260,294,418	6,876,797	(3,712,104)	5,479,237	268,938,348
Leased assets - Buildings and improvements	9,433,477	153,689			9,587,166
Leased assets - Equipment	16,122,517	4,444,608	(214,109)		20,353,016
Subscription assets	9,670,048	23,746,185			33,416,233
Subtotal	896,722,803	35,991,778	(4,837,117)	31,429,766	959,307,230
Less accumulated depreciation:					
Buildings and improvements	372,755,043	22,090,922	(899,955)		393,946,010
Equipment	207,104,603	12,101,467	(3,483,525)	(65,597)	215,656,948
Leased assets - Buildings and improvements	1,518,388	533,414			2,051,802
Leased assets - Equipment	7,166,128	2,491,836	(214,109)		9,443,855
Subscription assets		4,217,673			4,217,673
Subtotal	588,544,162	41,435,312	(4,597,589)	(65,597)	625,316,288
Capital assets and subscriptions - Net	$366,105,481	$ 27,426,604	$ (239,528)	$	$ 393,292,557

The State Department of Accounting and General Services and others transferred capital assets, including construction in progress, aggregating $25,823,228 to Hawaii Health Systems Corporation during the year ended June 30, 2023.

Note 6 - State of Hawaii Advances and Receivable

The amount due to the State of $19,008,243 at June 30, 2023 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, 2023, $47,399,521 was due from the State for allotments made to Hawaii Health Systems Corporation before June 30, 2023.

Note 7 - Accrued Vacation

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

Activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Accruedvacation-2023	$36,513,986	$19,780,397	$(15,868,000)	$40,426,383	$19,545,033	$20,881,350

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, 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/resources/financials.

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 5 years of service; retirement benefits are actuarially reduced for early retirement. Covered contributory plan employees are required by state statute to contribute between 7.8 and 9.8 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 between 6 and 8 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 with 30 years of credited service. Members will receive a multiplier of between 1.75 and 2 percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan.

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2023 was 24 percent. Contributions to the pension plan from the Corporation were approximately $52 million for the fiscal year ended June 30, 2023.

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. For contributory plan employees hired after July 1, 2012, general employees are required to contribute 9.8 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.

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

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2023, the Corporation reported a liability of approximately $555 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 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, 2023 relative to all other contributing employers. At June 30, 2023, the Corporation's proportion was 4.3 percent, which was a minor change from its proportion measurement at June 30, 2022 of 4.2 percent.

For the year ended June 30, 2023, the Corporation recognized pension expense of approximately $44,017,000. At June 30, 2023, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 9,488,950	$ (8,929,706)
Net difference between projected and actual earnings on plan investments		(42,225,867)
Changes in assumptions	(5,328,051)	(7,349,293)
Changes in proportion	5,415,208	(1,512,357)
Employer contributions to the plan subsequent to the measurement date	52,205,011	
Total	$ 61,781,118	$ (60,017,223)

The $52,205,011 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 year ending June 30, 2024. Other 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
2024	$ (13,090,481)
2025	(19,069,325)
2026	(35,344,682)
2027	17,433,858
2028	(370,486)

Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2022
Inflation	2.50%
Salary increases	3.50%
Investment rate of return	7.00% per year, compounded annually, including inflation

There were no changes to ad hoc postemployment benefits, including COLA, in the June 30, 2022 valuation.

In the June 30, 2022 valuation, the postretirement mortality rates are based on the 2022 Public Retirees of Hawaii mortality tables with full generational projections in future years. Preretirement mortality rates are based on multiples of the Pub-2010 Mortality Table based on the occupation of the member.

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2018. 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, 2022, 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.

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, 2022 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 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, 2022:

	2022	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63 %	8%
Diversifying strategies	37	5

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, 2023 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 Percentage Point Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net pension liability - 2023	$ 744,547,857	$ 555,205,199	$ 398,465,597

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 health care 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, 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 is available to the public at https://eutf.hawaii.gov/reports/. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, HI 96805-2121.

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 $24,300,692 for the fiscal year ended June 30, 2023. The Corporation is required to make all contributions for members. During 2021, a temporary reduction in the statutory funding requirement of the fringe benefit rate for ongoing plan contributions was implemented. The Corporation has been informed that during 2024 the temporary reduction will cease and the rate will increase.

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, 2023, the Corporation reported a net OPES liability of approximately $460 million. The net OPES liability was measured as of July 1, 2022, and the total OPES liability used to calculate the net OPES liability was determined by an actuarial valuation as of that date. At June 30, 2023, the Corporation's proportion was 9.65 percent, which was an increase from its proportion measurement at June 30, 2022. At June 30, 2022, the Corporation's proportion was 9.07 percent.

There were no changes between the measurement date, July 1, 2022, and the reporting date, June 30, 2023, that are expected to have a significant effect on the net OPES liability.

For the year ended June 30, 2023, the Corporation recognized OPES expense of approximately $14,405,533. At June 30, 2023, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPES from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on OPEB plan investments	$	$ (71,446,871)
Difference between projected and actual earnings	7,016,901	6,073,748
Changes in assumptions	4,038,088	(11,693,490)
Contributions subsequent to the measurement date	24,300,692	
Total	$ 35,355,681	$ (77,066,613)

The $24,300,692 reported as deferred outflows of resources related to OPES resulting from the Corporation's contributions subsequent to the measurement date will be recognized as a reduction of the net OPES liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPES will be recognized in OPES expense as follows:

Years Ending June 30	Amount
2024	$ (16,105,005)
2025	(15,854,502)
2026	(17,025,825)
2027	(8,451,165)
2028	(8,575,128)
Total	$ (66,011,625)

Note 9 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability in the July 1, 2022 actuarial valuation 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 9, 2023 based on the experience study covering the five-year period ended June 30, 2022:

	2022
Inflation	2.50 percent
Salary increases	3.75 percent to 6.75 percent, including inflation
Discount rate	7.00 percent
Health care cost trend rates:	
PPO*	Initial rate of 6.40 percent, declining to a rate of 4.25 percent after 22 years
HMO*	Initial rate of 6.40 percent, declining to a rate of 4.25 percent after 22 years
Part B and base monthly contribution	Initial rate of 5.00 percent, declining to a rate of 4.25 percent after 22 years
Dental	4.00 percent
Vision	2.50 percent
Life insurance	0.00 percent

Change in Actuarial Assumptions

The changes in actuarial assumption between 2022 and 2021 are as follows: Salary increases decreased by 0.25 percent, and PPO and HMO cost trend rates decreased by 0.85 percent.

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments at June 30, 2023 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:

	Target Allocation	Long-term Expected Real Rate of Return
Asset class:		
Private equity	12.50 %	11.72 %
U.S. microcap	6.00	8.28
Global equity	27.50	6.62
Global options	5.00	**4.45**
Real estate	10.00	6.59
Private credit	8.00	6.38
TIPS	5.00	1.35
Long treasurys	6.00	2.32
Alternative risk premia	5.00	3.74
Trend following	10.00	4.53
Reinsurance	5.00	4.81

Note 9 - Other Postemployment Benefit Plan (Continued)

Discount Rate

The discount rate used to measure the net OPEB liability at June 30, 2023 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 3.69 percent (based on the daily rate closest to but no 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. In July 2020, the governor's office issued the Tenth Proclamation related to the COVID-19 emergency, allowing employers of the EUTF to suspend Act 268 contributions for fiscal year ended June 30, 2021, and instead limit their contribution amounts to the OPEB benefits due. This relief provision related to OPEB funding was extended to fiscal years 2022 and 2023 by Act 229, SLH 2021. The OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current 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. The EUTF's complete financial statements are available at https://eutf.hawaii.gov/reports/.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Health Care 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 Corporation'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 Percentage Point Decrease (6.00%)	Discount Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net OPEB liability - 2023	$ 569,451,366	$ 459,810,487	$ 372,668,528

The following table presents the Corporation's net OPEB liability calculated using the assumed health care cost trend rate, as well as what the Corporation'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 health care cost trend rate:

	1 Percentage Point Decrease	Health Care Cost Trend Rate	1 Percentage Point Increase
Net OPEB liability - 2023	$ 367,933,579	$ 459,810,487	$ 577,285,785

Note 10 - Long-term Debt

Long-term debt activity for the year ended June 30, 2023 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Long-term debt	$ 16,191,303	$	$ (465,296)	$ 15,726,007	$ 8,649,008
Direct borrowings and direct placements - Notes payable	17,800,909	2,470,793	(1,447,004)	18,824,698	1,753,591
Leases	17,118,313	4,598,297	(3,577,689)	18,138,921	4,056,855
Subscription obligations	8,614,292	23,746,185	(14,607,004)	17,753,473	4,190,014

The long-term debt obligations are summarized as follows:

Roselani Place

In 2007, Ali'i exercised the option to purchase the facility from the developer/landlord. In connection with the purchase, Ali'i also assumed the land lease on which the facility is situated. HHSC entered into a loan transaction with a financing institution and then entered into a loan arrangement with Ali'i with the same terms. In 2019, Ali'i refinanced the loan with an outside institution. The refinanced loan is payable in monthly installments of $109,431 to the outside institution, including interest at 4.53 percent through April 2029. The note is collateralized by certain property and equipment of the Company.

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 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, 2023 was 7.38 percent. The Series 2012B bonds are unsecured. The bonds are payable in annual installments ranging from $196,000 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, 2023, MMMC was not in compliance with those covenants. A waiver for the covenant requirements was granted by the lender.

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, 2023. In connection with the Revenue Bond Number 3, MMMC is subject to certain financial covenants. As of June 30, 2023, MMMC was not in compliance with those covenants. A waiver was not obtained for the covenant violations for the year ended June 30, 2023, as a result, Revenue Bond Number 3 is shown as current in the financial statements.

Note 10 - Long-term Debt (Continued)

East Hawaii Region

In June 2001, HHSC acquired land, building, and medical equipment of $11,893,162 from Hilo Residency Training Program, Inc. (HRTP) to ensure the uninterrupted operation of the Hilo Medical Center Cancer Treatment Center and its radiation and medical oncology services. As part of the acquisition, HHSC assumed HRTP's outstanding balances on the loans and notes payable (the "HRTP Loan") 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 HRTP Loan is 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 HRTP Loan to Central Pacific Bank and the USDA were refinanced into a single note payable to Academic Capital Group, Inc. This HRTP Loan was again refinanced during 2019 with American Savings Bank (ASB). The underlying collateral of the note remained unchanged as a result of the ASB refinancing.

In 2022, the region amended the HRTP Loan with ASB. The amended HRTP Loan allows for additional borrowings of up to $8.5 million to be used for construction of additional facilities for the region. Of the total $8.5 million available for distribution, $6,105,029 was drawn at June 30, 2023. The additional borrowings are to be repaid on a 15-year term, beginning as of the earlier of 18 months after the initial loan agreement, or the date of completion of the construction. The agreement bears interest at a fixed rate of 2.79 percent.

Under the current terms of the HRTP Loan, HHSC is subject to semiannual financial covenants, including days cash on hand being no less than 30 days and a cash to debt ratio of 0.75 percent. Additionally, the region is required to maintain a minimum of $5 million cash balance with ASB. Failure to meet these covenants results in an event of default.

Management has indicated they have remained in compliance with all covenants during 2023.

Kahuku Medical Center

Kahuku Medical Center had secured a line of credit for $500,000 that matured on September 1, 2022. As of June 30, 2023, the facility had no borrowings against the line. The line of credit has not been renewed.

Debt Service Requirements to Maturity

The table below indicates the future scheduled principal and interest payments as of June 30, 2023. 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, 2023:

	Long-term Debt		Direct Borrowings and Direct Placements - Notes Payable	
Years Ending June 30	Principal	Interest	Principal	Interest
2024	$ 486,649	$ 589,499	$ 1,753,591	$ 596,003
2025	505,896	569,906	1,905,895	568,693
2026	525,709	550,353	1,979,451	495,151
2027	545,871	530,035	2,055,871	418,726
2028	567,707	509,584	2,134,958	339,631
2029-2033	3,190,683	2,197,559	6,016,222	885,155
2034-2038	3,871,934	1,527,765	2,854,304	196,777
2039-2043	5,178,326	703,667	124,406	588
2044-2048	853,232	25,079		
Total	$ 15,726,007	$ 7,203,447	$ 18,824,698	$ 3,500,724

Note 10 - Long-term Debt (Continued)

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 - Leases

The Corporation leases certain assets from various third parties. The assets leased include equipment and buildings. Payments are generally fixed monthly. During the year ended June 30, 2023, the Corporation recognized insignificant outflows as a result of variable payments that were properly excluded from the initial measurement of the lease liability.

Lease asset activity of the Corporation is included in Note 5.

Future principal and interest payment requirements related to the Corporation's lease liability at June 30, 2023 are as follows:

Years Ending	Principal	Interest	Total
2024	$ 4,056,855	$ 551,897	$ 5,040,938
2025	3,813,114	424,370	4,578,767
2026	2,957,104	304,802	3,520,348
2027	2,338,900	202,403	2,733,632
2028	1,072,356	133,477	1,347,287
2029-2033	1,275,147	444,538	2,191,309
2034-2038	408,767	358,868	1,123,181
2039-2043	471,791	295,844	1,060,529
2044-2048	544,533	223,102	988,351
2049-2053	628,436	139,199	905,253
2054-2058	571,918	42,190	655,828
Total	$ 18,138,921	$ 3,120,690	$ 24,145,423

The Corporation leases certain facilities to various third parties. Payments are generally fixed monthly.

During the year ended June 30, 2023, the Corporation recognized the following related to its lessor agreements:

In addition, as of June 30, 2023, the Corporation has recognized $19,694,361 of deferred inflows related to the Corporation's leasing arrangements.

Note 11 - Leases (Continued)

Future principal and interest payment requirements related to the Corporation's lease receivable at June 30, 2023 are as follows:

Years Ending	Principal	Interest	Total
2024	$ 1,409,994	$ 582,933	$ 2,567,435
2025	853,883	541,709	1,930,384
2026	644,493	511,236	1,662,185
2027	666,792	491,511	1,648,448
2028	691,224	472,224	1,636,830
2029-2033	3,593,911	2,029,082	7,723,175
2034-2038	3,834,532	1,500,308	6,934,917
2039-2043	4,425,772	909,068	6,359,107
2044-2048	4,027,094	240,778	4,627,542
Total	$ 20,147,695	$ 7,278,849	$ 35,090,023

Note 12 - Subscriptions

The Corporation obtains the right to use vendors' information technology software through various long-term contracts. Payments are generally fixed monthly, with certain variable payments not included in the measurement of the lease liability required based on future performance of the Corporation, usage of the underlying IT asset, or number of user seats.

Subscription asset activity of the Corporation is included in Note 5.

Future principal and interest payment requirements related to the Corporation's subscription liability at June 30, 2023 are as follows:

Years	Principal	Interest	Total
2024	$ 4,190,014	$ 648,784	$ 4,838,798
2025	2,641,830	503,045	3,144,875
2026	1,813,304	415,637	2,228,941
2027	799,103	353,078	1,152,181
2028	738,270	317,322	1,055,592
2029- 2033	3,411,343	1,187,261	4,598,604
2034- 2038	4,159,609	425,235	4,584,844
Total	$ 17,753,473	$ 3,850,362	$ 21,603,835

Note 13 - Commitments and Contingencies

Professional Liability

Hawaii Health Systems Corporation maintains professional and general liability insurance with a private insurance carrier with a $1 million limit per claim and a $5 million aggregate. Hawaii Health Systems Corporation has also purchased additional excess insurance with a $34 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 $810,000 as of June 30, 2023 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 $11,848,000 for unpaid claims as of June 30, 2023.

	2023	2022
Estimated liability - Beginning of year	$ 11,967,000	$ 11,557,000
Estimated claims incurred - Including changes in estimates	2,391,000	2,862,000
Claim payments	(2,510,000)	(2,452,000)
Estimated liability - End of year	$ 11,848,000	$ 11,967,000

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 moneys due to OHA under the provisions of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes for use by the State of certain ceded lands.

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

Note 13 - Commitments and Contingencies (Continued)

On September 20, 2006, the governor of the State of Hawaii issued Executive Order No. 06-06, which established procedures for the state agencies to follow in order to carry out the requirements of Act 178. Each state agency that collects receipts from the use of ceded or public land trust land is to determine OHA's share of such receipts by calculating the ceded/nonceded fraction of the parcel that generated the receipt, multiplying the receipt by the ceded/nonceded fraction, and multiplying that result by 20 percent. The resulting amounts are to be deposited into a trust holding account established for such purpose and within 10 days of the close of each fiscal quarter, the amounts are to be transferred to OHA. Within a specified period after the close of each quarter, the director of finance is to reconcile the actual amounts transferred to OHA with the required amount of $3.8 million and adjust each specific agency's payments accordingly.

For the year ended June 30, 2023, there were no payments made to OHA.

Paycheck Protection Program (PPP)

During fiscal years 2020 and 2021, several Hawaii Health System Corporation regions received loans from banks pursuant to the Coronavirus Aid, Relief, and Economic Security Act's Paycheck Protection Program. The note structure required the HHSC regional officials to certify certain statements that permitted the HHSC regions to qualify for the loans and provided loan forgiveness if the HHSC regions used the loan proceeds for the permitted loan purpose described in the note agreements. During fiscal years 2021 and 2022, the HHSC regions applied for and received notification of forgiveness of the loans from the Small Business Administration (SBA).

If the SBA determines HHSC was not initially eligible under the program for any of the PPP loans received or concludes that the Corporation did not have an adequate basis for making the good-faith certification of necessity at the time of application for the loans, the loans could become payable on demand. Although management considers it probable that the Corporation was initially eligible for the loans, the SBA has the ability to review the loan files for a 10-year period subsequent to the date the loans are forgiven or repaid in full and could request additional documentation to support the initial eligibility for the loans obtained. In the event the SBA subsequently determines the Corporation did not meet the initial eligibility requirements for the loans or did not qualify for loan forgiveness, the Corporation could be required to repay the PPP loans plus interest.

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 14 - Employee Benefits

Sick Leave

Accumulated sick leave as of June 30, 2023 was approximately $66,836,000. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded in the accompanying financial statements.

Required Supplementary Information

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

Years Ended June 30

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Corporation's proportion of the net pension liability	4.3 %	4.2 %	4.1 %	4.1 %	4.1 %	4.1 %	6.9 %	7.1 %	7.3 %	7.2 %
Corporation's proportionate share of the net pension liability	$ 555,205,199	$ 509,459,725	$ 627,817,806	$ 576,687,523	$ 542,374,488	$ 530,455,687	$ 916,111,059	$ 623,325,233	$ 583,997,239	$ 638,368,793
Corporation's covered payroll	$ 217,913,914	$ 213,773,542	$ 202,294,694	$ 197,655,015	$ 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	254.8 %	238.3 %	310.3 %	291.8 %	283.2 %	308.3 %	324.0 %	216.3 %	204.2 %	237.7 %
Plan fiduciary net position as a percentage of total pension liability	62.8 %	64.3 %	53.2 %	54.9 %	55.5 %	54.8 %	51.3 %	62.4 %	63.9 %	58.0 %

See note to pension required supplementary information schedules.

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

Years Ended June 30

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 55,317,600	$ 50,978,100	$ 51,346,400	$ 45,328,800	$ 38,354,000	$ 33,088,000	$ 50,418,500	$ 51,584,604	$ 49,213,969	$ 53,279,579
Contributions in relation to the contractually required contribution	55,317,600	50,978,100	51,346,400	45,328,800	38,354,000	33,088,000	50,418,500	51,584,604	50,272,620	47,500,308
Contribution (Excess) Deficiency	$	$	$	$	$	$	$	$	$ **(1,058,651)**	$ **5,779,271**
Corporation's Covered Payroll	$237,933,182	$217,913,914	$213,773,542	$202,294,694	$197,655,015	$191,534,713	$172,037,521	$282,760,136	$288,121,862	$285,988,382
Contributions as a Percentage of Covered Payroll	23.2 %	23.4 %	24.0 %	22.4 %	19.4 %	17.3 %	29.3 %	18.2 %	17.4 %	16.6 %

See note to pension required supplementary 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, 2023 are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent, closed
Remaining amortization period	25 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 Supplementary Information
Schedule of the Proportionate Share of the Net OPEB Liability

Last Six Fiscal Years

Years Ended June 30

	2023	2022	2021	2020	2019	2018
Corporation's proportion of the net OPEB liability	4.06730 %	1.81150%	5.76070 %	5.81510 %	5.81710 %	6.79050 %
Corporation's proportionate share of the net OPEB liability	$459,810,487	$491,488,746	$ 513,049,791	$ 547,829,574	$ 547,178,995	$ 541,845,124
Corporation's covered payroll	$ 217,913,914	$ 213,773,542	$ 202,294,694	$ 197,656,054	$ 191,546,061	$ 172,037,521
Corporation's proportionate share of the net OPEB liability as a percentage of its covered payroll	211.01 %	229.91 %	253.62 %	270.81 %	276.83 %	282.88 %
Plan fiduciary net position as a percentage of total OPEB liability	37.65 %	34.26 %	21.78 %	17.24 %	12.10 %	8.63 %

See note to OPEB required supplementary information schedules.

Required Supplementary Information
Schedule of OPEB Contributions

Last Six Fiscal Years

Years Ended June 30

	2023	2022	2021	2020	2019	2018
Contractually required contribution	$ 24,300,692	$ 35,678,307	$ 15,249,898	$ 49,002,433	$ 43,988,025	$ 43,306,409
Contributions in relation to the contractually required contribution	24,300,692	21,701,762	22,326,446	46,929,719	45,645,221	38,382,284
Contribution (Deficiency) Excess	**$ -**	**$ (13,976,545)**	**$ 7,076,548**	**$ (2,072,714)**	**$ 1,657,196**	**$ (4,924,125)**
Corporation's Covered Payroll	$237,933,182	$ 217,913,914	$ 213,773,542	$ 202,294,694	$ 197,656,054	$ 191,546,061
Contributions as a Percentage of Covered Payroll	10.21 %	9.96 %	10.44 %	23.20 %	23.09 %	20.04 %

See note to OPEB required supplementary information schedules.

Actuarial valuation information relative to the determination of contributions:

Valuation date	The actuarially determined contribution for fiscal year ended June 30, 2023 was developed in the July 1, 2020 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 evaluation for new unfunded liabilities.
Equivalent single amortization period	22.0 years as of the fiscal year ended June 30, 2023
Asset valuation method	4-year smoothed market
Payroll growth	3.50 percent
Salary increase	3.50 percent to 7.00 percent, including inflation
Demographic assumptions	Based on experience study covering the 5-year period ended June 30, 2018, as conducted for the Hawaii Employees' Retirement System
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98 percent health care participation assumption for retirees that receive 100 percent of the base monthly contribution (BMC). Health care participation rates of 25 percent, 65 percent, and 90 percent for retirees that receive 0 percent, 50 percent, or 75 percent, respectively, of the base monthly contribution. 100 percent for life insurance and 98 percent for Medicare Part B
Health care cost trend rates:	
PPO*	Initial rate of 7.50 percent, declining to a rate of 4.70 percent after 13 years
HMO*	Initial rate of 7.50 percent, declining to a rate of 4.70 percent after 13 years
Part B	Initial rate of 5.00 percent, declining to a rate of 4.70 percent after 10 years
Dental	Initial rate of 5.00 percent for first year, followed by 4.00 percent for all future years
Vision	Initial rate of 0.00 percent for first year, followed by 2.50 percent for all future years
Life insurance	0.00 percent

*Blended rates for medical prescription drugs

Supplementary Information

Hawaii Health Systems Corporation

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

	June 30, 2023
Cash and Cash Equivalents - State of Hawaii	
Special funds:	
S-23-303-H	$ 466,978
S-23-350-H	6,499,666
S-23-351-H	568,515
T-04-918	1,273
S-23-352-H	1,008,855
T-04-921	6,679
S-23-365-H	648,430
S-23-312-H	1,020,183
S-23-359	1,343,022
S-23-373	963,080
S-23-353-H	363,744
S-23-354-H	2,506,035
Total per State	15,396,460
Assets Limited as to Use - Patient Funds	
Appropriation symbol T-04-923-H	14,462
Appropriation symbol T-04-919-H	36,451
Appropriation symbol T-23-911-H	22,912
Appropriation symbol T-23-909-H	6,630
Appropriation symbol T-23-925-H	70,440
Total per State	150,895
Reconciling Items	
Patients' safekeeping deposits held by financial institutions	101,314
Restricted assets held by financial institutions	58,666,106
Total per HHSC	$ **74,314,775**

Statement of Net Position of Facilities

June 30, 2023

	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home-Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Akaka State Veterans Home - Oahu	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities
Assets and Deferred Outflows of Resources															
Current Assets															
Cash and cash equivalents	$ 72,343,753	$ 10,272	$ 28,117	$ 5,118,735	$ 14,700,704	$ 7,575,760	$ 17,133,722	$ 1,278,097	$ 353,076	$ 5,564,911	$ 7,578,296	$	$ 37,797,448	$ 1,112,997	$ 170,595,888
Cash and cash equivalents - State of Hawaii	6,499,666	569,788	1,015,534		2,506,035	363,744				1,020,183	648,430		1,343,022	963,080	14,929,482
Lease receivable	564,945	159,042			63,369		563,697						58,941		1,409,994
Patient accounts receivable - Less allowances for doubtful accounts	38,072,840	695,462	1,711,753	1,939,369	19,985,389	5,950,911				1,058,777	903,396		6,793,038	3,856,633	80,967,568
Investments	21,977,253														21,977,253
Due from the State of Hawaii	7,033,000	678,000	4,759,000		4,818,000	382,000	3,008,000			5,016,000	2,444,000	1,527,000	5,243,000	10,048,000	44,956,000
Due from affiliates - Net	1,602,719	35,188,508	7,365,378		3,483,551	4,538,930	2,695,665	136,887		2,440,919				19,425,519	76,878,076
Assets limited as to use	15,000,000														15,000,000
Supplies and other current assets	6,397,038	237,016	545,622	79,330	7,657,483	156,855	49,191	13		246,248	267,202		1,328,444	428,999	17,393,441
Estimated third-party payor settlements	4,469,704	202,482	492,607		2,836,260	992,989				1,721,363	2,539,584		1,043,771	549,394	14,848,154
Total current assets	173,960,918	37,740,570	15,918,011	7,137,434	56,050,791	19,961,189	23,450,275	1,414,997	353,076	17,068,401	14,380,908	1,527,000	53,607,664	36,384,622	458,955,856
Assets Limited as to Use - Net of current portion	33,789,725	32,968	15,374		7,251,387		1,204,261			90,788	45,593		14,462	36,451	42,481,009
Investments - Net of current portion													13,838,370		13,838,370
Subscriptions	3,227,110		98,999		18,031,385	4,507,846				54,573	52,068				25,971,981
Lease Receivable					564,445		17,944,751								18,509,196
Capital Assets - Net	82,317,589	15,367,824	9,928,465	17,779,900	46,797,995	6,495,099	81,166,623	11,271,448	4,283,598	16,726,891	13,806,196		19,625,745	17,795,677	343,363,050
Total assets	293,295,342	53,141,362	25,960,849	24,917,334	128,696,003	30,964,134	123,765,910	12,686,445	4,636,674	33,940,653	28,284,765	1,527,000	87,086,241	54,216,750	903,119,462
Deferred Outflows of Resources															
Pension	25,697,708	2,209,911	3,373,733		11,145,745	1,631,800				3,498,854	2,655,846		5,516,467	3,791,270	59,521,334
Postemployment benefits other than pensions	14,372,729	1,250,304	1,745,096		6,374,689	946,242				2,147,819	1,652,707		3,520,930	2,014,478	34,024,994
Total assets and deferred outflows of resources	**$ 333,365,779**	**$ 56,601,577**	**$ 31,079,678**	**$ 24,917,334**	**$ 146,216,437**	**$ 33,542,176**	**$ 123,765,910**	**$ 12,686,445**	**$ 4,636,674**	**$ 39,587,326**	**$ 32,593,318**	**$ 1,527,000**	**$ 96,123,638**	**$ 60,022,498**	**$ 996,665,790**

Statement of Net Position of Facilities (Continued)

June 30, 2023

	Hawaii Health Systems Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Ali'i Community Care, Inc.	Ali'i Health Center	East Hawaii Medical Group	EHH Pharmacy	Kauai Region Medical Group	Kauai Region Pharmacy-West	Kauai Region Recovery Services	Kahuku Medical Center	Eliminations	HHSC Consolidated
Assets and Deferred Outflows of Resources														
Current Assets														
Cash and cash equivalents	$ 14,103,233	$	$ 184,699,121	$ 38,714	$ 930,255	$ 485,038	$ 261,670	$ 227,839	$ 1,056,758	$ 286,567	$ 1,173	$ 3,534,953	$	$ 191,522,088
Cash and cash equivalents - State of Hawaii	466,978		15,396,460											15,396,460
Lease receivable			1,409,994											1,409,994
Patient accounts receivable - Less allowances for doubtful accounts			80,967,568		140,802	1,713,298		111,081		48,312		3,341,802		86,322,863
Investments			21,977,253											21,977,253
Due from the State of Hawaii			44,956,000									2,443,521		47,399,521
Due from affiliates - Net		(73,687,783)	3,190,293				422,866						(1,157,614)	
Assets limited as to use			15,000,000									90,802		15,090,802
Supplies and other current assets	93,922		17,487,363		59,197	824,145			1,210	177,819		817,849		19,367,583
Estimated third-party payor settlements			14,848,154										(1,530,173)	13,317,981
Total current assets	14,664,133	(73,687,783)	399,932,206	38,714	1,130,254	3,022,481	684,536	338,920	1,057,968	512,698	1,173	10,228,927	(2,687,787)	411,804,545
Assets Limited as to Use - Net of current portion	1,346,504		43,827,513											43,827,513
Investments - Net of current portion			13,838,370											13,838,370
Subscriptions	2,861,396		28,833,377											28,833,377
Lease Receivable			18,509,196									228,505		18,737,701
Capital Assets - Net	221,684		343,584,734		6,765,588	2,776,073		34,233		106,058		11,192,494		364,459,180
Total assets	19,093,717	(73,687,783)	848,525,396	38,714	7,895,842	5,798,554	684,536	373,153	1,057,968	618,756	1,173	21,649,926	(2,687,787)	881,500,686
Deferred Outflows of Resources														
Pension	2,259,784		61,781,118											61,781,118
Postemployment benefits other than pensions	1,330,687		35,355,681											35,355,681
Total assets and deferred outflows of resources	$ 22,684,188	$ (73,687,783)	$ 945,662,195	$ 38,714	$ 7,895,842	$ 5,798,554	$ 684,536	$ 373,153	$ 1,057,968	$ 618,756	$ 1,173	$ 21,649,926	$ (2,687,787)	$ 978,637,485

June 30, 2023

	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home-Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Akaka State Veterans Home - Oahu	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)															
Current Liabilities															
Accounts payable and accrued expenses	$ 34,173,880	$ 1,881,505	$ 4,980,314	$ 963,359	$ 18,536,653	$ 1,936,639	$ 220,220	$ 1,606	$ 303	$ 2,090,572	$ 1,926,648	$	$ 4,774,660	$ 2,512,386	$ 73,998,745
Current portion of accrued vacation	7,040,553	493,484	1,287,895	188,519	2,982,167	547,023				1,179,372	922,700		1,445,153	1,034,203	17,121,069
Current portion of long-termdebt	704,178						8,649,008								9,353,186
Current portion of subscription obligations	1,295,045		34,939		521,587	130,396				57,085	54,466				2,093,518
Current portion of lease obligations	807,810	4,164	316,430		400,928		300,331			19,562	21,679		1,610,946	431,139	3,912,989
Due to affiliates - Net	42,033,846			237,966	3,169,282	3,483,551			3,184,623		2,257,428		16,928,416		71,295,112
Current portion of accrued workers' compensation	815,000	241,000	16,000		609,000	71,000	52,000	35,000		219,000	327,000		41,000	90,000	2,516,000
Other current liabilities:															
Estimated third-party settlement											1,255,835				1,255,835
Other current liabilities	7,965		5,661		25,569	6,392							567,732	174,209	787,528
Total current liabilities	86,878,277	2,620,153	6,641,239	1,389,844	26,245,186	6,175,001	9,221,559	36,606	3,184,926	3,565,591	6,765,756		25,367,907	4,241,937	182,333,982
Long.term Debt - Net of current portion	11,333,154						7,076,999								18,410,153
Subscriptions	1,742,768		64,537		8,089,455	2,022,364									11,919,124
Lease Obligation - Net of current portion	1,942,816	16,605	2,088,538		827,719	13,488	880,967			78,010	84,690		3,947,022	830,553	10,710,408
Other Liabilities															
Accrued vacation- Less current portion	7,281,893	519,989	1,357,068		2,996,388	549,633				1,536,546	1,280,715		1,675,855	1,217,637	18,415,724
Accrued workers' compensation - Less current portion	3,615,000	185,000	523,000		1,597,000	430,000	395,000	57,000	9,000	432,000	421,000		805,000	533,000	9,002,000
Other postemployment liability	186,921,349	16,260,561	22,695,468		82,904,616	12,306,132				27,932,981	21,493,905		45,790,683	26,198,839	442,504,534
Due to the State of Hawaii		506,153			7,605,205	528,149				6,416,791	491,450		1,043,345	2,417,150	19,008,243
Pension liability	224,812,590	20,031,341	11,981,516		95,506,955	11,412,085				41,815,873	34,616,350		67,263,663	24,904,046	532,344,419
Other liabilities	10,873	1,500			3,206,254	800,605									4,019,232
Patients' safekeeping deposits	16,573	32,968	15,374							84,159	19,373		17,530	30,261	216,238
Total liabilities	524,555,293	40,174,270	45,366,740	1,389,844	228,978,778	34,237,457	17,574,525	93,606	3,193,926	81,861,951	65,173,239		145,911,005	60,373,423	1,248,884,057
Deferred Inflows of Resources															
Pension	24,964,020	2,146,817	3,277,410		10,827,527	1,585,211				3,398,959	2,580,020		5,358,968	3,683,025	57,821,957
Postemployment benefits other than pensions	31,328,983	2,725,354	3,803,877		13,895,243	2,062,571				4,681,712	3,602,490		7,674,755	4,391,060	74,166,045
Leases	547,405	154,957			611,291		18,164,452						58,174		19,536,279
Total deferred inflows of resources	56,840,408	5,027,128	7,081,287		25,334,061	3,647,782	18,164,452			8,080,671	6,182,510		13,091,897	8,074,085	151,524,281
Total liabilities and deferred inflows of resources	581,395,701	45,201,398	52,448,027	1,389,844	254,312,839	37,885,239	35,738,977	93,606	3,193,926	89,942,622	71,355,749		159,002,902	68,447,508	1,400,408,338
Net Position (Deficit)															
Unrestricted	(320,748,850)	(3,946,876)	(28,891,369)	5,747,590	(163,086,093)	(13,179,760)	23,767,615	1,321,391	(2,840,850)	(66,982,103)	(52,484,395)	1,527,000	(76,948,466)	(24,964,976)	(721,710,142)
Net investment in capital assets	67,718,928	15,347,055	7,523,020	17,779,900	54,989,691	8,836,697	64,259,318	11,271,448	4,283,598	16,626,807	13,697,429		14,067,777	16,533,985	312,935,653
Restricted for lender covenants and other	5,000,000										24,535		1,425	5,981	5,031,941
Total net position (deficit)	(248,029,922)	11,400,179	(21,368,349)	23,527,490	(108,096,402)	(4,343,063)	88,026,933	12,592,839	1,442,748	(50,355,296)	(38,762,431)	1,527,000	(62,879,264)	(8,425,010)	(403,742,548)
To li : 1 :!li f(i flows ofresources,	**$ 333,365,779**	**$ 56,601,577**	**$ 31,079,678**	**$ 24,917,334**	**$ 146,216,437**	**$ 33,542,176**	**$ 123,765,910**	**$ 12,686,445**	**$ 4,636,674**	**$ 39,587,326**	**$ 32,593,318**	**$ 1,527,000**	**$ 96,123,638**	**$ 60,022,498**	**$ 996,665,790**

	Hawaii Health Systems Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Ali'i Community Care, Inc.	Ali'i Health Center	East Hawaii Medical Group	EHH Pharmacy	Kauai Region Medical Group	Kauai Region Pharmacy-West	Kauai Region Recovery Services	Kahuku Medical Center	Eliminations	HHSC Consolidated
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)														
Current Liabilities														
Accounts payable and accrued expenses	$ 1,721,959	$	$ 75,720,704	$	$ 227,584	$ 1,783,696	$	$ 112,657	$ 324,241	$ 78,945	$	$ 1,501,944	$ (43,528)	$ 79,706,243
Current portion of accrued vacation	489,141		17,610,210			433,800	333,317		323,593	23,534		820,579		19,545,033
Current portion of long-termdebt			9,353,186		1,049,413									10,402,599
Current portion of subscription obligations	1,928,729		4,022,247									167,767		4,190,014
Current portion of lease obligations	17,960		3,930,949		57,955							67,951		4,056,855
Due to affiliates - Net	1,464,296	(73,687,783)	(928,375)					881,911	1,090,980	1,396,115	14,914	1,114,086	(1,114,086)	
Current portion of accrued workers' compensation	11,000		2,527,000											2,527,000
Other current liabilities:														
Estimated third-party settlement			1,255,835									274,338	(1,530,173)	
Other current liabilities	103,072		890,600		618,432					75		1,000		1,510,107
Total current liabilities	5,736,157	(73,687,783)	114,382,356		1,953,384	2,217,496	333,317	994,568	1,738,814	1,498,669	14,914	3,947,665	(2,687,787)	121,937,851
Long.term Debt - Net of current portion			18,410,153		5,737,953									24,148,106
Subscriptions	924,087		12,843,211									720,248		13,563,459
Lease Obligation - Net of current portion	71,618		10,782,026		3,228,262							71,778		14,082,066
Other Liabilities														
Accrued vacation- Less current portion	1,617,751		20,033,475			435,869	351,219		38,973	21,814				20,881,350
Accrued workers' compensation - Less current portion	319,000		9,321,000											9,321,000
Other postemployment liability	17,305,953		459,810,487											459,810,487
Due to the State of Hawaii			19,008,243											19,008,243
Pension liability	22,860,780		555,205,199											555,205,199
Other liabilities			4,019,232			422,906								4,442,138
Patients' safekeeping deposits			216,238											216,238
Total liabilities	48,835,346	(73,687,783)	1,224,031,620		10,919,599	3,076,271	684,536	994,568	1,777,787	1,520,483	14,914	4,739,691	(2,687,787)	1,242,616,137
Deferred Inflows of Resources														
Pension	2,195,266		60,017,223											60,017,223
Postemployment benefits other than pensions	2,900,568		77,066,613											77,066,613
Leases			19,536,279									158,082		19,694,361
Total deferred inflows of resources	5,095,834		156,620,115									158,082		156,778,197
Total liabilities and deferred inflows of resources	53,931,180	(73,687,783)	1,380,651,735		10,919,599	3,076,271	684,536	994,568	1,777,787	1,520,483	14,914	4,897,773	(2,687,787)	1,399,394,334
Net Position (Deficit)														
Unrestricted	(31,387,678)		(753,097,820)	38,714	284,238	(53,790)		(655,648)	(719,819)	(1,007,785)	(13,741)	6,473,481		(748,752,170)
Net investment in capital assets	140,686		313,076,339		(3,307,995)	2,776,073		34,233		106,058		10,164,750		322,849,458
Restricted for lender covenants and other			5,031,941									113,922		5,145,863
Total net position (deficit)	(31,246,992)		(434,989,540)	38,714	(3,023,757)	2,722,283		(621,415)	(719,819)	(901,727)	(13,741)	16,752,153		(420,756,849)
To li : 1 :!li f(i flows ofresources,	$ 22,684,188	$ (73,687,783)	$ 945,662,195	$ 38,714	$ 7,895,842	$ 5,798,554	$ 684,536	$ 373,153	$ 1,057,968	$ 618,756	$ 1,173	$ 21,649,926	$ (2,687,787)	$ 978,637,485

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

Year Ended June 30, 2023

	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home-Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Akaka State Veterans Home - Oahu	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities
Operating Revenue															
Net patient service revenue	$ 237,817,302	$ 19,067,415	$ 34,171,425	$ 11,219,881	$ 103,961,208	$ 19,785,882	$	$	$	$ 10,319,610	$ 9,404,715	$	$ 49,073,292	$ 29,567,456	$ 524,388,186
Uncompensated care revenue	26,319,407	394,298	2,254,225	1,405,738	13,325,835	3,855,748				7,736,836	5,905,646		2,093,097	1,114,080	64,404,910
Other revenue	3,447,245	134,646	176,397		557,659	18,224	1,976,381	6,539	3,640	665,402	191,904		1,199,681	196,239	8,573,957
Total operating revenue	267,583,954	19,596,359	36,602,047	12,625,619	117,844,702	23,659,854	1,976,381	6,539	3,640	18,721,848	15,502,265		52,366,070	30,877,775	597,367,053
Operating Expenses															
Salaries	103,524,527	9,288,499	12,931,191	5,257,606	44,190,494	8,433,817				13,196,260	10,635,422		20,819,377	15,941,394	244,218,587
Employee benefits	30,779,500	4,180,133	19,625,588	1,655,824	21,086,625	5,264,571	271,945	(403,122)	9,000	3,717,137	1,973,001		3,543,198	12,670,413	104,373,813
Medical supplies and drugs	40,234,805	769,592	1,673,152	943,469	18,316,984	352,516				453,020	395,918		3,107,370	1,219,536	67,466,362
Depreciation and amortization	10,388,235	1,218,723	1,397,516	772,099	5,904,886	482,234	7,545,025	1,216,230	325,613	1,459,914	1,014,040		3,113,950	1,575,018	36,413,483
Utilities	5,230,129	773,581	578,498	665,889	2,118,738	310,956				1,201,069	874,525		866,556	866,812	13,486,753
Repairs and maintenance	6,128,917	552,828	639,887	62,691	4,710,598	505,213				384,411	303,233		356,451	103,638	13,747,867
Other supplies	6,853,544	837,151	407,721		2,523,812	562,244				834,253	758,117		984,370	739,625	14,500,837
Purchased services	61,566,736	3,653,470	4,230,823	3,492,065	41,866,381	2,415,351	439,314	183,523	3,699	550,527	476,329		10,939,552	7,663,764	137,481,534
Professional fees	23,375,939	1,626,024	14,837,753	77,442	697,098	117,590				55,187	49,508		2,116,185	1,365,791	44,318,517
Insurance	2,365,609	183,021	154,654	283,118	961,553	103,912				167,824	161,231		666,047	257,810	5,304,779
Rent and lease	2,174,353	81,063	331,739	22,657	770,686	106,719				21,776	1,428		452,641	490,602	4,453,664
Other	2,729,123	295,535	883,018	36,239	2,422,663	1,092,484	219,668	2,418	141	171,840	86,993		2,315,138	832,662	11,087,922
Total operating expenses	295,351,417	23,459,620	57,691,540	13,269,099	145,570,518	19,747,607	8,475,952	999,049	338,453	22,213,218	16,729,745		49,280,835	43,727,065	696,854,118
Operating (Loss) Income	(27,767,463)	(3,863,261)	(21,089,493)	(643,480)	(27,725,816)	3,912,247	(6,499,571)	(992,510)	(334,813)	(3,491,370)	(1,227,480)		3,085,235	(12,849,290)	(99,487,065)
Nonoperating Income (Expense)															
General appropriations from the State of Hawaii	45,913,000	4,461,416	3,806,723		23,243,121	687,741				8,486,764	7,833,936		7,205,961	7,033,641	108,672,303
Restricted contributions	738,028	111,127	394,116		542,597	26,606				70,931	58,444				1,941,849
Interest expense	(441,219)	(420)	(74,119)		(92,679)	(7,568)	(660,963)			(5,832)	(6,255)		(145,844)	(52,243)	(1,487,142)
Interest and dividend income	3,617,227	8,352	4,709	4,663	545,814	20,947	970,366			15,806	904		1,050,633	2,731	6,242,152
Contributions - CARES Act Provider Relief Fund and other			905,923		16,460								165,499	441,261	1,529,143
Contributions - State of Hawaii appropriations American Rescue Plan funds	20,865,003	1,292,584	1,827,277		10,284,879	687,259							4,233,039	2,048,359	41,238,400
Corporate allocation to affiliates	(2,560,000)	(191,000)	(371,000)		(1,145,000)	(137,000)	(2,238,993)			(201,000)	(163,000)		(447,000)	(309,000)	(7,762,993)
Other nonoperating revenue (expense) - Net	2,010,731	203,198	6,641	(84,318)	(15,790,335)	1,351							1,600		(13,651,132)
Total nonoperating income (expense)	70,142,770	5,885,257	6,500,270	(79,655)	17,604,857	1,279,336	(1,929,590)			8,366,669	7,724,029		12,063,888	9,164,749	136,722,580
Excess of Revenue Over (Under) Expenses before Capital Contributions and Transfers	42,375,307	2,021,996	(14,589,223)	(723,135)	(10,120,959)	5,191,583	(8,429,161)	(992,510)	(334,813)	4,875,299	6,496,549		15,149,123	(3,684,541)	37,235,515
Capital Contributions	2,104,609	21,388	5,548,291		3,095,968	(10,000)				3,193,383	775,135	1,527,000	389,459	5,434,085	22,079,318
Transfer (to) from Affiliate	(291,340)	(23,670)	!48,152)		(127,308)	!13,054)				(25,295)	!22,034)		(56,310)	(40,807)	!647,970)
Increase (Decrease) in Net Position	44,188,576	2,019,714	(9,089,084)	(723,135)	(7,152,299)	5,168,529	(8,429,161)	(992,510)	(334,813)	8,043,387	7,249,650	1,527,000	15,482,272	1,708,737	58,666,863
Net Position (Deficit) - Beginning of year	(292,218,498)	9,380,465	(12,279,265)	24,250,625	(100,944,103)	(9,511,592)	96,456,094	13,585,349	1,777,561	(58,398,683)	(46,012,081)		(78,361,536)	(10,133,747)	(462,409,411)
Net Position (Deficit) - End of year	**$ (248,029,922)**	**$ 11,400,179**	**$ (21,368,349)**	**$ 23,527,490**	**$ (108,096,402)**	**$ (4,343,063)**	**$ 88,026,933**	**$ 12,592,839**	**$ 1,442,748**	**$ (50,355,296)**	**$ (38,762,431)**	**$ 1,527,000**	**$ (62,879,264)**	**$ (8,425,010)**	**$ (403,742,548)**

Statement of Revenue, Expenses, and Changes in Net Position of Facilities (Continued)

Year Ended June 30, 2023

	Hawaii Health Systems Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Ali'i Community Care, Inc.	Ali'i Health Center	East Hawaii Medical Group	EHH Pharmacy	Kauai Region Medical Group	Kauai Region Pharmacy-West	Kauai Region Recovery Services	Kahuku Medical Center	Eliminations	HHSC Consolidated
Operating Revenue														
Net patient service revenue	$	$	$ 524,388,186	$	$	$ 11,854,214	$	$ 281,102	$	$ 53,515	$	$ 22,889,667	$	$ 559,466,684
Uncompensated care revenue			64,404,910											64,404,910
Other revenue	1,993,561		10,567,518		4,571,769	2,173,519	27,383,051	(2,832)	6,572,506	650,000		433,442	(39,641,231)	12,707,742
Total operating revenue	1,993,561		599,360,614		4,571,769	14,027,733	27,383,051	278,270	6,572,506	703,515		23,323,109	(39,641,231)	636,579,336
Operating Expenses														
Salaries	8,206,729		252,425,316			18,463,499	20,926,751	275,820	5,651,898	414,490		11,531,735		309,689,509
Employee benefits	983,892		105,357,705				3,470,163	86,271	645,362	70,998		2,991,451		112,621,950
Medical supplies and drugs			67,466,362			2,559,148		253,556	4,656	403		2,237,750		72,521,875
Depreciation and amortization	1,923,447		38,336,930		975,688	438,026		5,390		21,495		1,657,783		41,435,312
Utilities	335,118		13,821,871		478,261	388,275		41				700,953		15,389,401
Repairs and maintenance	612,202		14,360,069		167,541	2,026,330		1,126		46,458		420,184	(1,993,561)	15,028,147
Other supplies	486,891		14,987,728		526,871	74,476		28,394	1,085	98,183		216,536		15,933,273
Purchased services			137,481,534		62,557	1,757,518		46,415	810,199	477,276	4	2,878,096	(10,264,619)	133,248,980
Professional fees	268,629		44,587,146		3,200,980	1,120,766	71,103	163,591	(24,709)	1,215	1,946	1,181,085	(27,383,051)	22,920,072
Insurance	565,496		5,870,275		215,882	1,460,282			195,161	3,861		177,938		7,923,399
Rent and lease	274,186		4,727,850		25,904	1,149,671		31,605		1,058		244,961		6,181,049
Other	1,218,692		12,306,614	182	287,063	557,838	2,915,034	7,476	74,113	55,765	119	984,216		17,188,420
Total operating expenses	14,875,282		711,729,400	182	5,940,747	29,995,829	27,383,051	899,685	7,357,765	1,191,202	2,069	25,222,688	(39,641,231)	770,081,387
Operating (Loss) Income	(12,881,721)		(112,368,786)	(182)	(1,368,978)	(15,968,096)		(621,415)	(785,259)	(487,687)	(2,069)	(1,899,579)		(133,502,051)
Nonoperating Income (Expense)														
General appropriations from the State of Hawaii	8,517,000		117,189,303									1,800,000		118,989,303
Restricted contributions			1,941,849									83,217		2,025,066
Interest expense	(136,263)		(1,623,405)		(424,533)							(77,349)		(2,125,287)
Interest and dividend income	826,618		7,068,770		3,002	10			35	167				7,071,984
Contributions - CARES Act Provider Relief Fund and other			1,529,143			148,027						106,487		1,783,657
Contributions - State of Hawaii appropriations American Rescue Plan funds			41,238,400											41,238,400
Corporate allocation to affiliates	7,762,993													
Other nonoperating revenue (expense) - Net	60,189		(13,590,943)			15,974,000						(106,337)	(116,372)	2,160,348
Total nonoperating income (expense)	17,030,537		153,753,117		(421,531)	16,122,037			35	167		1,806,018	(116,372)	171,143,471
Excess of Revenue Over (Under) Expenses before Capital Contributions and Transfers	4,148,816		41,384,331	(182)	(1,790,509)	153,941		(621,415)	(785,224)	(487,520)	(2,069)	(93,561)	(116,372)	37,641,420
Capital Contributions			22,079,318									2,282,711		24,362,029
Transfer (to) from Affiliate	(708,000)		(1,355,970)		1,355,970									
Increase (Decrease) in Net Position	3,440,816		62,107,679	(182)	(434,539)	153,941		(621,415)	(785,224)	(487,520)	(2,069)	2,189,150	(116,372)	62,003,449
Net Position (Deficit) - Beginning of year	(34,687,808)		(497,097,219)	38,896	(2,589,218)	2,568,342			65,405	(414,207)	(11,672)	14,563,003	116,372	(482,760,298)
Net Position (Deficit) - End of year	$ (31,246,992)	$	$ (434,989,540)	$ 38,714	$ (3,023,757)	$ 2,722,283	$	$ (621,415)	$ (719,819)	$ (901,727)	$ (13,741)	$ 16,752,153	$	$ (420,756,849)

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

Independent Auditor's Report

To Management and the Board of Directors
Hawaii Health Systems Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hawaii Health Systems Corporation (the "Corporation") as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 19, 2023. Our report includes a reference to other auditors who audited the financial statements of Kahuku Medical Center, as described in our report on the Hawaii Health Systems Corporation's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on 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) as a basis for designing 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. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as Findings 2023-001, 2023-002, and 2023-003, that we consider to be material weaknesses.

Report on 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 financial statements. 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 Board of Directors
Hawaii Health Systems Corporation

The Corporation's Responses to the Findings

Government Auditing Standards require the auditor to perform limited procedures on the Corporation's responses to the findings identified in our audit and described in the accompanying schedule of findings. The Corporation's responses were not subjected to the other 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 19, 2023

Financial Statement Audit Findings

Reference Number	Finding
2023-001	**Finding Type** - Material weakness, West Region
	Criteria - Management should have controls in place related to the review and analysis of reimbursement rates utilized to estimate net accounts receivable at year end.
	Condition - Based on hindsight analysis of prior accounts receivable balances, methodology utilized in the accounts receivable estimation process was not adequately monitored to determine whether adjustments to modeling approach could be relied upon to estimate accounts receivable at June 30, 2023.
	Context - Net accounts receivable balances were overstated at year end. When updated reimbursement rates were utilized, adjustments to decrease net patient service revenue and accounts receivable of approximately $2.3 million were required.
	Cause - Lack of sufficient review and analysis of reimbursement rates used within the accounts receivable estimation process
	Effect - As a result of this issue, accounts receivable and revenue balances on the financial statements were misstated and an adjustment was recorded.
	Recommendation - We recommend adequate controls be put in place to ensure sufficient reviews of accounts receivable balances are being performed, including processes to perform hindsight analysis of prior estimates utilized.
	Views of Responsible Officials and Planned Corrective Actions - Management has implemented a new review process related to the process for accounts receivable estimation at year end. Additionally, a process for performing hindsight analysis of prior period accounts receivable has also been put in place.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2023-002	**Finding Type** - Material weakness, West Region

Criteria - Management should have controls in place to ensure that transactions relating to subscription-based information technology right-to-use assets and related liabilities for the region are recorded within the general ledger as incurred at appropriate balances and for the proper useful lives.

Condition - Right-to-use assets and related liabilities obtained by the region during the year were not properly recorded. As a result, right-to-use assets and related liabilities were understated at year end. Additionally, training costs were improperly capitalized as right-to-use assets that should have been expensed. Finally, right-to-use assets were initially recorded at lives that were not proper.

Context - An adjustment was identified and subsequently recorded by management to increase right-to-use assets and related liabilities by $22.1 million. Additionally, an adjustment was identified and subsequently recorded to expense approximately $1.4 million of training costs that were incorrectly capitalized as right-to-use assets. Finally, an adjustment was identified and subsequently recorded to reduce current-year amortization expense by $243,324 to reflect the proper life of right-to-use assets placed into service during the year.

Cause - Appropriate review and monitoring of ongoing subscription-based information technology agreements were not adequate to properly identify transactions entered into during the year. Additionally, appropriate review and monitoring of related right-to-use assets lives and capitalized amounts were not adequate to properly identify appropriate amounts to be capitalized and lives to be utilized.

Effect - As a result of this issue, balances for right-to-use assets, amortization expense, repairs and maintenance expense, and liability obligations on the financial statements were misstated, and adjustments were recorded.

Recommendation - We recommend that the region put in place controls to ensure that subscription-based information technology agreements are identified and recorded timely in the general ledger. Additionally, we recommend that adequate controls be put in place to ensure that appropriate right-to-use asset costs are capitalized and that right-to-use assets are amortized over the appropriate useful lives.

Views of Responsible Officials and Planned Corrective Actions - Management has put in place a process for reviewing, capitalizing, and monitoring subscription-based information technology agreements and capital assets.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2023-003	**Finding Type** - Material weakness, Kauai Region

Criteria - Management should have controls in place related to the thorough evaluation and analysis of recognizing net accounts receivable and net revenue amounts.

Condition - The region did not record an allowance related to its long-term care accounts receivable.

Context - Management did not sufficiently analyze the valuation of its long-term care accounts receivable. After analyzing the composition of the long-term care accounts receivable at June 30, 2023, it was determined that an allowance of approximately $1.6 million was needed, which was not previously recorded.

Cause - Lack of sufficient review and analysis of the valuation of accounts receivable

Effect - Accounts receivable and patient service revenue were overstated by approximately $1.6 million as of and for the year ended June 30, 2023. An audit entry was recorded to adjust the accounts receivable and patient service revenue balances.

Recommendation - We recommend that management put appropriate controls in place to ensure timely and thorough evaluation of open accounts receivable and the needed allowances to ensure amounts are appropriately stated in the financial statements.

Views of Responsible Officials and Planned Corrective Actions - Beginning with the October 2023 close, we have automated our process to include the valuation for allowance for bad debts for long-term care accounts receivable recorded in Ameracare, a separate subsidiary ledger from Oracle Health. We have also implemented a historical trend analysis for long-term care accounts receivable by financial class to identify patterns or trends to aid in the valuation of long-term care accounts receivable.

ATTACHMENT B

HAWAII HEALTH SYSTEMS CORPORATION
PROJECTED REVENUES FOR FISCAL YEAR 2024
AMOUNTS IN $'000'S
NOTE: Amounts represent estimated cash collections, not accrual basis revenues

Hilo	259,656
Hamakua	18,891
Ka'u	45,365
Kona	128,771
Kohala	14,498
KVMH	52,532
SMMH	38,944
Leahi	16,109
Maluhia	13,559
TOTAL	**588,325**

		FY 24 CIP Exp Plan (CIP Budget)	
Act/Yr	Item No.	Project Title and Brief Project Description	Apprn
164/23	E-14	Lump Sum Hawaii Health Systems Corporation, Oahu Region - Maluhia Renovation for ADA	1,000,000
164/23	E-14	Lump Sum Hawaii Health Systems Corporation, Oahu Region - Leahi Hospital, Upgrade sewer system	1,300,000
164/23	E-14	Lump Sum Hawaii Health Systems Corporation, Oahu Region - Maluhia Negative Pressure for Isolation rooms	300,000
164/23	E-14	Lum Sum Hawaii Health Systems Corporation, Oahu Region - Maluhia Fire Alarm system	400,000
164/23	E-2	Lump Sum, Kahuku Medical Center Project, Emergency Generator	800,000
164/23	E-2	Lump Sum, Kahuku Medical Center Project, Patient room renovation	200,000
164/23	E-3	Lump Sum, Hawaii Health Systems Corporation - Corporate Data Relocation	2,844,000
164/23	E-3	Lump Sum, Hawaii Health Systems Corporation - East Hawaii - Operating Room Renovations and Electrical Upgrade	4,459,168
164/23	E-3	Lump Sum, Hawaii Health Systems Corporation - West Hawaii, Various Renovation of Hospital Projects	2,487,301
164/23	E-3	Lump Sum, Hawaii Health Systems Corporation - Samuel Mahelona, ER Renovation	2,209,531
164/23	E-4	Hilo Medical Center, ICU & Surg Unit Expansion	50,000,000
164/23	E-5	Kona Community Hospital, Pharmacy Expansion	2,300,000
164/23	E-14	Lump Sum Hawaii Health Systems Corporation, Oahu Region - Leahi Hospital, Renovation for Dietary	2,000,000
164/23	E-6	Kona Community Hospital, Risk of Closure Infrastructure Upgrades	16,247,000
164/23	E-7	Samuel Mahelona Memorial Hospital, Clincal Renovation	1,000,000
164/23	E-8	Samuel Mahelona Memorial Hospital, Master Planning	1,300,000
164/23	E-9	Samuel Mahelona Memorial Hospital, New Psychiatric Unit	7,400,000

ATTACHMENT C

Regional Reports

Hawaii Health Systems Corporation
Legislative Brief 2023

EAST HAWAII REGION

The East Hawaii Region, consisting of Hilo Medical Center, Hale Hoʻola Hamakua, Kaʻu Hospital, Yukio Okutsu State Veterans Home and the East Hawaii Health Clinics, is the largest region in the Hawaii Health Systems Corporation. The Region is the largest employer on Hawaii Island with over 1,600 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 166-licensed beds, consisting acute, long term care, and psychiatric beds, and 24 temporary licensed beds. Hilo Medical Center is the only 5-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 new 95-bed Yukio Okutsu Veterans Home, Hawaii's first State Veterans Home, and the previous site of the "old Hilo Hospital."

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, Cardiac Rehab, Sports Cardiology
- EEG
- Endoscopy
- Food and Nutrition Services and Counseling
- Gastroenterology
- Hospitalist Services
- Imaging Services – X-ray, CT, MRI, Angiography/Cardiac Catheterization, Interventional Radiology, Nuclear Medicine, Ultrasound
- Inpatient Dialysis and Acute Nephrology
- Inpatient and Outpatient Rehabilitation Services – Cardiac Rehab, Physical, Occupational, and Speech Therapies
- Inpatient and Retail 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, Oncology, Orthopedics, Neurology, ENT, Allergy, Surgery, Vascular, and Urology
- Inpatient Pediatrics
- Respiratory Therapy

- Skilled Nursing and Long Term Care
- Social Services and Case Management
- Surgical Services—Same Day Surgery, Post-Anesthesia Care, and Special Procedures, Robotic Surgery
- Subspecialty Surgical Services—Orthopedics, Ophthalmology, Otorhinolaryngology, Urology
- Telemedicine
- Vascular
- Wound and Ostomy Care

PATIENT CENSUS FY 2023

• Admissions	9,723
• Emergency Department Visits	49,863
• Births	919
• East Hawaii Health Visits	129,711

COMMUNITY-BASED FOUNDATION SUPPORT OF HILO MEDICAL CENTER

Total Grants	$1,345,373.29
Total Fundraising	$ 69,888.00
Total Private Donations	$ 98,034.00
Total	**$1,513,295.29**

In FY 2023, **Hale Hoʻola Hamakua** (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 new 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. Adjacent to HHH is the Hamakua Health Center that provides primary care and behavioral health services to the community in a building owned and leased from HHH.

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

HHH was converted as a Critical Access Hospital on November 2005, which resulted in bed configuration changes and the provision of new Emergency Room (ER) and expanded ancillary services. In 2010, the Maile Wing was added to HHH, bringing the total number of beds to 77 and increasing its capacity. HHH employs dedicated medical professionals who care for members of the communities along the Hamakua Coast. In 2023, HHH earned the Silver Quality Award from the American Healthcare Association for Long Term Care Facilities.

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 163
- ER Visits 1,974

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

The people of Ka‘u truly support their hospital. Their partnership of volunteerism and fundraising has enabled Ka‘u Hospital to make many improvements in appearance, functionality and medical equipment that the hospital would be unable to fund on its own. It is a true community hospital where staff work toward being the very best they can be for the people of Ka‘u. Demand for services 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 48
- ER Visits 3,331
- East Hawaii Health Clinic Visits 6,306

COMMUNITY-BASED FOUNDATION SUPPORT OF KA`U HOSPITAL

Total Fundraising $2,583.31

East Hawaii Region Foundations Supporting HHSC Hospitals

Background / Contact Information

Hilo Medical Center Foundation

The Hilo Medical Center Foundation (HMCF) is a 501(c) (3) nonprofit corporation that was founded in 1995. The Foundation supports the healthcare of our community and its visitors by assisting the East Hawaii Region through volunteerism, community education, and financial support. The Foundation provides an avenue for people to donate money, stocks, equipment, personal property, time, services, and other assets for the support of projects, programs and services to enhance the healthcare services in our community.

Foundation President: Rodney Powell

Foundation Administrator: Lisa Rantz

lrantz@hhsc.org

Contact information:

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

Ka‘u Hospital Charitable Foundation

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

Foundation President/Director: 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 (HHSC), we are pleased to submit our end of year report highlighting the accomplishments of the Region.

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

People

Physicians, Physician Associates, Nurse Practitioners

The East Hawaii Region had an excellent year in growing our medical staff by welcomed 38 new physicians, nurse practitioners/physicians associates to the medical staff. These providers specialize in family medicine, cardiology, internal medicine, emergency medicine, gastroenterology, gynecology, pediatrics, psychiatry, psychology, vascular. In addition, the Hawaii Island Family Medicine Residency Program welcomed six residents in the class of 2026 and graduated the seventh class with six residents in 2023.

Workforce Development

Hilo Medical Center's training programs stepped up to answer the staffing shortage for registered nurses, critical care nurses, nurse aides, medical aides, and clinic receptionists. Nurse Residency Program graduated 39 nurses in the class of 2023 and welcomed them onto our nursing staff. In anticipation of staffing needs and bed expansion, Nursing leadership has decided to keep enrollment for the Nurse Residency Program to 40 nurse residents that are in the midst of their training.

Growth

Hospital Expansion

The 2023 legislative session was the most productive in recent HHSC history that resulted in the legislature funding $50 million to expand Hilo Medical Center's bed capacity. The project includes a new wing that has a 19-bed Intensive Care Unit on the second floor and 36 additional hospital beds on the third floor. Groundbreaking for this impactful project is slated for February 2024.

Service Growth

The East Hawaii Health Clinics, the outpatient sector of the East Hawaii Region, made great strides in growth. It opened its new cancer center and outpatient clinic building, located across the hospital at 1285 Waianuenue Avenue. Surgical specialties that include General Surgery, Vascular Surgery, ENT and Gynecological Robotic Surgery, moved to the second floor.

The hospital's lobby renovation was completed to include the retail pharmacy that proved to enhance medication compliance and access for hospital, ER and clinic patients. The Meds to Beds program, in which medication gets is delivered to the patient's room prior to discharge, was launched this year and well-received by patients and staff.

Finance

Hilo Medical Center

Total Operating Revenue for FY2023 was $268.7M compared to a budget of $236.9M, a 13% favorable variance. FY2023 Total Operating Expense was $315.6M versus a budget of $325.0M, a 3% favorable variance. Operating Income (Loss) for FY2023 was ($46.9M) compared to a budget of ($88.1M). After Corporate Overhead and other appropriations, the Net Income was $32.7M for FY2023 versus a budgeted Net Loss of $(23.8M).

Hale Ho'ola Hamakua

Total Operating Revenue for FY2023 was $20.3M compared to a budget of $18.6M, a 9% favorable variance. FY2023 Total Operating Expense was $24.1M versus a budget of $26.3M, an 8% favorable variance. Operating Income (Loss) for FY2023 was ($3.8M) compared to a budget of ($7.6M). After Corporate Overhead and other appropriations, the Net Income was $3.0M for FY2023 versus a budgeted Net Loss of ($1.8M).

Ka'u Hospital

Total Operating Revenue for FY2023 was $36.6M compared to a budget of $31.9M, a 15% favorable variance. FY2023 Total Operating Expense was $45.6M versus a budget of $52.6M, a 13% favorable variance. Operating Income (Loss) for FY2023 was ($9.0M) compared to a budget of ($20.7M). After Corporate Overhead and other appropriations, the Net Loss was ($2.5M) for FY2023 versus a budgeted Net Loss of of ($15.6M).

Yukio Okutsu State Veterans Home

Total Operating Revenue for FY2023 was $12.6M compared to a budget of $11.5M, a 10% favorable variance. FY2023 Total Operating Expense was $13.4M versus a budget of $12.9M, a 3% unfavorable variance. Operating Income (Loss) for FY2023 was ($0.7M) compared to a budget of ($1.4M). The Net Income (Loss) was ($0.7M) for FY2023 versus a budget of ($1.4M).

WEST HAWAII REGION

The West Hawaii Region (WHR) consists of Kona Community Hospital (KCH) and Kohala Hospital (KH). The WHR is also affiliated with Alii Health Center, a primary and specialty care clinic and the Alii Ambulatory Surgery Center.

Mission, Vision and Values

West Hawaii Region senior leaders updated and restated our Mission, Vision and Values to better reflect our Region's purpose and ideals.

Mission:
- To provide a healing environment to all the people of Hawaii.

Vision:
- To deliver quality, accessible care that leads to optimal health.

Values:
- Respect, Inclusion, Compassion, Excellence

Kona Community Hospital

Founded in 1914, Kona Community Hospital (KCH) was established by an Act of the Territory of Hawaii to "provide a hospital in each of the Districts of North and South Kona." The original Kona Hospital was located approximately 2 miles south of today's hospital in Kealakekua. The hospital became part of the County of Hawaii in 1939 when it was relocated to a new building with a 50-bed capacity and four physicians. The hospital moved 100 yards up Haukapila Street to its current location on 11 acres in 1974. Finally, in 1994, the hospital's name was changed to Kona Community Hospital by HB 3406 Act 011 SLH.

Today, KCH is a full-service acute care, safety-net hospital and certified Level III Trauma Center, proudly serving the West Hawaii community. KCH is accredited by The Joint Commission. The hospital includes 94 beds which are comprised of acute care, intensive care, obstetrics, and psychiatric beds.

As one of West Hawaii's largest employers, the staff at KCH includes nearly 521 highly skilled employees. Due to ongoing staffing shortages in Hawaii County, KCH contracts Agency Staff to fill critical positions in nursing, imaging, pharmacy. As of the fiscal year end, KCH employed 140 Agency Staff.

KCH has 404 credentialed and privileged medical staff, 79 of whom are active, including several telemedicine providers.

- 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, CT Scan, Ultrasound, Echocardiogram, Nuclear Medicine, Cardiac telemetry monitoring
- Radiation Therapy
- Physician Specialties (General Surgery, Internal Medicine, Cardiology, Medical Oncology, Radiation Oncology, Pediatrics, OB/GYN, ENT, Ophthalmology, Plastic Surgery, Orthopedics, Psychiatry, Gastroenterology, and Urology)

HOSPITAL STATISTICS	**2022**	**2023**
Admissions	2,933	2,949
Births	423	439
Emergency Visits	20,491	22,998
Surgeries	2,183	2,541
Trauma Activations	405	520
Waitlist Patient Days	7,454	22,998
Average Daily Census	65	74

Kohala Hospital

Kohala Hospital (KH), originally a 14-bed facility located in Kapaau, was founded in 1917. At the time, the cost of hospitalization was $1.50 per day. The hospital was relocated to its present location in 1962.

On July 1, 2020, Kohala successfully converted to a 25-bed Critical Access Hospital (CAH). The hospital employs 69 full-time and part-time employees. As of the fiscal year end, KH employed 6 Agency Staff to fill critical positions.

KH provides a state-of-the-art emergency room, outpatient lab, radiology, EKG services, and physical and occupational therapy rehab services.

HOSPITAL STATISTICS	**2022**	**2023**
Admissions	51	100
Patient Days	7,804	7286
Emergency Visits	1,515	1709

PEOPLE

The West Hawaii Region Board appointed two new members during FY 2023.

Employee engagement activities were held throughout the year. Activities included:

- Town Hall meetings
- Employee of the Month recognition celebrations

- Quarterly DAISY Award Program honoring one nurse per quarter for extraordinary, compassionate patient care.
- Annual DAISY Nurse Leader Award for outstanding leadership.
- National Nurses' and National Hospital Week celebrations.
- The Employee Engagement Committee sponsored employee-giving programs to benefit the community:
    - Valentine's Day drive to benefit the West Hawaii Humane society.
    - Salvation Army's Angel Giving Tree and Back to School Supply Drive
    - Hawaii Diaper Bank's Holiday Diaper Drive
    - Partners for Safe Keiki Car Seat Safety Clinic
- The KCH Workplace Violence Committee hosted quarterly *Coffee with a Cop* events to encourage employee engagement with Community Police Officers.

QUALITY

KCH programs to improve patient outcomes:

- Level III Trauma Center – averages 30 trauma activations per month.
- Participates in the Hawaii Stroke Network stroke program.
- Circle of Life Program to meet the psychosocial needs of employees and patients by offering education and tools relating to traumatic events, end-of-life matters, and bereavement.
- Designated Baby-Friendly Hospital. World Health Organization (WHO) and the United Nations Children's Fund (UNICEF).
- All Women's Services nurses completed certifications in Advanced Life Support in Obstetrics.
- Dietary services continued its farm-to-table program of locally sourced, scratch cooking for patients and employees. Locally sourced products accounted for 30% of produce, proteins, and dairy, and other food items.

KCH programs offer patient and community engagement:

- The WHR entered year three of a 3-year evidence-based Leadership Development Initiative.
- KCH developed and hosted an "Empowering Caregiver Resource Fair." This free community conference provided education and resources to community caregivers with a goal to prevent or shorten hospitalizations, aide discharge planning and help caregivers prioritize self-care.
- KCH Education Department is an American Heart Association Certified Training Center
- KCH Women's Services Unit offers programs for staff and expectant mothers:
    - Certified childbirth educators offer prenatal education
    - Partner with NEST for Families – a community-based resource to assist new families with breastfeeding support.
    - All OB RNs are certified in ALSO (Advanced Life Support in Obstetrics)
    - OB nurses/child passenger technicians provide car seat inspections before newborn discharge from KCH
    - Outpatient lactation consultations.

TECHNOLOGY

- Launched the EPIC CareLink electronic health record system to all West Hawaii Region facilities in partnership with The Queen's Health System.
- Telemedicine including
  - Tele-psychiatry
  - Tele-stroke
  - Tele-cardiology
  - Tele-neurology
  -

EDUCATION

- KCH Education Department has established a Center of Excellence to develop sustainable solutions for the current workforce crisis through education. Programs include:
  - Surgical Technology Program – Full time, accredited program to train students to be certified surgical technologists.
  - Nurse Residency Program
  - Specialized Nursing Certificate Courses – Curriculum includes certifications in difficult to receive courses include emergency pediatric nursing, trauma nursing and a number of specialized obstetric certifications at no cost to KCH nurses, favorable tuition to community nurses.
  - Certified Nursing Assistant Program – Collaboration with Island CPR made possible by a grant from the Healthcare Association of Hawai`i.
  - Basic Life Support for High School Students – Provides high school students (island0wide) life-saving skills and offers them a glimpse into the healthcare industry.

PHYSICIAN RETENTION & RECRUITMENT

Kohala hospital has 2 physicians.

Kona Community Hospital has 79 active physicians representing 28 specialties on its medical staff. However, not all are readily available as a number live off-island. Those providers either work via telemedicine or report to work at the hospital when scheduled.

Additionally, KCH experiences ongoing challenges with critical provider shortages most notably in anesthesia, gastroenterology, general surgery, and our hospitalists group. We also do not currently have a nephrologist or a medical intensivist.

- KCH welcomed a dual board certified Infectious Disease and Internal Medicine doctor to our Medical Staff.
- The contracted hospitalist group providing comprehensive in-patient services at KCH has 7 full-time hospitalists and a clinical performance nurse on staff. The hospitalists cover acute care medical units and ICU.
- 24/7 emergency medicine services are provided by a contract physician group that employs 40 doctors and 5 physician assistants on staff at KCH.

- Anesthesia services are provided by a contracted physician group that employs 8 anesthesia doctors and 10 Certified Registered Nurse Anesthetists (CRNAs) on staff at KCH.

Recruiting and retention of permanent physicians is an ongoing challenge for Hawaii County. The West Hawaii Region continues to address this deficit with a progressive recruitment and retention plan in collaboration with our non-profit affiliate, Alii Health Center.

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

PARTNERSHIPS & AFFILIATIONS

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

- HHSC (Hawaii Health Systems Corporation)
- Alii Health Center
- Alii Ambulatory Surgery Center
- Queen's Health Systems Affiliation Agreement
- Community First Hawaii
- Hawaii Life Flight
- Hawaii Island Community Health Centers

WEST HAWAII REGION FOUNDATIONS

The Kona 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 seven-member Board of Trustees is completely separate from the management of the hospital.

Throughout Kona Community Hospital, you'll find plentiful evidence of the extraordinary impact made by the numerous donors. During FY 2023, we were able to fund a '22 Chevrolet Express Cargo Van for Administration, Viking XL Mobile Lift for the Medical/Surgical Unit, Wheelchairs and Intravenous Fluid Warmer for the Emergency Department, Mock Surgical Kit for Education, Ultrasound Machine for the Emergency Department, 4 Bladderscans for the Emergency Department, Medical/Surgical and intensive care departments, a restraint Chair for Behavioral Health, and a portion of the funds for a Groundskeeper Gator for the Maintenance Department.

Foundation Chair:	Ikaika Hauanio
Foundation Vice Chair:	Peter S. R. Olson, Esq.
Contact Information:	Kona Hospital Foundation

www.khfhawaii.org
79-1019 Haukapila Street
Kealakekua, HI 96750-7920
Email: info@khfhawaii.org
Telephone: 808-322-4587

COMMUNITY - BASED FOUNDATION SUPPORT OF KONA COMMUNITY HOSPITAL

Total Private Donations	$ 50,574
Total Fundraising	29,973
Total Federal / State / Private Grants	212,300
TOTAL	**292,847**

The Kohala Hospital Charitable Foundation was established in 2003, to assist Kohala Hospital, its programs, facilities, staff and patients. ,It supports the hospital by purchasing equipment, renovating facilities, assisting in education and outreach programs, and aiding other hospital programs or activities.

Foundation President: Dixie Adams
Foundation Vice President: Shoshana Matsumura
Contact Information: Kohala Hospital Charitable Foundation
P.O. Box 430
Kapaau, HI 96755
Telephone: 808-889-5730
808-313-1997

COMMUNITY – KOHALA HOSPITAL CHARITABLE FOUNDATION SUPPORT OF KOHALA HOSPITAL

Total Private Donations	$ 27,121
Total Fundraising	0
Total Federal / State / Private Grants	500
TOTAL	**$ 27,621**

VOLUNTEER SERVICES

Kona Community Hospital Auxiliary provides volunteer support for service and fundraising Their primary mission is to fund nursing scholarships and continuing education for hospital employees.

- Number of Active Volunteers: 37
- Number of Total Volunteer Hours: 1080
- Volunteer Auxiliary Contributions:
  - Nursing Scholarship $14,000
  - Continuing Education Grants $1,318

*First Hawaiian Bank awarded $10,000 scholarship grants to the KCH Surgical Technology Program first year graduates. We appreciate the KCH Auxiliary for helping to facilitate the transfer of those funds.

Kohala Hospital Volunteer Services provides volunteer support for resident activities.

- Number of Active Volunteers: 5
- Number of Total Volunteer Hours: 1296
- Volunteer Auxiliary Contributions: $ 0.00

FACILITIES

During FY 2023, $18.5 million in CIP funding helped Kona Community hospital to conclude a number of multi-year projects:

- Patient Bathrooms - Phase II – ongoing, expected completion July 2024
- SSB HVAC – complete
- Pharmacy Dept Expansion - design complete, construction underway, expected completion August 2024
- Sewer System Upgrade – design underway
- New Ultrasound Space – design complete
- OR independent chill water loop – design complete, pending RFP
- Lab relocation – design complete
- Acute Unit patient rooms headwall upgrades – electrical engineer contracted, design pending
- Domestic hot water boiler – design underway
- Behavioral Health Unit ante room doors upgrade – design underway
- Parking lot pavement replace, reseal – design on hold bending survey
- HVAC cooling tower replacement – project 99% complete
- Infusion clinic relocate and build out – design underway, accelerated schedule

At Kohala Hospital, $800,000 State CIP dollars assisted in the design and construction of a new administration building extension.

FINANCIAL

Kona Community Hospital experienced a ($39.3) million operating loss, driven by increased pharmaceutical, Registry staffing expenses, decrease of revenue and system implementation costs. This was partially offset by $33.5 million in State appropriations to realize a net shortfall of ($5.8 million).

With its Critical Access Hospital designation and Cost Based Reimbursement from Medicare, Kohala Hospital had a net operating income of $5.1 million, further enhanced by $1.4 M in State appropriations, resulting in a net income of $6.5 million for FY 2023.

The West Hawaii Region continues to provide comprehensive community healthcare services to our community that are quality-driven, customer-focused and cost-effective. We continue to implement strategies and initiatives to produce improved patient outcomes, deliver new clinical services and create strong community partnerships.

With a strong leadership team in place along with the dedication of employees, physicians, volunteers, Foundation and its Board, the Region has made progressive advancements. We will continue to face critical financial challenges moving into 2024.

However, we continue to implement strategies and initiatives to produce improved patient outcomes, deliver new clinical services and create strong community partnerships.

KAUAI REGION

Hawai‘i 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, KVMH has 45 licensed beds, including 25 acute and 20 long-term care beds.

Today, KVMH employs 267 people and provides the following services:

- 24-Hour Emergency Services (ER)
- Imaging/Radiology
- Acute Care
- Long Term Care
- Rehabilitation
  - Physical Therapy
  - Occupational Therapy
  - Speech Therapy
- Social Services
- 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
- Clinical Labs

KVMH Patient Volumes:

Inpatient Admissions -	1,099
LTC Admissions -	14
Births -	252
ER Visits -	6,708
Outpatient Ancillary Visits -	6,000
Outpatient Clinic Visits -	45,056
Same Day Surgery -	1,710

Average Daily Census

Acute	6.58
Swing	7.28
LTC	19.65
Total	33.51

In comparison to the prior year, inpatient admissions decreased by 3%, outpatient clinic visits increased by 23% and outpatient surgeries increased by 34%. Births increased by 1%. There was a 13% increase in ER visit volume and LTC census was 98%.

Samuel Mahelona Memorial Hospital (SMMH) is the oldest operating hospital on Kauai, and is designated a Critical Access Hospital. Founded in 1917 as a tuberculosis hospital, it received its name from a member of the Wilcox family, who died of TB as a young man. In the 1960s, with a cure for TB well established, SMMH gradually transitioned to providing acute care, psychiatric care, skilled nursing care, and ancillary inpatient and outpatient services. Today, SMMH has 80 licensed beds, with 66 long-term care beds, 9 psychiatric beds, and 5 acute care beds. The hospital has approximately 146 employees. Currently, SMMH patient services include:

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

Ho'ola La Hui Hawai'i who leases space on the grounds at SMMH provides additional services on this campus.

SMMH Patient Volumes	
Inpatient Admissions	205
LTC Admissions	28
ER Visits	6,318
Outpatient Visits	505

Average Daily Census		
Psych		3.74
LTC		51.2
Swg		0.2
	Total	55.14

Inpatient psychiatric admissions increased by 13% over the prior year; Long Term Care average daily census increased by 5%.

The Kauai Region Clinics consist of five clinics and one urgent care located in Waimea, Port Allen, Kalaheo, Poipu and Kapaa and employs 75 people. Each clinic offers the following services:

The Clinic at Waimea
- OB
- Surgery
- Pediatrics
- Podiatry
- Primary Care

The Clinic at Port Allen
- Pediatrics
- Primary Care
- Urology

Urgent Care at Poipu

Specialty Clinic at Kalaheo
- Pediatrics
- Women's Health

The Clinic at Kalaheo
- Primary Care

The Clinic at Poipu
- Primary Care

Specialty Clinic at Kapaa
- OB
- Urology
- Primary 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. The Foundation has not yet reactivated since the COVID pandemic ended.

Foundation President:	Steven Kline
Foundation Secretary:	Kelly Liberatore

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	**currently inactive since COVID pandemic*
Number of Volunteer Hours provided	N/A
Volunteer Foundation Contributions	N/A

KVMH Auxiliary

President, Charlene Dorsey, leads the KVMH Auxiliary. 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 and to support scholarships for students pursuing a career in healthcare.

Active Auxiliary Volunteers
Auxiliary operations are back after the re-opening of the KVMH Auxiliary Gift Shop on December 5, 2022.

Number of Active Volunteers:	13 active members during this time
Number of Total Volunteer Hours:	2,292
Volunteer Auxiliary Contributions:	$9,197
Scholarships	$7,500

SMMH Auxiliary

Auxiliary operates the SMMH Auxiliary Thrift Shop located at SMMH. Funds raised from the thrift shop and other fundraising events are used to purchase equipment for the hospital.

Active Auxiliary Volunteers

The Auxiliary remained inactive this year due to the passing of Auxiliary leadership members. The SMMH Auxiliary Thrift Shop remains closed. Volunteers are currently being recruited to reactivate the Auxiliary.

Number of Active Volunteers: ** currently inactive*

Number of Total Volunteer Hours: N/A

Volunteer Auxiliary Contributions: N/A

2023 LEGISLATIVE BRIEF
KAUAI REGION ACCOMPLISHMENTS

On behalf of the Kauai Region of the Hawaiʻi Health Systems Corporation (HHSC), we are pleased to submit our report highlighting the accomplishments in calendar year 2023. The report is organized into four areas: People, Quality, Facilities, and Operation

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PEOPLE

Ms. Donna Okada-Asher serves as Chair of the Kauai Regional Board which includes directors, Mr. Dee Crowell, Ms. Glenda Nogami-Streufert and Mr. Ernie Kanekoa, Dr. Theodor Rintel, Mr. Walter Barnes and Mr. Dennis Rowley. Mr. Lance K. Segawa has served as the Chief Executive Officer since March of 2018.

The Kauai Region's medical staff totals 47 active staff members with full privileges at KVMH and SMMH of which 25 are employed providers. We have successfully recruited for full-time Psychiatrist, full-time Pediatrician, full-time OBGYN, and full-time Urgent Care Physician, active in CY2023. Also recruited for a full-time Psychiatrist Medical Director, OB/GYN, Internal Medicine, and Family Practice to be active in CY2023.

Our current employee turnover rate has decreased from 8% to 4.13% in comparison to CY2022 data. The national healthcare turnover rate in CY2023 is 22.7%, with the median and mode recorded at 23% and 21.4%, respectively. A total of 45 staff members separated from HHSC Kauai Region in CY2023 and of that, 4.03% retired, 7.98% resigned for personal reasons, 4.43% were in temporary-only positions, and 0.19% were terminated due to performance issues.

QUALITY

In 2022 and 2023, the Kauai Region participated in a total of 4 surveys between Medicare / State Office of Healthcare Assurance, Centers for Medicare & Medicaid Federal Licensure. Kauai Veterans Memorial Hospital (KVMH), Samuel Mahelona Memorial Hospital (SMMH) and the Kauai Region Clinics were recertified for state licensure.

KVMH was accredited in good standing with The Joint Commission came to KVMH in December of 2021 and we are awaiting our accreditation survey for 2023. We had an excellent survey in

2021 and was told by The Joint Commission Surveyors that KVMH was one of the best Critical Access Hospitals it has surveyed, we are expecting the same results with this upcoming survey. The Kauai Region Clinics went through a Rural Health Clinic Survey in September 2021 and was awarded Rural Health Clinic certification (HRSA) in October of 2021. We are awaiting a recertification survey of all our clinics for Rural Health Clinic by the end of 2023.

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

- KVMH was awarded the 2021 Bronze AHCA/NCAL National Quality Award for Long Term Care. We are reapplying for this award for 2024.
- SMMH was awarded the 2020 Bronze AHCA/NCAL National Quality Award for Long Term Care. We are reapplying for this award for 2024.
- SMMH is a 5-Star Facility on Medicare Nursing Home Compare
- KVMH is a 4-Star Facility on Medicare Nursing Home Compare

Participation with National Healthcare Safety Network (NHSN) for infection prevention initiatives including utilization of central line insertion checklists, sepsis protocols, and limiting indwelling urinary catheters to prevent UTIs, documentation of COVID-19 for both acute and Long Term Care.

KVMH and SMMH 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 2022 and 2023. Our mortality rate is declining with no excess of unexpected deaths.

SMMH achieved National Rural Health Association Top 20 Critical Access Hospital's in the area of Quality. This national recognition was an honor to achieve and is a correlation of excellent care that is provided.

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 and KVMH 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. SMMH and KVMH has seen a 50% reduction in falls in 2022 and working on decreasing fall rates in 2023.

Reduction in 30-day readmission rates to 1.3 % and reduced AMA rates by 5%

We changed our HCAHP vendor to ensure we received relevant population survey. We included our Clinics in the survey process as well as the Emergency Department so that we have a full spectrum of patient satisfaction surveys to review and improve our focus on patient satisfaction as our top priority.

To better assist us in tracking our ongoing performance on specific quality measures, KVMH continues participation in Hospital Association of Hawaii (HAH), Health Services Advisory Group (HSAG), Med-QUEST quality initiatives and successfully meets the statements of work associated with the specific measures.

FACILITIES

Capital improvements to the facilities of the Kauai Region in FY2023 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 $485,963.56 in capital projects:

KVMH
- Electrical Room Replacement
- Electrical Upgrades
- Water Heater

SMMH
- Exterior Door
- LTC A/C (R&M)
- Dietary A/C (R&M)
- LTC Renovations

Ongoing projects of $7,785,374.50 include:

KVMH
- 3D Mammography
- CT Scan Room Renovation
- ER Renovation
- Signage
- Replace Freezer
- PT/OT Renovation

SMMH
- Asset Analysis
- CT Scan Room/Scanner
- EIS Master Plan
- Electrical Upgrade
- Nursing Facility Renovation
- Psych Unit Renovation
- Retrofit Radiology
- Structural Repairs
- Planning

OPERATIONS

CY 2023 began with a strategic planning retreat involving the Kauai Regional Board and Executive Leadership. Following two days of deliberation, review, and visioning, several themes emerged which are reflected in the FY 2024 – FY 2026 Strategic Plan. The strategic goals are: 1) Continue modernizing facilities and equipment 2) Strengthen clinical competency thru education programs for staff and providers 3) Implement the behavioral health service line 4) Expand community outreach programs 5) Improve financial performance of the Region. The new strategic plan will build on the accomplishments of the previous plan.

Patient volumes have increased steadily over the past year. With the official end of the COVID pandemic declared on May 11, 2023, we are approaching pre-pandemic volumes in the outpatient settings and hospital emergency rooms. COVID admissions have decreased with the majority of cases not too serious. COVID continues to impact the elderly and individuals compromised with chronic conditions.

The Samuel Mahelona Master Campus Plan is entering the EIS phase of the project with a preferred campus concept plan finalized. We anticipate the EIS phase will be completed over the next 12 months. To view the campus plan you can visit the SMMH plan website at the following web address: www.planmahelona.com

A major milestone in 2023 was the installation of new CT scanners at KVMH and SMMH. In particular, for SMMH, the new CT scanner equips the hospital with state of the art diagnostic imaging, which enhances the hospital's capability to treat patients presenting to the emergency room. Emergency care throughout Kauai County is greatly improved with this initiative. Construction plans to renovate the KVMH Emergency Department, create a short-term acute care unit at SMMH, and renovate the SMMH outpatient building (clinic and rehab services) will be finalized by the end of the year with construction to begin in the first half of 2024.

2023 will also be viewed as the year we launched our behavioral health service line. A standalone outpatient clinic in Lihue will be our first outpatient behavioral health clinic ever established. The clinic will open in early 2024 and will provide outpatient treatment and support to patients with various forms of mental illness and substance abuse. The Kauai Region was also fortunate to receive grant monies from the County of Kauai in an effort by Mayor Kawakami to strengthen the behavioral health safety net on the island. Our programs will target the following areas: 1) Provide counseling/navigation support to recently released Kauai County Correctional Facility inmates 2) Provide counseling/treatment/navigation support to recently released patients from the SMMH Inpatient Behavioral Health Unit 3) Provide counseling support to adolescent patients held in hospital emergency rooms awaiting placement at a treatment facility. We are excited to undertake these opportunities to improve the behavioral health service continuum on Kauai.

In addition to medical services, the Kauai Region continues to explore ways to provide needed services in our community. Recently, we executed a contract with the Kauai County

Elderly Affairs Agency to provide meals to our home bound senior population island wide. In addition to providing nutritious meals, we are exploring other interventions such as health assessments and patient navigation ensuring primary care access.

2023 was an active year for the Kauai Region. We look forward to 2024 rooted in our unwavering commitment to be a trusted resource for our community.

OAHU REGION

OAHU REGION

The Hawaii Health Systems Corporation ("HHSC") Oahu Region provides essential services to our community's most vulnerable populations through its operation of two (2) long-term care facilities, **Maluhia** and **Leahi Hospital** ("Leahi"), located respectively in lower Alewa Heights and Kaimuki. Maluhia and Leahi provide in-patient skilled nursing and intermediate care services to the elderly, blind, 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 (2) of only three (3) remaining on Oahu) and both facilities partner with Hawaii Meals on Wheels to provide 388 hot meals per week for disabled elders on Oahu, enabling them to sustain their independence at home and in the community. For many of our nursing home residents and day health participants – especially those receiving Medicaid benefits due to a lack of personal assets (approximately 86% of our inpatients), the Oahu Region's facilities are often the only options for quality post-acute and community-based health care services. Currently, the HHSC Oahu Region employs approximately 320 people.

LEAHI HOSPITAL

Leahi Hospital ("Leahi"), located in the heart of Kaimuki in Honolulu, Hawaii, was first established in 1901. Leahi 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 employs approximately 185 people.

Long-Term Care Inpatient Services:
- Currently operating 114 Dual Certified Skilled Nursing and Intermediate Care Beds.
- Hale Mohalu, the Department of Health's ("DOH") Hansen's disease program, recently moved into the second floor of the Young Building

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:

- Leahi Adult Day Health Center (LADHC) – is a program designed to enable participants to enrich their lives and to maintain their independence, dignity, and self-esteem while providing respite and support for caregivers. More meaningfully, the program facilitates and encourages families to continue caring for their loved ones in their homes, improving quality of life and reducing otherwise significant costs to MedQuest for institutional long-term care.
- In collaboration with Hawaii Meals on Wheels, our kitchen provides 135 meals per week (Monday through Friday), including medically tailored and therapeutic meals to meet the specific needs of residents in the Diamond Head, Kapahulu, University, Kaimuki and Waikiki areas.

Patient Census and Other Services:

	Long Term Care	TB
Patient Days	34,993	48

Adult Day Health:

Participant Days	4,642
Baths Provided	652
Meals – Take Home	134

Hawaii Meals on Wheels:

Meals Provided:	7,003

Volunteer Services:

Due to facility COVID-19 restrictions, the number of volunteers were limited to special or cultural activities.

Number of Active Volunteers:	7
Number of Total Volunteer Hours:	18
Volunteer Auxiliary Contributions:	$9,000

MALUHIA

Maluhia, located in lower Alewa Heights in Honolulu, Hawaii, is licensed to operate 158 skilled nursing and intermediate care facility beds and employs approximately 135 employees. Maluhia was established in 1923, and provides the following services:

Long-Term Care Inpatient Services:

- Currently 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:
- Adult Day Health Center
- Collaboration with Hawaii Meals on Wheels to provide nearly 253 meals per week to residents in Kalihi and Liliha areas

Patient Census and Other Services:

	Long Term Care
Patient Days	29,076

Adult Day Health:

Participant Days	6,112	
Baths Provided	680	(Re-started bathing services in October 2022)
Meals – Take Home	586	

Outpatient Clinic:

Clinic Visits	289	(Clinic closed January 2023)

Meals on Wheels:

Meals Provided	13,145

Volunteer Services:
Due to COVID-19, volunteers were strictly limited to recently retired employees.

Number of Total Volunteer Hours:	452
Volunteer Auxiliary Contributions:	Approximately $5,100 from the Friends of Maluhia

COVID-19 AND STAFFING

With the health impacts of COVID-19 gradually becoming more controlled, we are still exercising caution in our infection prevention protocols to ensure the continued safety of our residents and staff. At the same time, we are also focusing our attention on the residual effects of the pandemic including, but not limited to, the financial stability of the facilities, supply chain issues, and significant staffing shortages.

In terms of staffing, healthcare facilities locally and around the nation are currently struggling to fill significant gaps in their workforce, especially in clinical positions like Certified Nurse Aides (“CNA”) and Registered Nurses (“RN”). To alleviate some of the strain, we have repurposed employees from other departments to assist in clinical care, approved overtime for existing nursing staff, and sought agency staff when possible. Moreover, in addition to our traditional approaches to recruitment, such as advertisements, use of staffing agencies, and participation in local job fairs, we have also engaged in two (2) creative programs to find qualified staff.

First, both of our facilities participate in the Healthcare Association of Hawaii's ("HAH") Good Jobs Hawaii Program, in which students in health care programs such as those for CNA and other certifications are granted free tuition/certification exam fees along with immediate placement opportunities both during and after graduation. Because the program funds do not come from the Oahu Region, however, students are free to seek employment at any healthcare facility. Through the Oahu Region's efforts in the program, such as personal presentations at various schools and participation in the program's rapid hire events, we have thus far been able to hire two (2) CNA students and three (3) recent graduates at Maluhia and one (1) CNA student at Leahi Hospital ("Leahi").

Second, we started a pilot recruitment program at Maluhia that is similar to Good Jobs Hi. Under the program, we offer "no-cost" training with a reputable CNA training program, Healthcare Training & Career Consultants (HT&CC), and the subsequent costs of CNA certification to students who commit to working at Maluhia for at least one (1) year after becoming certified. Our first cohort consists of six (6) students who, if successful in the program, will even be offered the opportunity to work as Nurse Aides while they complete the requirements for certification. We believe that this program will benefit all parties as it will help alleviate our staffing shortages while also giving those who could not otherwise afford the costs the opportunity to become CNA certified. Our intent is to expand this program to Leahi and continue with successive cohorts until our staffing needs are met at both facilities.

STRATEGIC PLAN ACHIEVEMENTS

The Oahu Regional Board of Directors and Management previously completed a Strategic Plan that was submitted to the Legislature in December 2019, but due to the onset of the pandemic, the initiatives had to be deferred so that we could prioritize infection control and other safety measures for our residents and staff. Now that COVID-19 has become more controlled, we have redirected our attention back to our strategic initiatives.

Briefly stated, the Strategic Plan focused on the growing needs of our aging population and the anticipation that, in the next 5-10 years, it is projected that an additional 1,100 long-term care beds will be necessary to accommodate the aging community on Oahu. The Oahu Region team also recognized that its resources, particularly areas throughout the Leahi campus, are currently underutilized and could be improved and repurposed to provide other important public benefits. Specifically, there is an immediate need to address the lack of facilities and housing on Oahu for people with a history of mental health, housing instability, and/or substance use issues. There is also a need for facilities that could help alleviate the overcrowding of waitlisted patients in our acute hospitals.

We have been actively working with the DOH to address the expanding need for mental health and substance use treatment. One important project on the Leahi campus that has thus far been successful is the Palekana Residential Treatment Program ("Palekana"), a collaboration with the DOH Adult Mental Health Division ("AMHD") and Care Hawaii. Originally opening as a proof of concept pilot for a handful of individuals in December 2019, Palekana currently operates as a Group Home that provides 28 beds for adults with serious mental and co-occurring substance use disorders in a warm, welcoming and safe environment where personnel are supportive, encouraging, and professional. Referrals into Palekana are received and approved by the AMHD from the Hawaii State Hospital ("HSH") and community based mental health providers. By housing and treating such individuals in Palekana rather than HSH, the state has incurred estimated savings of over $15 million annually.

Palekana facilitates a team approach in its provision of independent living skills and supportive services twenty-four (24) hours a day, seven (7) days a week. Services are designed to rehabilitate with individualized treatment goals to support a successful re-integration into the community under the least restrictive level of care. Treatments are focused on relapse prevention and recovery, and provide residents with the opportunity to participate in structured therapeutic programs while being able to reside, albeit under professional supervision, in the community. Activities include group counseling, education, skill building, recreational therapy, and family services to gain access to necessary medical and rehabilitative services to reduce psychiatric and substance abuse addiction symptoms and develop optimal community living skills.

Another significant project that we have initiated on the Leahi campus is a partnership with the City and County of Honolulu ("City"), Emergency Medical Services Department ("EMS") and Queen's Medical Center ("QMC") for a medical respite facility in the space formerly occupied by Hale Mohalu, the DOH's Hansen's disease program. The program, which is slated to begin operations in December 2024 and will be managed by the City's Crisis Outreach Response and Engagement (CORE) division, will house lower acuity hospital patients and homeless individuals in need of medical care. The program will be supported by QMC through the provision of psychiatric and other clinical services. In addition to providing the necessary space, the Oahu Region will also support the program with dietary and maintenance services. We are hopeful that this project with help increase bed availability at the hospital for acutely ill patients and effectively assist in transitioning the residents back into the community or to an appropriate step-down facility.

DANIEL K. AKAKA STATE VETERANS HOME

The Oahu Region, working in tandem with the Office of Veterans' Services (OVS), a division of the State's Department of Defense ("DOD"), secured legislation during the 2022 Legislative Session (introduced as HB1893 HD1 SD2 CD1 and signed into law as Act 285, SLH 2022) that transfers the Daniel K. Akaka State Veterans Home (DKASVH) from the DOD to the Oahu Region once its construction is completed.

Despite a number of delays due to supply chain and electrical connectivity issues, we anticipate that construction of the DKASVH will be completed by February 2024. In terms of operations, the Oahu Region and DOD partnered in soliciting proposals from potential operators with the experience necessary to successfully open, license, and operate the DKASVH at the highest U.S. Department of Veterans Affairs (VA) standards. We are currently in negotiations with the selected operator and anticipate finalizing the terms of the operating agreement shortly.

At present, there are approximately 85,000 Veterans on Oahu who may be eligible to receive care at the new home in addition to their spouses and Gold Star Parents. DKASVH is designed to provide long term nursing home care, rehabilitation therapies, hospice care, geriatric mental health, Dementia and Alzheimer's care, respite and adult day health. DKASVH will be a 120 bed, 130,000 square foot facility with single occupancy rooms situated on seven (7) acres in Kapolei.

NURSING

As previously noted, our biggest challenge in Nursing is to bring our staffing levels to full capacity so that we may increase the number of our staffed beds and meet the rapidly growing needs for safety-net long-term care services on Oahu.

While we continue to work on recruitment, we have employed a number of stop-gap measures to ensure the quality of care for our existing residents. Our efforts include increasing the number of student helpers and aides to assist our clinical staff, repurposing employees from other departments to provide necessary coverage, approving overtime for existing nursing staff, and utilizing agency staff when possible (and available).

Despite the staffing and related census challenges, Leahi and Maluhia are committed to providing safe and high quality resident-centered care to our post-acute and long-term care residents. With due credit given to our hardworking, dedicated staff members, we are proud to highlight that our facilities continue to have low incidents of facility acquired pressure ulcers, infections and use of antibiotics. Of equal importance, we further note that our residents and their family members have expressed high satisfaction in the residents' quality of life during our Centers for Medicare & Medicaid Services ("CMS") annual surveys, especially in the areas of group activities, entertainment and communal dining. This, coupled with the collective efforts of all our departments, have paved the way for CMS to award respective 5-star and 4-star ratings to Maluhia and Leahi.

QUALITY ASSURANCE PERFORMANCE IMPROVEMENT

To reduce the impact of COVID-19 variants to the residents, staff and visitors, both facilities continue to promote proper hand hygiene, the use of personal protective equipment (PPE), disinfect high touch surfaces, provide recommended testing, and utilize interventions to improve vaccination rates.

Maluhia initiated an Environmental Performance Improvement Project in 2023, implementing recommendations from a recent Infection Control Assessment & Response (ICAR) review by the State Department of Health. During an outbreak and based on Root

Cause Analysis, the facility installed additional air purifiers strategically placed around the facility and implemented routine COVID testing of non-direct care staff who frequented the Nursing Units.

At Leahi, improved hand hygiene practices contributed to a reduction in infections. As our facilities continue to navigate through the ever-changing regulations throughout the COVID-19 pandemic, maintaining clear communication and immediate response/updates with staff, residents and families are of utmost importance.

LOCALLY SOURCED AND SCRATCH COOKED FOOD – OAHU REGION AND BEYOND GREEN PARTNERS

Oahu Region's partnership with Beyond Green Partners ("BGP") provided our staff the opportunity to learn ways to improve the quality of meals we serve to our residents, the benefits of utilizing local products, and fresh ingredients, and minimizing food waste.

Despite the pandemic, our kitchens continue to implement quality food production practices introduced to us by BGP. We continue to serve scratch-cooked foods and use fresh ingredients instead of frozen as much as possible. We continue to seek and utilize more local food sources to support our local farmers and Hawaii's economy. Although the costs for local products have significantly increased, we still strive to provide delicious but also healthy meals internally to our residents and Adult Day Health participants, and externally to the community through the Hawaii Meals on Wheels Program by creating new menus that strategically utilize fresh and local products.

Currently, we are primarily using local sources for our produce items, such as vegetables and fruits. Other non-produce items, such as coffee, soy sauce, meats, etc. are also ordered locally to the extent our dietary budgets allow.

PERSONNEL

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

FY 23 – 414.97
FY 22 – 428.51
FY 21 – 453.79
FY 20 – 438.65

FINANCIAL PICTURE

Approximately 86% of the Oahu Region's residents receive benefits through Hawaii's Med-Quest Medicaid program. The Oahu Region's revenues and cash flow are dependent on the reimbursement rates and timeliness of payments provided by the Medicaid programs, despite being inadequate to cover our actual inflationary shortfalls.

Given the low Medicaid reimbursement rates, HGEA and UPW wage increases, higher post-employment fringe benefits rate, 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.

Moreover, to prevent COVID-19 outbreaks at Maluhia and Leahi, pandemic precautions and restrictions remain in place. The COVID prevention efforts and staffing shortage issue has led the Oahu Region to experience a reduction in operating revenue due to decreased census for both long-term care and Adult Day Health services during FY 2023. For FY 2023, the Oahu Region's operating revenues were $1.8 million lower than pre-COVID-19 levels (FY 2019).

In addition, due to the staffing shortages, we have experienced an increase in necessary overtime and contracted agency nursing costs. In terms of COVID-19 prevention, the Oahu Region continues to incur estimated additional expenditures of about $545K. For FY 2023, however, it should be noted that the Oahu Region was able to defray some of its financial losses through funds received from the COVID-19 Aid, Relief and Economic Security ("CARES") Act stimulus, Phase IV Provider Relief Fund and American Rescue Plan Act Fund.

RISK MANAGEMENT

Improving the residents' quality of life and providing individualized care are areas of focus. To accomplish this, an annual online staff education fair is conducted to provide current information on a variety of topics, including infection control, protected health information, IT security, resident rights, and patient safety. Hands on training ensures that staff are performing their skills by "doing" instead of just observing. This provides an opportunity for discussion and real-time feedback. Throughout the year, our staff attends education and training sessions provided by the Healthcare Association of Hawaii, American Health Care Association and Mountain Pacific Quality Health.

On June 1, 2023, Maluhia and Leahi participated in the Hawaii Healthcare Emergency Management ("HHEM") Coalition Statewide Community Based Hurricane full-scale exercise known as Makani Pahili 2023. During this exercise, a scenario was given to all participants simulating a real-life hurricane. The Command Center at each facility was activated and staff responded accordingly. Throughout the designated time, HHEM issued multiple injects to which we responded by using various communications via email and voice [Satellite Communication (SATCOM), amateur radio, Code-Division Multiple Access (CDMA), and telephone]. After the exercise was completed, a debriefing was conducted to summarize the strengths and areas for improvement. An after-action review report was submitted to HHEM.

THE LEAHI-MALUHIA FOUNDATION

The Leahi-Maluhia Foundation was established in 2003.

Mission

To support the work of Leahi Hospital and Maluhia, in their mission, development and the provision of quality health and long term care.

Vision

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

Board of Director Members for FY 2023

Michelle Kato, President
Jane Schramko, Director
Jerilyn Yamashiro, Director
Sean Sanada, Director
Sean Simmons, Director
Neal Yanagihara, Director

Individual Donations	$1,250
Aloha United Way	$2,790
Total:	$4,040

Contact Information

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