DEPT. COMM. NO. 317

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

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

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

Date: February 1, 2018

Subject: Hawaii Health Systems Annual Report for FY 2017

For your information and consideration, we are transmitting a copy of the Hawaii Health Systems Corporation annual report and financial statement for FY 2017, as required by Section 323F-22(b) and (c), Hawaii Revised Statutes (HRS). In accordance with Section 93-16, HRS, a copy of this report has been transmitted to the Legislative Reference Bureau and the report may be viewed electronically at https://www.hhsc.org/wp-content/uploads/2017-Annual-Report.pdf.

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

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HAWAII HEALTH SYSTEMS
CORPORATION
Quality Healthcare For All

CEO-17-040

Report to the Legislature
Hawaii Health Systems Corporation Annual Audit and Report for FY2017;
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 FY2018 and a list of capital improvement projects planned for implementation in FY2018; and (b) regional system board reports.

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

HHSC facilities include: Hilo Medical Center, Yukio Okutsu State Veterans Home, Hale Ho'ola Hamakua, and Ka'u Hospital (East Hawaii Region); Kona Community Hospital and Kohala Hospital (West Hawaii Region); Maui Memorial Medical Center, Lanai Community Hospital and Kula Hospital (Maui Region); Leahi Hospital and Maluhia (Oahu Region); Kauai Veterans Memorial Hospital and Samuel Mahelona Memorial Hospital (Kauai Region), in addition to three non-profit affiliate providers: Ali'i Community Care, Inc: Roselani Place – Maui; Ali'i Health Center – West Hawaii, Kahuku Medical Center – Oahu; and Kona Ambulatory Surgery Center – West Hawaii. 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 and operation 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, A Kaiser Foundation Hospitals LLC (MHS). In January 2016, HHSC, the State of Hawaii, Kaiser, and MHS entered into a Transfer Agreement with an expected transfer completion date of July 1, 2016. Due to legal challenges brought by the United Public Workers (UPW), the expected transition date was pushed back to July 1, 2017. The legal challenges were resolved through a settlement agreement between the State of Hawaii and the UPW. In addition, with the passage of Act 18, S.B. 207, effective July 1, 2017, those Maui Region employees affected by the transition of operations from HHSC to MHS received a severance benefit. Finally, HHSC entered into a transition services agreement and a ground lease agreement with MHS to effectuate the transfer during fiscal year 2017. The smooth transfer of operations was completed on July 1, 2017.

In Fiscal Year 2017, HHSC hospitals provided a total of the following: 22,253 acute care admissions and 605 long-term admissions; 120,512 acute care patient days and 183,337 long-term care patient days; and 121,290 emergency room visits. A total of 1,209 licensed beds are operated in HHSC's twelve facilities, of which 700 are designated long-term care. The system employed a total of 4,133 FTE (full time equivalent) personnel.

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

- HHSC's facilities provided the care for almost 21% of all acute care discharges and 27% of all emergency room visits statewide;
- HHSC facilities provide 75% of the emergency room care and account for 65% of total acute discharges for the counties of Hawaii, Maui, and Kauai;
- For Hawaii county residents, HHSC facilities provided the care for approximately 68% of all acute care discharges and approximately 84% of all emergency room visits;
- For Maui county residents, HHSC facilities provided the care for approximately 80% of all acute care discharges and approximately 86% of all emergency room visits; and
- For Kauai county residents, HHSC facilities provided the care for approximately 19% of all acute care discharges and 36% of all emergency room visits.

HHSC provides accessible and affordable high quality healthcare in all communities we serve. We have continued to develop and improve our clinical and non-clinical quality programs consistently putting into practice our mantra that "Quality is Job One." HHSC quality initiatives that have provided the system with measurable solutions for improving quality of care were successfully accomplished through the dedicated efforts and cooperation of our staff, community physicians, and other healthcare professionals. All HHSC facilities are fully certified and licensed by both State and national standards. All HHSC facilities are Medicare/Medicaid certified and all have successfully passed recent surveys. HHSC completed its sixth hospital accreditation survey by the Joint Commission of Healthcare Organization in 2014, and was designated a full 3-year accreditation for the 4 hospitals that participate. HHSC also continues its long-standing participation with Hawaii Medical Services Association (HMSA) Hospital Quality and Service Recognition program that offers financial incentives for meeting performance indicators related to patient care quality.

At the same time, HHSC and its facilities continue to make advances in their use of the electronic medical records system (EHR). EHR brings state-of-the-art technology to HHSC in a manner that drives excellence in our operations and improves patient safety and the quality of care for our patients. This is consistent with the Centers for Medicare and Medicaid Services (CMS) incentive programs for using EHR technology to improve quality, safety, and efficiency of care, improve care coordination, maintain privacy and health information security, and improve patient outcomes.

Despite the high volume of care that is provided at HHSC's facilities as noted above, HHSC continues to face growing operating losses due to high levels of salaries and benefits expense. HHSC was forced to absorb collective bargaining raises negotiated by the State of Hawaii that increased salaries and benefits expense by approximately $16.6 million in fiscal year 2017, which is on top of the $16.2 million in collective bargaining raises that HHSC absorbed in fiscal year 2016. All in all, HHSC had to absorb the cumulative impact of $32.8 million in its operating expense base in fiscal year 2017, while the State appropriated only $3.7 million in funding to cover those raises. Further, the collective bargaining agreements negotiated by the State of Hawaii are meant to cover employees supporting the static business environment of administrative offices, not the dynamic working environment found in the hospitals that HHSC operates. As a result, the work rules and pay schedules dictated by those collective bargaining agreements makes it difficult for HHSC to operate its facilities efficiently and cost effectively.

In fiscal year 2017, the State assessed HHSC a fringe benefit rate of 49.54%. The increase in the fringe benefit rate from fiscal year 2016 accounts for almost $13 million in additional salaries and benefits expense. 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 49.54% fringe benefit rate and the private hospital fringe rate of 30% is approximately $58 million in additional annual expense to HHSC.

As long as the State of Hawaii continues to impose collective bargaining pay raises and fringe benefit increases upon HHSC without providing funding to fully cover those costs, HHSC management believes continued increasing general fund support will be necessary to maintain the basic safety-net services that its facilities currently provide to the communities. If HHSC's facilities are forced to further reduce services, it will further reduce access to care in those communities where there is already a shortage of healthcare services will be diminished. In fiscal year 2018, HHSC has already had to absorb unfunded collective bargaining raises costing $10.4 million and an increase in the fringe benefit rate to 56.48%.

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 corporate and regional boards of directors and management to insure compliance, quality, and financial efficiency in the delivery of services. We have continued to focus on improving our financial management and accounting systems throughout the year. HHSC has received its thirteenth consecutive "clean" unqualified consolidated audit for every fiscal year from FY 1998 through FY2017. The FY2016 audit will be submitted under separate cover in January, 2018.

The following information is attached in accordance with section 323F-22, HRS: (1) projected revenues for each facility for FY2018, (2) proposed capital improvement projects during FY2018; 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 foundations and auxiliaries that included donations of time and money to our facilities, statewide. HHSC management has also worked with respective hospital foundations to obtain donations and grants to both enhance services provided and to offset the cost of operating our system in predominantly rural areas. In this regard, HHSC has promoted the development of foundations at our hospitals and incorporated the Hawaii Health Systems Foundation (HHSF) as a wholly owned subsidiary 501(c) (3). Seventeen years ago, there were three foundations supporting HHSC facilities of which only two were active. Today there are nine separate foundations, in addition to multiple hospital auxiliaries supporting one or more HHSC hospitals.

Respectfully submitted,

Linda Rosen, M.D., M.P.H.	Edward N. Chu
Chief Executive Officer	Chief Financial Officer

Attachments:

1. Projected FY2018 Revenues
2. CIP Expenditures FY2018
3. HHSC Financial Report, June 30, 2017
4. Regional Board Reports, FY2017.

FY 2018 Revenue Projections

HAWAII HEALTH SYSTEMS CORPORATION
PROJECTED REVENUES FOR FISCAL YEAR 2018
AMOUNTS IN $'000'S
NOTE: Amounts represent estimated cash collections, not accrual basis revenues

Hilo	169,469
Hamakua	16,072
Ka'u	8,200
Kona	78,636
Kohala	7,416
KVMH	31,798
SMMH	14,205
Leahi	13,406
Maluhia	12,986
TOTAL	**352,188**

CIP Annual Report

Act/Yr	Item No.	Project Title and Brief Project Description	FY 2018 Apprn
49/2017	E-3	Lump Sum, HHSC - SMMH, Replace Emergency Generator and other system components	1,000,000
49/2017	E-3	Lump Sum, HHSC - SMMH, Repairs and Renovations of Various Structures on Campus	700,000
49/2017	E-3	Lump Sum, HHSC - KVMH, Repairs and Renovations of Various Structures on Campus	1,252,000
49/2017	E-3	Lump Sum, HHSC - KVMH, ED Renovation and Repairs, Phase 1	500,000
49/2017	E-3	Lump Sum, HHSC - Maluhia, Upgrade 2nd and 3rd floor air conditioning	1,000,000
49/2017	E-3	Lump Sum, HHSC - Leahi Hospital, North Trotter Parking Lot	600,000
49/2017	E-3	Lump Sum, HHSC - Maluhia, Replace retaining wall in parking lot	100,000
49/2017	E-3	Lump Sum, HHSC - Maluhia, Refloor and waterproof sundeck	100,000
49/2017	E-3	Lump Sum, HHSC - Leahi Hospital, Upgrade patient rooms	1,000,000
49/2017	E-3	Lump Sum, HHSC - Maluhia, Patient wandering system	250,000
49/2017	E-3	Lump Sum, HHSC - Maluhia, Upgrade basement and first floor Air conditioning	250,000
49/2017	E-3	Lump Sum, HHSC - Leahi Hospital, Refloor North Trotter and Young	150,000
49/2017	E-3	Lump Sum, HHSC - Leahi Hospital, Repair walkway structural at Young	200,000
49/2017	E-3	Lump Sum, HHSC - Kona Community Hospital, OR Renovation, Repair Roof, and Mechanical Upgrades	2,000,000
49/2017	E-3	Lump Sum, HHSC - Kona Community Hospital, Remodel Maintenance to relocate Lab	1,500,000
49/2017	E-3	Lump Sum, HHSC - Kohala Hosital, Hospital Remodels	1,000,000
49/2017	E-3	Lump Sum, HHSC - Hilo Medical Center, Acute Hospital Renovations	3,500,000
49/2017	E-3	Lump Sum, HHSC - Hilo Medical Center, Ultrasound Equipment and Renovation	1,000,000
49/2017	E-3	Lump Sum, HHSC - East Hawaii Region, Radiology Renovation and Replacement	3,000,000
49/2017	E-3	Lump Sum, HHSC - Hilo Medical Center, Upgrade/replacement of Fire Alarm Systems and Fire Suppression Systems	850,000
49/2017	E-2	Leahi Hospital, Upgrade Atherton, Sinclair and Trotter Elevators	900,000
49/2017	E-4	SMMH, Asset Analysis	500,000
49/2017	E-1	Lump Sum, Kahuku Medical Center - Air Conditioning, Phase III, Emergency Department	450,000
49/2017	E-1	Lump Sum, Kahuku Medical Center - Air Conditioning, Phase IV, Rothwell Wing and Rehab	50,000
49/2017	E-1	Lump Sum, Kahuku Medical Center - Clinic Expansion, Phases I and II	1,150,000
49/2017	E-5	Maui Health System, Facilities Repair, Renovations and Upgrades	6,000,000

Hawaii Health Systems Corporation

Financial Report
with Supplemental Information
June 30, 2017

Contents

Independent Auditor's Report

To the Board of Directors
Hawaii Health Systems Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Health Systems Corporation (HHSC), a component unit of the State of Hawaii, as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise Hawaii Health Systems Corporation's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hawaii Health Systems Corporation as of June 30, 2017 and 2016 and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only 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, 2017 and 2016 or the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

To the Board of Directors
Hawaii Health Systems Corporation

Other Matters

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

Required Supplemental Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017 on our consideration of HHSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HHSC's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 12, 2017

This discussion and analysis of Hawaii Health Systems Corporation's (HHSC or the "Corporation") financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2017, 2016 and 2015. Please read it in conjunction with the Corporation's financial statements, which begin on page 11.

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

The analysis of the Corporation's finances begins on page 4. One of the most important questions asked about the Corporation's finances is, "Is the Corporation as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses, and changes in net position report information about the Corporation's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

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

The Corporation's Net Position

The Corporation's net position is the difference between its assets plus deferred outflows and liabilities plus deferred inflows reported in the statement of net position. The Corporation's net position decreased by $89,000,840 (18 percent) in 2017, increased by $9,297,597 (2 percent) in 2016 and increased by $22,109,899 (4 percent) in 2015, as you can see from the following table.

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

Summarized financial information of HHSC's statement of net position as of June 30, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Assets			
Current assets	$ 299,162,272	$ 305,966,031	$ 292,659,374
Capital assets - Net	363,688,690	358,553,697	363,310,339
Other assets	3,696,653	4,851,311	7,150,602
Deferred Outflows	279,905,162	81,615,629	68,293,235
Total assets and deferred outflows	**$ 946,452,777**	**$ 750,986,668**	**$ 731,413,550**
Liabilities			
Current liabilities	$ 130,985,468	$ 116,983,058	$ 128,278,636
Other postemployment liability	387,734,944	369,314,030	338,248,725
Due to the State of Hawaii	20,122,507	20,122,507	34,122,507
Accrued postretirement benefit obligations	916,111,059	623,325,235	583,997,239
Other liabilities	64,113,396	78,410,415	88,630,726
Deferred Inflows	16,106,533	42,551,713	67,153,604
Total liabilities and deferred inflows	1,535,173,907	1,250,706,958	1,240,431,437
Net Position			
Invested in capital assets - Net of related debt	322,517,151	310,465,416	304,552,720
Restricted	1,301,834	1,512,025	4,132,930
Unrestricted	(912,540,115)	(811,697,731)	(817,703,537)
Total net position	(588,721,130)	(499,720,290)	(509,017,887)
Total liabilities, deferred inflows, and net position	**$ 946,452,777**	**$ 750,986,668**	**$ 731,413,550**

At June 30, 2017, 2016, and 2015, HHSC's current assets approximated 45, 46 and 44 percent, respectively, of total assets. Current assets decreased approximately $6.8 million in 2017 due to and a decrease in due from the State of Hawaii CIP funds of $26.2 million and a decrease in third-party payor settlements of approximately $12.5 million. These changes are offset by an increase in cash of $11.7 million, an increase in patient receivables of $19.0 million. Current assets increased approximately $13.3 million in 2016 due to an increase in cash of $16.3 million and a decrease in due from the State of Hawaii CIP funds of $6 million. These changes are offset by an increase in third-party payor settlements of approximately $12.2 million. Current assets increased approximately $36.8 million in 2015 due to increases in cash of $30.8 million and due from State of Hawaii CIP funds of $16.1 million. These increases are offset by a decrease in third-party payor settlements of $13.4 million. The increases in cash for both 2017 and 2016 are primarily due to various factors, as reflected in the statement of cash flows. The decrease in due from the State of Hawaii CIP funds for 2017 and 2016 is due to the timing of when payments were made from the state to HHSC. The increase in due from State of Hawaii CIP funds for 2015 is due to additional unexpended appropriations from the State of Hawaii for capital improvements. The increase in estimated third-party payor settlements in 2016 and the 2015 decrease is primarily attributable to the timely payment of uncompensated care revenue and significant settlements of prior year cost report filings, primarily for the three acute facilities in HHSC. The reasons for this change are discussed in the operating results and changes in net position section below.

At June 30, 2017, 2016 and 2015, HHSC's current liabilities were approximately 9, 10 and 11 percent of total liabilities, respectively. The primary reason for the increase in current liabilities in 2017 was due to costs related to the Maui region transition. The primary reason for the decrease in 2016 is due to the timing of payments coupled with the completion of significant capital projects during 2016. The primary reason for the decrease in current liabilities in 2015 of $29.2 million is due to a $16.7 million decrease in accounts payable and accrued expenses and a decrease in the current portion of long-term debt of $12.6 million.

At June 30, 2017, 2016 and 2015, HHSC's net position is reflected as its investment in capital assets, net of related debt, of approximately $323 million, $310 million and $305 million, respectively. Total net position was approximately $(589 million) in 2017, $(500 million) in 2016 and $(509 million) in 2015.

Capital Assets

At June 30, 2017, 2016 and 2015, HHSC's capital assets, net of accumulated depreciation, comprised approximately 55, 54 and 55 percent of its total assets, respectively. These assets consist mainly of land, hospital buildings, and equipment that are used in HHSC's operations. The increase of approximately $5.1 million in 2017 is due to the completion of ongoing construction projects, the decrease of approximately $4.8 million in 2016 is due to depreciation taken on previously placed-in-service assets and the completion of significant portions of the EMR project, and the increase of approximately $8.9 million in 2015 is due primarily to ongoing construction projects, particularly the EMR project.

A summary of HHSC's capital assets as of June 30, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Land and land improvements	$ 7,814,855	$ 7,814,855	$ 7,770,788
Building and improvements	505,483,896	479,469,411	458,859,742
Equipment	266,900,149	256,948,507	238,381,691
Construction in progress	35,179,719	28,612,313	32,120,301
Total capital assets	815,378,619	772,845,086	737,132,522
Less accumulated depreciation and amortization	(451,689,929)	(414,291,389)	(373,822,183)
Capital assets - Net	$363,688,690	$358,553,697	$363,310,339

Long-term Debt and Capital Lease Obligations

At June 30, 2017, 2016 and 2015, HHSC had long-term debt and capital lease obligations totaling approximately $48.3 million, $55.8 million and $66.6 million, respectively. The decrease of $7.5 million in 2017, $10.8 million in 2016 and $10.4 million in 2015 was due to continuing payments on existing obligations with very little new issuances of capital lease obligations. More detailed information about HHSC's long-term debt and capital lease obligations is presented in the notes to the financial statements.

Operating Results and Changes in Net Position

Summarized financial information of HHSC's statement of revenue, expenses, and changes in net position for the years ended June 30, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Operating revenue	$679,169,889	$ 642,883,682	$ 620,537,502
Operating expenses:			
Salaries and wages	316,009,476	310,868,241	311,684,721
Employee benefits	233,372,555	166,477,967	168,013,909
Purchased services and professional fees	130,710,043	114,539,125	100,463,590
Medical supplies and drugs	84,419,836	80,916,401	76,988,122
Depreciation	40,400,080	40,935,072	37,180,988
Insurance	6,997,134	5,304,148	5,558,652
Other	67,321,366	63,237,754	65,688,088
Total operating expenses	879,230,490	782,278,708	765,578,070
Operating loss	(200,060,601)	(139,395,026)	(145,040,568)
Noperating revenue:			
General appropriations from the State of Hawaii	107,365,000	121,440,000	106,440,001
Other nonoperating (expense) revenue - Net	(6,336,761)	4,770,025	12,547,965
Total nonoperating revenue	101,028,239	126,210,025	118,987,966
Excess of expense over revenue before capital contributions and transfer from affilates	(99,032,362)	(13,185,001)	(26,052,602)
Capital contributions	10,031,522	25,040,520	48,162,501
Asset impairment	-	(3,521,882)	-
Change in reporting entity	-	963,960	-
(Decrease) Increase in net position	$ (89,000,840)	$ 9,297,597	$ 22,109,899

For the years ended June 30, 2017, 2016 and 2015, HHSC's operating expenses exceeded its operating revenue by $200.1 million, $139.4 million and $145.0 million, respectively. General appropriations from the State of Hawaii totaled $107.4 million, $121.4 million and $106.4 million in 2017, 2016 and 2015, respectively. In addition, the appropriations from the State of Hawaii for capital contributions totaled $10.0 million, $25.0 million and $48.1 million in 2017, 2016 and 2015, respectively. These items, along with the other nonoperating revenue, contributed to a decrease in net position of $89.0 million in 2017 and an increase in net position of $9.3 million in 2016 and $22.1 million in 2015.

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

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

Operating expenses for the fiscal year ended June 30, 2016 were approximately 2.2 percent higher than 2015. Operating expenses for the fiscal year ended June 30, 2016 increased $16.7 million from fiscal year 2015, which was primarily due to increases in purchased services of approximately $14.1 million, with the remainder due to normal inflationary cost increases. The increase in purchased services and professional fees is primarily due to the use of consultants to assist in the implementation of the Siemens Soarian electronic medical records system and to perform helpdesk functions for the product, as well as consultants used to assist in the preparation of HHSC's facilities for the conversion to the ICD-10 coding standard.

Operating revenue for the fiscal year ended June 30, 2016 was approximately 3.6 percent higher than 2015. The increase in operating revenue is primarily due to an increase in acute patient days from fiscal year 2015, coupled with an increase in payments from various health plans related to uncompensated care programs. Additional increases in revenue is driven by third-party payor contract negotiations, clinical documentation improvement initiatives, and strategic pricing initiatives.

Operating expenses for the fiscal year ended June 30, 2015 were approximately 3.9 percent higher than 2014. Operating expenses for the fiscal year ended June 30, 2015 increased $28.5 million from fiscal year 2014, which was primarily due to increases in payroll expenses of $16.1 million and nonpayroll expenses of $12.4 million. The increase in payroll expenses is primarily due to collective bargaining pay increases as stipulated under bargaining unit contracts negotiated by the State of Hawaii, which were offset by contingency plan payroll savings of approximately $11.7 million, primarily through attrition and retirement savings. The increase in nonpayroll expenses is primarily due to $3.2 million in purchased services and professional fees and $5.2 million, with the remainder due to normal inflationary cost increases. The increase in purchased services and professional fees is primarily due to the use of consultants to assist in the implementation of the Siemens Soarian electronic medical records system and to perform helpdesk functions for the product, as well as consultants used to assist in the preparation of HHSC's facilities for the conversion to the ICD-10 coding standard. The increase in depreciation expense is due to a full year of depreciation on the electronic medical records system at Maui Memorial Medical Center as opposed to only four months of depreciation in 2014, as well as the depreciation on the electronic medical records system at Kula Hospital and Lanai Community Hospital, which went live on the system in March 2015.

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

Fiscal Year 2017 continued the trend of demonstrating how critical HHSC's facilities are in terms of access to health care in the State of Hawaii, particularly on the neighbor islands. In fiscal year 2017, HHSC's acute discharges increased approximately 8.2% to 23,760, which accounts for 20.7% of all acute care discharges in the State of Hawaii. In fiscal year 2017, HHSC's emergency department visits totaled 121,290, representing 24.5% 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 68% of all acute care discharges and 84% of all emergency department visits. For residents of the County of Maui, HHSC's facilities cared for 80% of all acute care discharges and 86% 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 high levels of salaries and benefits expense. HHSC was forced to absorb collective bargaining raises negotiated by the State of Hawaii which increased salaries and benefits expense by approximately $16.6 million in fiscal year 2017, which is on top of the $16.2 million in collective bargaining raises that HHSC absorbed in fiscal year 2016. All in all, HHSC had to absorb the cumulative impact of $32.8 million in its operating expense base in fiscal year 2017, while the State appropriated only $3.7 million in funding to cover those raises. Further, the collective bargaining agreements negotiated by the State of Hawaii are meant to cover employees supporting the static business environment of administrative offices, not the dynamic working environment found in the hospitals that HHSC operates. As a result, the work rules and pay schedules dictated by those collective bargaining agreements makes it difficult for HHSC to operate its facilities efficiently and cost effectively.

In fiscal year 2017, the State assessed HHSC a fringe benefit rate of 49.54%. The increase in the fringe benefit rate from fiscal year 2016 accounts for almost $13 million in additional salaries and benefits expense. 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 49.54% fringe benefit rate and the private hospital fringe rate of 30% is approximately $58 million in additional annual expense to HHSC.

Besides the financial challenges noted above, the largest operational challenge was preparing for the transition of management of HHSC's three Maui Region facilities to Kaiser Permanente. 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. 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. However, as the transfer agreement required that the working capital requirement of $10 million and an estimated inventory shortfall amount of approximately $2.1 million be received into MHS's bank account on July 1, 2017, the Maui Region transferred those funds to MHS on June 30, 2017. The transfer of these two amounts is reflected as "Nonoperating Expenses" in the "Statement of Revenue, Expenses, and Changes in Net Position" of HHSC as of June 30, 2017.

FUTURE OUTLOOK:

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

2018, HHSC has already had to absorb unfunded collective bargaining raises costing $10.4 million and an increase in the fringe benefit rate to 56.48%.

Given the likely financial shortfalls that HHSC is likely to face, management believes that the challenges HHSC faces in maintaining and growing health services in a sustainable way cannot be resolved by the system in its current form. The best alternative for some of the communities to receive the healthcare they deserve at the minimum cost to the State of Hawaii would be to find a private health system which would be interested in assuming operations of our hospitals. HHSC's boards believe a transition would allow HHSC's facilities to:

- Gain access to private capital to build and maintain infrastructure and address physical plant needs.
- Optimize clinical practice and expand access to specialty services.
- Implement private sector compensation packages to retain qualified medical service personnel.
- Reduce waste and obtain efficiencies of scale.
- Create a sustainable model of health care delivery that will lower costs and improve quality outcomes.
- Reduce dependence on government subsidies.

Whether this is a viable solution for all our facilities and desired by the communities they serve is unknown at this time.

Contacting the Corporation's Financial Management

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

Statement of Net Position

June 30, 2017 and 2016

	2017	2016
Assets and Deferred Outflows Of Resources		
Current Assets		
Cash and cash equivalents - State of Hawaii (Note 2)	$ 8,173,106	$ 1,138,522
Cash and cash equivalents	106,403,273	101,694,559
Patient accounts receivable - Less allowance for doubtful accounts of $37,078,791 and $39,094,347 in 2017 and 2016, respectively (Note 2)	98,315,410	79,240,985
Investments (Note 4)	7,324,897	7,362,814
Supplies and other current assets	17,347,028	16,215,658
Due from the State of Hawaii (Note 6)	54,474,581	80,678,873
Estimated third-party payor settlements	7,123,977	19,634,620
Total current assets	299,162,272	305,966,031
Assets Limited as to Use (Note 2)	3,243,770	4,211,441
Capital Assets - Net (Note 5)	363,688,690	358,553,697
Other Assets	452,883	639,870
Total assets	666,547,615	669,371,039
Deferred Outflows of Resources - Pension (Note 8)	279,905,162	81,615,629
Total assets and deferred outflows of resources	**$ 946,452,777**	**$ 750,986,668**

See notes to financial statements.

Statement of Net Position (Continued)

June 30, 2017 and 2016

	2017	2016
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 93,163,844	$ 84,331,813
Current portion of accrued vacation (Note 7)	26,370,611	18,755,699
Current portion of long-term debt (Note 10)	1,742,567	1,843,484
Current portion of capital lease obligations (Note 10)	4,527,692	6,629,441
Current portion of accrued workers' compensation (Note 11)	3,966,000	3,651,000
Other current liabilities	1,214,754	1,771,621
Total current liabilities	130,985,468	116,983,058
Long-term Debt - Less current portion (Note 10)	36,270,546	38,045,921
Capital Lease Obligations - Less current portion (Note 10)	5,769,614	9,276,414
Other Liabilities		
Accrued vacation - Less current portion (Note 7)	13,029,825	20,967,335
Accrued workers' compensation - Less current portion (Note 11)	8,774,000	9,811,000
Other postemployment benefit liability (Note 9)	387,734,944	369,314,030
Due to the State of Hawaii (Note 6)	20,122,507	20,122,507
Pension liability (Note 8)	916,111,059	623,325,235
Patients' safekeeping deposits	236,613	252,024
Other liabilities	32,798	57,721
Total liabilities	1,519,067,374	1,208,155,245
Deferred Inflows of Resources - Pension (Note 8)	16,106,533	42,551,713
Total liabilities and deferred inflows of resources	1,535,173,907	1,250,706,958
Net Position		
Unrestricted	(912,540,115)	(811,697,731)
Net investment in capital assets	322,517,151	310,465,416
Restricted for capital purchases (Note 2)	1,301,834	1,512,025
Total net position	(588,721,130)	(499,720,290)
Total liabilities, deferred inflows of resources, and net position	**$ 946,452,777**	**$ 750,986,668**

See notes to financial statements.

Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenue		
Net patient service revenue (net of provision for doubtful accounts of $29,875,881 and $24,853,414 for 2017 and 2016, respectively)	$ 664,678,238	$ 631,378,822
Other revenue (Note 1)	14,491,651	11,504,860
Total operating revenue	679,169,889	642,883,682
Operating Expenses		
Salaries	316,009,476	310,868,241
Employee benefits	233,372,555	166,481,006
Medical supplies and drugs	84,419,836	80,916,401
Depreciation and amortization	40,400,080	40,935,072
Utilities	14,942,918	14,397,973
Repairs and maintenance	17,321,189	16,001,540
Other supplies	17,115,050	16,830,667
Purchased services	108,884,840	97,718,744
Professional fees	21,825,203	16,820,381
Insurance	6,997,134	5,304,148
Rent and lease	7,914,407	7,851,528
Other	10,027,802	8,153,007
Total operating expenses	879,230,490	782,278,708
Operating Loss	(200,060,601)	(139,395,026)
Nonoperating Revenue (Expense)		
General appropriations from the State of Hawaii	107,365,000	121,440,000
Collective bargaining pay raise appropriation from the State of Hawaii	3,325,197	1,731,942
Loss on disposal of capital assets	(55,958)	(10,302)
Restricted contributions	2,486,288	2,679,725
Interest expense	(2,477,954)	(3,351,630)
Interest and dividend income	408,457	386,181
Transfer agreement expense (Note 1)	(12,092,349)	-
Other nonoperating revenue - Net	2,069,558	3,334,109
Total nonoperating income	101,028,239	126,210,025
Excess of Expenses Over Revenue Before Capital Contributions and Other	(99,032,362)	(13,185,001)
Capital Contributions	10,031,522	25,040,520
Special Item - Asset impairment (Note 4)	-	(3,521,882)
Change in Reporting Entity (Note 1)	-	963,960
(Decrease) Increase in Net Position	(89,000,840)	9,297,597
Net Position - Beginning of year	(499,720,290)	(509,017,887)
Net Position - End of year	$ (588,721,130)	$ (499,720,290)

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from government, patients, and third-party payors	$ 658,114,456	$ 627,782,092
Cash payments to employees for services	(462,644,750)	(448,370,790)
Cash payments to suppliers for services and goods	(283,724,697)	(269,933,549)
Other receipts from operations	14,491,651	11,504,860
Net cash used in operating activities	(73,763,340)	(79,017,387)
Cash Flows from Noncapital Financing Activities		
Appropriations from the State of Hawaii	107,365,000	107,440,000
Collective bargaining funding from the State of Hawaii	3,325,197	1,731,942
Other nonoperating revenue - Net	8,939,707	8,079,366
Transfer agreement expense	(12,092,349)	-
Net cash provided by noncapital financing activities	107,537,555	117,251,308
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(11,915,260)	(5,763,590)
Interest paid	(2,477,954)	(3,351,630)
Repayments on long-term debt	(1,876,292)	(4,733,120)
Repayments on capital lease obligations	(7,175,456)	(10,232,858)
Proceeds from sale of assets	-	18,000
Net cash used in capital and related financing activities	(23,444,962)	(24,063,198)
Cash Flows from Investing Activities		
Interest income	408,457	386,181
Decrease in short-term investments and assets limited as to use	1,005,588	1,791,566
Net cash provided by investing activities	1,414,045	2,177,747
Net Increase in Cash and Cash Equivalents	11,743,298	16,348,470
Cash and Cash Equivalents - Beginning of year	102,833,081	86,484,611
Cash and Cash Equivalents - End of year	**$ 114,576,379**	**$ 102,833,081**
Statement of Net Position Classification of Cash and Cash Equivalents		
Cash and cash equivalents - State of Hawaii	$ 8,173,106	$ 1,138,522
Cash and cash equivalents	106,403,273	101,694,559
Total cash and cash equivalents	**$ 114,576,379**	**$ 102,833,081**

See notes to financial statements.

Statement of Cash Flows (Continued)

Years Ended June 30, 2017 and 2016

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

	2017	2016
Cash Flows from Operating Activities		
Operating loss	$ (200,060,601)	$ (139,395,026)
Adjustments to reconcile operating loss to net cash from operating activities:		
Provision for doubtful accounts	29,875,881	24,853,414
Depreciation and amortization	40,400,080	40,935,072
Changes in assets and liabilities:		
Patient accounts receivable	(48,950,306)	(16,298,737)
Supplies and other assets	(944,383)	1,700,702
Accounts payable, accrued expenses, and other liabilities	7,977,919	(8,400,285)
Accrued workers' compensation liability	(722,000)	(317,000)
Postemployment benefit liability	18,420,914	31,065,305
Pension liability	292,785,824	39,327,996
Deferred outflows and inflows	(224,734,713)	(37,924,285)
Estimated third-party payor settlements	12,510,643	(12,151,407)
Accrued vacation	(322,598)	(2,413,136)
Net cash used in operating activities	**$ (73,763,340)**	**$ (79,017,387)**
Noncash Financing and Investing Activities		
Asset impairment	$ -	$ 3,521,882
Capital assets contributed by the State of Hawaii and others	31,851,953	28,111,724
Loss on disposal of capital assets	55,958	10,302
State of Hawaii appropriation to forgive amount payable to State of Hawaii	-	14,000,000
Capital assets acquired via accounts payable	256,911	951,281
Change in reporting entity	-	963,960
Change in due from the State of Hawaii	26,204,292	5,700,376
Assets acquired via capital lease	1,566,907	2,199,447

See notes to financial statements.

Note 1 - Organization

Structure

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

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

East Hawaii Region:

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

West Hawaii Region:

- Kona Community Hospital
- Kohala Hospital

Maui Region:

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

Kauai Region:

- Kauai Veterans Memorial Hospital
- Samuel Mahelona Memorial Hospital

Oahu Region

- Leahi Hospital
- Maluhia

Kahuku Medical Center

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

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

Note 1 - Organization (Continued)

Negotiations between Hawaii Health Systems Corporation and the State relating to the transfer of assets and assumption of liabilities pursuant to Act 262 had not been finalized as of June 30, 2017. Accordingly, the assets, liabilities, and net assets of Hawaii Health Systems Corporation reflected in the accompanying statement of revenue, expenses, and changes in net position may be significantly different from those eventually included in the final settlement.

The financial statements are being presented for Hawaii Health Systems Corporation, Hawaii Health Systems Foundation (HHSF), Alii Community Care, Inc. (Alii), and Kona Ambulatory Surgery Center (KASC). HHSF and Alii are nonprofit organizations of which Hawaii Health Systems Corporation is the sole member. The purpose of HHSF is to raise funds and to obtain gifts and grants on behalf of Hawaii Health Systems Corporation. The purpose of Alii is to own, manage, and operate assisted living and other healthcare facilities in the state.

Hawaii Health Systems Corporation obtained a controlling interest in the Kona Ambulatory Surgery Center during fiscal year 2016. Accounting standards require this transaction to be recorded as a change in reporting entity, which requires the KASC net assets be recorded on the regions books. The impact of the change in reporting entity amounted to approximately $1.0 million.

In June 2007, the state legislature passed Act 290, S.B. 1792. This act, which became effective July 1, 2007, required the establishment of a 7- to 15-member regional system board of directors for each of the five regions of the 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, comprised of 10 members appointed by the governor from nominees submitted by legislative leadership, two at-large members at the governor's discretion, two physician members selected by the Hawaii Health Systems Corporation board, and the State Director of Health.

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

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

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

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

In June 2015, the legislature passed Act 103, H.B. 1075, effective June 10, 2015, which allowed for the transition of the management of the Maui Region facilities to a new entity.

Note 1 - Organization (Continued)

Following the State of Hawaii Legislature passing Act 103, H.B. 1075, the region entered into a transfer agreement with Kaiser Permanente (Kaiser). As of July 1, 2017, operations of the Maui Region's facilities were transferred to Kaiser. The Maui Region continues to own all capital assets, which are now leased to Kaiser as part of a lease agreement. The lease is effective as of July 1, 2017, has a 30-year term, and calls for monthly payments to HHSC for annual base minimum rent and for reimbursement of capital leases to which HHSC remains obligated. Annually, payments for minimum base rent range from approximately $1,067,000 in the first year of the lease to $1,555,000 in the 26th year of the lease and payments for principal and interest on capital lease obligations range from approximately $1,062,000 in the first year of the lease to approximately $170,000 in the 10th year of the lease, which is the last year payments are required for capital lease obligations. As required in the transfer agreement, the Maui Region paid Kaiser approximately $12,000,000 in June 2017; this payment is included within other nonoperating expense in the statement of revenue, expenses, and changes in net position.

Kahuku Medical Center

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

Liquidity

During the years ended June 30, 2017 and 2016, Hawaii Health Systems Corporation incurred losses from operations of approximately $200 million and $139 million, respectively, and had negative cash flows from operations of approximately $74 million and $79 million, respectively. Overall, days in accounts payable have remained steady as compared to June 30, 2016 due to contingency plans prepared by management to decrease costs (primarily through attrition savings) as well as increases in reimbursement from negotiations with third-party payors and one-time settlements from the State Medicaid QUEST Integration program which allowed facilities to pay previously extended vendor payables. Days in accounts receivable have increased as compared to June 30, 2016 due primarily to billing delays across the organizations. Downward pressure on reimbursements was due to federal healthcare reform and federal deficit legislation. Although improvements continue to be seen by Hawaii Health Systems Corporation, 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.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of three months or less. It also includes amounts held in the State Treasury. The state director of finance is responsible for the safekeeping of all monies paid into the State Treasury (cash pool). Hawaii Health Systems Corporation's portion of this cash pool at June 30, 2017 and 2016 is indicated in the accompanying statement of net position as "cash and cash equivalents - State of Hawaii." The Hawaii Revised Statutes authorize the director of finance to invest in obligations of, or guaranteed by, the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with state statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

Hawaii Health Systems Corporation has cash in financial institutions that is in excess of available depository insurance coverage. The amount of uninsured and uncollateralized deposits totaled approximately $102,883,000 and $98,970,000 at June 30, 2017 and 2016, respectively. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a financial institution failure, Hawaii Health Systems Corporation's deposits might not be returned to it. Hawaii Health Systems Corporation believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, Hawaii Health Systems Corporation evaluates each financial institution with which it deposits funds; only those institutions with an acceptable estimated risk level are used as depositories.

Accounts Receivable

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

Supplies

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

Note 2 - Significant Accounting Policies (Continued)

Capital Assets

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

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

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

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

Assets Limited as to Use

Assets limited as to use are restricted net position, patients' safekeeping deposits, restricted deferred contributions, restricted cash, and cash in escrow accounts related to future lease draws. Such restrictions have been externally imposed by contributors or by collateral agreements. Restricted resources are applied before unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Patients' safekeeping deposits represent funds received or property belonging to the patients that are held by 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, 2017 and 2016, assets limited as to use consisted of restricted cash of $3,243,770 and $4,211,441, respectively.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Hawaii Health Systems Corporation has only one item that qualifies for reporting in this category. It is the deferred outflow of resources related to the cost-sharing defined benefit pension plan (see Note 8).

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 only one item that qualifies for reporting in this category. It is the deferred inflow of resources related to the cost-sharing defined benefit pension plan (see Note 8).

Note 2 - Significant Accounting Policies (Continued)

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.

Postemployment Benefits

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

Pension

For 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. Unrestricted net position is the remaining net assets that do not meet the definition of invested in capital assets - net of related debt or restricted.

Operating Revenue and Expenses

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

Net Patient Service Revenue

Net patient service revenue is recorded on an accrual basis in the period in which the related services are provided at established rates, less contractual adjustments and provision for doubtful accounts. Hawaii Health Systems Corporation, as a safety net provider, provides charity care to certain patients; the specific cost of such care for the years ended June 30, 2017 and 2016 was approximately $3,646,000 and $5,450,000, respectively.

Hawaii Health Systems Corporation has agreements with third-party payors that provide for payments at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The adjustments to the final settlements did not have a significant impact on the fiscal year 2017 financial statements.

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:

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

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

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

  All Medicare-certified hospitals and skilled nursing facilities are required to file annual Medicare cost reports. Hawaii Health Systems Corporation facilities required to file Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2013.

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

Note 2 - Significant Accounting Policies (Continued)

- *Sole Community Hospital* - Hawaii Health Systems Corporation has three facilities (Hilo Medical Center, Kona Community Hospital, and Maui Memorial Medical Center) that are designated as sole community hospitals by the CMS. Inpatient case rates for services rendered to Medicare beneficiaries are finally determined upon the filing of the annual Medicare cost reports.
- *Hawaii Medical Service Association (HMSA)* - Inpatient services rendered to HMSA subscribers are reimbursed at prospectively determined case rates. The prospectively determined case rates are not subject to retroactive adjustment. In addition, outpatient surgical procedures and emergency room visits are reimbursed at a negotiated case rate. All other outpatient services are reimbursed based on a fee schedule using standard CPT codes.
- *Other Commercial* - Hawaii Health Systems Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established rates, and prospectively determined daily rates.

State Appropriations

Hawaii Health Systems Corporation recognizes general and capital appropriations at the time allotments are made available to the facility for expenditure.

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

Bond Interest

Hawaii Health Systems Corporation is allocated an amount for interest paid by the State of general obligation bonds whose proceeds were used for hospital construction. A corresponding contribution from the State is also allocated to Hawaii Health Systems Corporation. The bonds are obligations for the State, to be paid by the State's General Fund, and are not reported as liabilities of Hawaii Health Systems Corporation. For the years ended June 30, 2017 and 2016, interest expense totaled approximately $9,729,000 and $9,289,000, respectively.

Risk Management

Hawaii Health Systems Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The facilities are self insured for workers' compensation and disability claims and judgments as discussed in Note 11.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Corporation to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Hawaii-Employer Union Benefits Trust Fund. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Corporation's financial statements for the year ending June 30, 2018.

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Corporation's financial statements for the year ending June 30, 2020.

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

Note 3 - Accounts Receivable

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

	2017	2016
Medicare	34.00 %	35.00 %
Medicaid	21.00	25.00
HMSA	10.00	10.00
Other third-party payors	24.00	17.00
Patient and other	11.00	13.00
Total	100.00 %	100.00 %

Note 4 - Fair Value Measurements

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

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

Hawaii Health Systems Corporation has the following recurring fair value measurements as of June 30, 2017 and 2016:

- U.S. Treasury securities of $4,365,307 and $4,562,464, respectively, are valued using quoted market prices (Level 2 inputs)
- U.S. government agencies of $2,728,686 and $2,747,176, respectively, are valued using a matrix pricing model (Level 2 inputs)
- Money market funds of $230,904 and $53,174, respectively, are valued using a matrix pricing model (Level 2 inputs)

The fair value of U.S. Treasury obligations, U.S. government agencies, and money market funds at June 30, 2017 and 2016 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.

The Corporation also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include property and equipment which are measured at fair value when impairment exists. At June 30, 2017 and 2016, the Corporation recognized noncash impairment charges of $0 and $3,521,882, respectively, to adjust these assets to their estimated fair values.

Hawaii Health Systems Corporation's investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Investments

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, Hawaii Health Systems Corporation's investment policy generally limits maturities on investments to not more than five years from the date of investment. All of Hawaii Health Systems Corporation's investments at June 30, 2017 and 2016 have an original maturity date within five years from the date of investment.

Note 4 - Fair Value Measurements (Continued)

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, 2017 and 2016, Hawaii Health Systems Corporation held investments in U.S. Treasury securities and U.S. government agency obligations.

Concentration of Credit Risk

Hawaii Health Systems Corporation's investment policy provides guidelines for portfolio diversification by placing limits on the amount that may be invested in any one issuer, types of investment instruments, and position limits per issue of an investment instrument. There were no investments that individually exceed 5 percent of Hawaii Health Systems Corporation's total investments at June 30, 2017 and 2016.

Note 5 - Capital Assets

Transactions in the capital asset accounts for the years ended June 30, 2017 and 2016 were as follows:

	Balance July 1, 2016	Additions	Retirements	Transfers and Adjustments	Balance June 30, 2017
Assets not subject to depreciation:					
Land and land improvements	$ 7,814,855	$ -	$ -	$ -	$ 7,814,855
Construction in progress	28,612,313	39,646,242	(19,563)	(33,059,273)	35,179,719
Total	36,427,168	39,646,242	(19,563)	(33,059,273)	42,994,574
Assets subject to depreciation:					
Buildings and improvements	479,469,411	250,694	-	25,763,791	505,483,896
Equipment	256,948,507	5,694,095	(3,037,935)	7,295,482	266,900,149
Total	736,417,918	5,944,789	(3,037,935)	33,059,273	772,384,045
Less accumulated depreciation:					
Buildings and improvements	225,662,629	19,396,286	-	-	245,058,915
Equipment	188,628,760	21,003,794	(3,001,540)	-	206,631,014
Total	414,291,389	40,400,080	(3,001,540)	-	451,689,929
Capital assets - Net	$ 358,553,697	$ 5,190,951	$ (55,958)	$ -	$ 363,688,690

Note 5 - Capital Assets (Continued)

	Balance July 1, 2015	Additions	Retirements	Transfers and Adjustments	Balance June 30, 2016
Assets not subject to depreciation:					
Land and land improvements	$ 7,770,788	$ -	$ -	$ 44,067	$ 7,814,855
Construction in progress	32,120,301	20,264,393	(797,859)	(22,974,522)	28,612,313
Total	39,891,089	20,264,393	(797,859)	(22,930,455)	36,427,168
Assets subject to depreciation:					
Buildings and improvements	461,567,963	334,748	-	17,566,700	479,469,411
Equipment	239,882,469	16,426,901	(4,724,618)	5,363,755	256,948,507
Total	701,450,432	16,761,649	(4,724,618)	22,930,455	736,417,918
Less accumulated depreciation:					
Buildings and improvements	208,855,941	16,806,688	-	-	225,662,629
Equipment	166,476,986	24,124,067	(1,972,293)	-	188,628,760
Total	375,332,927	40,930,755	(1,972,293)	-	414,291,389
Net capital assets	$ 366,008,594	$ (3,904,713)	$ (3,550,184)	$ -	$ 358,553,697

The State Department of Accounting and General Services and others transferred capital assets, including construction in progress, aggregating approximately $31,852,000 and $28,112,000 to Hawaii Health Systems Corporation as a contribution of capital for the years ended June 30, 2017 and 2016, respectively.

During 2016, certain components of the EHR system were determined to be unusable and the assets were impaired.

Note 6 - State of Hawaii Advances and Receivable

In fiscal year 2003, Hawaii Health Systems Corporation received a $14,000,000 advance from the State to relieve its cash flow shortfall. During 2016, an appropriation was granted from the State to allow Hawaii Health Systems Corporation to forego any obligation to pay back this amount. The remaining amounts due to the State of $20,122,507 at June 30, 2017 and 2016 are 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, 2017 and 2016, $54,474,581 and $80,678,873, respectively, was due from the State for allotments made to Hawaii Health Systems Corporation before June 30, 2017 and 2016.

Note 7 - Accrued Vacation

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

Activity for the years ended June 30, 2017 and 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Accrued vacation - 2017	$ 39,723,034	$ 12,771,914	$ (13,094,512)	$ 39,400,436	$ 26,370,611	$ 13,029,825
Accrued vacation - 2016	42,136,170	20,793,039	(23,206,175)	39,723,034	18,755,699	20,967,335

As a result of the transfer agreement of the Maui Region, all accrued vacation for the Maui Region is reflected as current and was paid out to employees in September 2017.

Note 8 - Cost-sharing Defined Benefit Pension Plan

Plan Description

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

Benefits Provided

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

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

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal years 2017 and 2016 was 17 percent. Contributions to the pension plan from the Corporation were approximately $47.3 million and $47.2 million for the fiscal years ended June 30, 2017 and 2016, respectively.

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

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

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2017 and 2016, the Corporation reported a liability of approximately $916 million and $623 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Corporation's proportion of the net pension liability was based on the Corporation's actuarially required contribution for the year ended June 30, 2017 and 2016, relative to all other contributing employers. At June 30, 2017, the Corporation's proportion was 6.85 percent, which was a decrease of 0.29 from its proportion measurement at June 30, 2016. At June 30, 2016, the Corporation's proportion was 7.14 percent, which was a decrease of 0.14 percent from its proportion measured as of June 30, 2015.

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

For the years ended June 30, 2017 and 2016, the Corporation recognized pension expense of approximately $68,050,000 and $48,690,000, respectively. At June 30, 2017 and 2016, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 17,872,787	$ (13,185,126)	$ 5,942,191	$ (16,636,481)
Net difference between projected and actual earnings on plan investments	35,119,904	-	-	(22,214,434)
Changes in assumptions	162,533,894	-	14,111,255	-
Changes in proportion	2,951,520	(2,921,407)	829,117	(3,700,798)
Employer contributions to the plan subsequent to the measurement date	61,427,057	-	60,733,066	-
Total	$ 279,905,162	$ (16,106,533)	$ 81,615,629	$ (42,551,713)

The $61,427,057 and $60,733,066 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2018 and 2017, respectively. Other 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
2018	$ 38,716,620
2019	38,716,620
2020	56,533,753
2021	48,288,865
2022	20,115,714

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

Actuarial Assumptions

The total pension liability in the June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2016
Inflation	2.5%
Salary increases	3.5%
Investment rate of return	7.0% Per year, compounded annually, including inflation

	June 30, 2015
Inflation	3%
Salary increases	4%
Investment rate of return	8% Per year, compounded annually, including inflation

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

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2015. ERS updates its experience studies every five years.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent, a decrease from the 7.65 percent 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. There has been no change in the discount rate since the prior measurement date.

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.

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63 %	8 %
Principal protection	7	2
Real return	10	6
Crisis risk offset	20	6

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, 2017, calculated using the discount rate of 7.00 percent, as well as what the Corporation's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate:

	1 Percent Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percent Increase (8.00%)
Net pension liability	$ 1,171,767,242	$ 916,111,059	$ 704,563,978

The following presents the net pension liability of the Corporation at June 30, 2016, calculated using the discount rate of 7.65 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 (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	1 Percent Decrease (6.65%)	Current Discount Rate (7.65%)	1 Percent Increase (8.65%)
Net pension liability	$ 785,039,724	$ 623,325,235	$ 416,610,746

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 - Employee Benefits

Postemployment Healthcare and Life Insurance Benefits

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

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

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

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

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

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

For cost allocation purposes, the State allocates the full accrual ARC expense among its component units, including Hawaii Health Systems Corporation, based on respective percentages of full-time equivalents. The State requires Hawaii Health Systems Corporation to contribute to the plan at a rate of covered payroll necessary to fund its share of the annual "pay-as-you-go" contributions, which is significantly less than the actuarially determined contribution rate. Hawaii Health Systems Corporation then allocates its full accrual ARC expense among its various regions based on their respective percentages of full-time equivalents. The cumulative difference between the amounts the State requires Hawaii Health Systems Corporation to contribute and Hawaii Health Systems Corporation's allocation of the total plan ARC expense is recorded as other postretirement benefit liability on the balance sheet of each region. Hawaii Health Systems Corporation's actual cash contributions for postretirement benefits approximated $22.0 million, $26.5 million, and $29.3 million for the years ended June 30, 2017, 2016, and 2015, respectively.

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

Note 9 - Employee Benefits (Continued)

	2017	2016
Beginning of year	$ 369,314,030	$ 338,248,725
Required contributions	40,395,439	57,589,884
Actual contributions	(21,974,525)	(26,524,579)
End of year	$ 387,734,944	$ 369,314,030

Sick Leave

Accumulated sick leave as of June 30, 2017 and 2016 was approximately $82,522,000 and $81,454,000, respectively. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded in the accompanying financial statements.

Note 10 - Long-term Debt

Long-term debt activity for the years ended June 30, 2017 and 2016 can be summarized as follows:

2017	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term debt	$ 39,889,405	$ -	$ (1,876,292)	$ 38,013,113	$ 1,742,567
Capital leases	15,905,855	1,566,907	(7,175,456)	10,297,306	4,527,692

2016	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term debt	$ 44,622,525	$ -	$ (4,733,120)	$ 39,889,405	$ 1,843,484
Capital leases	23,939,266	2,199,447	(10,232,858)	15,905,855	6,629,441

The addition of Kona Ambulatory Surgery Center long-term debt of $1,961,172 is reflected in the beginning of year balances, due to the change in reporting entity being effective July 1, 2015.

The long-term debt obligations are summarized as follows:

Roselani Place

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

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

The note payable requires monthly payments of $126,433, including interest at 5.9 percent, through October 2027. The note is collateralized by certain property and equipment. At June 30, 2017, the balance payable was $11,733,510. At June 30, 2016, the balance payable was $12,538,134.

Note 10 - Long-term Debt (Continued)

Maui Bonds

In 2012, MMMC issued general obligation bonds. These bonds were executed in two parts: Series 2012A and Series 2012B. The Series 2012A bonds were issued to refinance MMMC's existing $8 million loan, which had been held with the Bank of Montreal. Total borrowing under the first agreement was $8,100,000. These bonds carry an interest rate of 4.05 percent. The Series 2012A bonds are secured by a loan note guarantee issued by the United States Department of Agriculture (USDA) through its Rural Development division. The Series 2012B bonds provided initial funding for the purposes 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 carry a variable interest rate that starts at 5 percent until September 1, 2017, at which point the rate shall reset on each September 1, occurring every five years thereafter at a rate equal to 3.75 percent over the prevailing five-year FHLB Bulled Rate (Seattle). In the event that such rate is no longer available or practicable, a similar index as mutually agreed upon by the issuer and holders of the bonds will be used. The Series 2012B bonds are unsecured. The bonds are payable in annual installments ranging from $165,000 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, 2017, MMMC was in compliance with those covenants. The total amount outstanding at June 30, 2017 on the Series 2012A and 2012B revenue bonds is $8,407,000. The total amount outstanding at June 30, 2016 on the Series 2012A and 2012B revenue bonds is $8,565,000.

In January 2015, MMMC issued Revenue Bond Number 3, the proceeds of which were used to refinance the previously issued Series 2013 bonds. These bonds were issued under the existing master trust indenture dated April 1, 2008. Monthly payments are due in the amount of $46,433, including principal and interest, through January 2045 when all remaining principal and accrued interest are payable. Revenue Bond Number 3 carries an interest rate of 3.50 percent. In connection with the Revenue Bond Number 3, MMMC is subject to certain financial covenants. As of June 30, 2017, MMMC was in compliance with those covenants.

Hilo Residency Training Program

In June 2001, Hawaii Health Systems Corporation acquired land, building, and medical equipment of $11,893,162 from Hilo Residency Training Program, Inc. (HRTP) to ensure the uninterrupted operation of the Hilo Medical Center Cancer Treatment Center and its radiation and medical oncology services. As part of the acquisition, Hawaii Health Systems Corporation assumed HRTP's outstanding balances on the loans and notes payable of $11,893,162 from Central Pacific Bank and the United States Department of Agriculture (USDA). The assets and related liabilities have been recorded in the facility's accounting records. The loans and notes payable are collateralized by a security interest in the capital assets acquired from HRTP, as well as any rights, interest, and other tangible assets relating to such property. In October 2007, the loans and notes payable to Central Pacific Bank and the USDA were refinanced into a single note payable to Academic Capital.

The note payable requires monthly payments, including interest, totaling $64,069 through September 2032. The note payable is secured by certain assets of Hilo Medical Center (HMC). At June 30, 2017, the balance payable was $7,719,960. At June 30, 2016, the balance payable was $8,023,621.

Kahuku Medical Center

In July 2012, Kahuku Medical Center entered into a purchase and maintenance services agreement with Holden Hospital Supply, Inc. to finance the purchase and maintenance of an oxygen generator. The note requires monthly payments of $4,188 through maturity on June 30, 2019. The agreement also includes the financing of electrical and additional charges related to the oxygen generator. Interest is not a component of the agreement. At June 30, 2017, the balance of the loan was $46,073. At June 30, 2016, the balance of the loan was $96,135.

Note 10 - Long-term Debt (Continued)

In April 2014, Kahuku Medical Center entered into a loan, secured by a mortgage, to finance the purchase of land. The agreement required monthly principal and interest payments of $12,481 through maturity at April 2019. At June 30, 2017, the balance of the loan was $262,228.

Hawaii Health Systems Corporation has entered into various capital leases, including a lease with Siemens for the financing of an electronic medical records system. The capital leases require monthly payments aggregating to approximately $750,000, including interest, per month. The capital leases expire at various times through 2027.

Debt Service Requirements to Maturity

The following is a schedule by year of principal and interest as of June 30, 2017:

Years Ending June 30	Long-term Debt Principal	Long-term Debt Interest	Capital Lease Obligation Principal	Capital Lease Obligation Interest
2018	$ 1,742,567	$ 1,812,430	$ 4,527,692	$ 313,787
2019	1,763,718	1,720,037	2,174,402	204,183
2020	1,732,147	1,627,730	1,008,532	156,997
2021	1,826,468	1,530,441	746,071	119,132
2022	1,925,803	1,428,758	569,483	89,783
2023-2027	11,397,111	5,409,570	1,271,126	173,774
2028-2032	6,843,622	2,893,999	-	-
2033-2037	3,914,618	1,674,245	-	-
Thereafter	6,867,059	974,115	-	-
Total	$ 38,013,113	$ 19,071,325	$ 10,297,306	$ 1,057,656

Note 11 - Commitments and Contingencies

Professional Liability

Hawaii Health Systems Corporation maintains professional and general liability insurance with a private insurance carrier with a $35 million limit per claim and a $39 million aggregate. Hawaii Health Systems Corporation has also purchased additional excess insurance with a $10 million per claim and aggregate limit. Hawaii Health Systems Corporation's general counsel advises that, in the unlikely event any judgments rendered against Hawaii Health Systems Corporation exceed Hawaii Health Systems Corporation's professional liability coverage, such amounts would likely be paid from an appropriation from the State's General Fund. Settled claims have not exceeded the coverage provided by the insurance carrier in any of the past three fiscal years. The Corporation has accrued approximately $3,250,000 and $2,680,000 as of June 30, 2017 and 2016, respectively, as current liabilities 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 $12,740,000, $13,462,000, and $13,779,000 for unpaid claims as of June 30, 2017, 2016, and 2015, respectively.

Note 11 - Commitments and Contingencies (Continued)

	2017	2016	2015
Estimated liability - Beginning of year	$ 13,462,000	$ 13,779,000	$ 13,731,000
Estimated claims incurred - Including changes in estimates	3,301,000	3,351,000	3,636,000
Claim payments	(4,023,000)	(3,668,000)	(3,588,000)
Estimated liability - End of year	$ 12,740,000	$ 13,462,000	$ 13,779,000

Operating Leases

MMMC and Alii entered into various operating leases and related sublease agreements. Future minimum lease payments and sublease receipts at June 30, 2017 are as follows:

Years Ending June 30	Lease Payments
2018	$ 1,240,847
2019	1,281,249
2020	1,319,678
2021	1,359,147
2022	1,266,908
Thereafter	1,402,111
Total	$ 7,869,940

Ceded Lands

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

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

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

For the years ended June 30, 2017 and 2016, there were no payments made to OHA.

Note 11 - Commitments and Contingencies (Continued)

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.

Required Supplemental Information

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

Year Ended June 30

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

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

Year Ended June 30

	2017	2016	2015	2014
Corporation's proportion of the net pension liability (asset)	6.9 %	7.1 %	7.3 %	7.2 %
Corporation's proportionate share of the net pension liability (asset)	$ 916,111,059	$ 623,325,233	$ 583,997,239	$ 638,368,793
Corporation's covered employee payroll	$ 282,760,136	$ 288,121,862	$ 285,988,382	$ 268,597,949
Corporation's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	324.0 %	216.3 %	204.2 %	237.7 %
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	51.3 %	62.4 %	63.9 %	58.0 %

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

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

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

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

Valuation methods and assumptions used to determine contribution for fiscal year 2016:

Actuarial cost method	Entry age, normal
Amortization method	Level percent, closed
Remaining amortization period	28 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

Supplemental Information

Hawaii Health Systems Corporation

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

	June 30, 2017
Cash and Cash Equivalents - State of Hawaii	
Special funds:	
Appropriation symbol S-14-303-H	$ 605,523
Appropriation symbol S-12-350-H	5
Appropriation symbol S-12-351-H	2
Appropriation symbol S-12-352-H	1
Appropriation symbol S-10-355-H	6,367,293
Appropriation symbol S-10-371-H	759,874
Appropriation symbol S-10-358-H	196,244
Appropriation symbol S-16-365-H	4,588
Appropriation symbol S-16-312-H	26,245
Appropriation symbol S-17-353-H	29,132
Appropriation symbol S-17-354-H	174,898
Appropriation symbol S-17-359-H	671
Appropriation symbol S-17-373-H	678
Trust funds:	
Appropriation symbol T-04-918-H	1,273
Appropriation symbol T-04-921-H	6,679
Total per State	8,173,106
Assets Limited as to Use - Patient Funds	
Appropriation symbol T-04-923-H	4,129
Appropriation symbol T-04-919-H	1,044
Appropriation symbol T-04-911-H	22,912
Appropriation symbol T-09-909-H	8,970
Appropriation symbol T-09-025-H	70,440
Total per State	107,495
Reconciling Items	
Patients' safekeeping deposits held by financial institutions	92,406
Restricted assets held by financial institutions	3,043,869
Total per HHSC	**$ 3,243,770**

Hawaii Health Systems Corporation

Statement of Net Position (Deficit) of Facilities

June 30, 2017

Assets	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital
Current Assets								
Cash and cash equivalents	$ 10,550,082	$ 43,003	$ 9,551	$ 1,365,292	$ 22,812,473	$ 3,423,854	$ 25,502,528	$ 8,833,599
Cash and cash equivalents - State of Hawaii	5	1,275	6,680	-	174,898	29,132	6,367,293	759,874
Patient accounts receivable - Less allowances for doubtful accounts	30,332,926	2,204,654	862,098	1,589,073	14,244,271	1,287,871	34,094,577	2,604,840
Investments	7,324,897	-	-	-	-	-	-	-
Due from the State of Hawaii	16,257,000	-	-	-	7,061,000	-	9,725,000	3,056,000
Due from Affiliates - Net	-	13,081,849	2,120,495	-	821,249	-	8,461,612	-
Supplies and other current assets	5,003,095	278,855	144,224	24,030	2,979,290	65,319	5,507,780	159,856
Estimated third-party payor settlements	2,927,132	84,333	307,273	118	733,461	187,911	-	231,875
Total current assets	72,395,137	15,673,769	3,450,321	2,978,513	48,926,642	4,994,187	89,658,770	15,646,044
Assets Limited as to Use	9,778	21,600	7,429	-	82,043	-	2,013,334	50,034
Capital Assets - Net	50,533,419	16,152,322	5,152,009	21,610,433	32,799,372	4,851,859	141,777,329	16,992,472
Other Assets	242,524	-	-	-	401,352	-	136,016	13,090
Total assets	123,180,858	31,847,691	8,609,759	24,588,946	82,209,409	9,846,046	233,585,449	32,701,640
Deferred Outflows of Resources - Pension	72,511,302	5,905,303	3,875,365	-	29,116,618	3,963,720	94,989,985	11,573,374
Total assets and deferred outflows of resources	$ 195,692,160	$ 37,752,994	$ 12,485,124	$ 24,588,946	$111,326,028	$ 13,809,766	$328,575,434	$ 44,275,014

Assets	Lanai Community Hospital	Leahi Hospital	Maluhia	Kahuku	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities	Hawaii Health System Corporation	Eliminations
Current Assets									
Cash and cash equivalents	$ 75,604	$ 5,235,898	$ 2,988,390	$ 1,238,077	$ 9,410,833	$ 2,569,504	$ 94,156,478	$ 11,405,014	$ -
Cash and cash equivalents - State of Hawaii	196,244	26,245	4,588	-	671	679	7,567,563	605,523	-
Patient accounts receivable - Less allowances for doubtful accounts	590,273	1,441,215	1,766,073	2,051,897	2,902,527	1,967,603	97,959,998	-	-
Investments	-	-	-	-	-	-	7,324,897	-	-
Due from the State of Hawaii	1,698,000	3,703,000	2,818,000	177,090	5,612,000	4,367,100	64,474,190	391	-
Due from Affiliates - Net	-	2,525,281	88,207	-	93,633	3,939,204	31,111,330	4,259,223	(35,370,553)
Supplies and other current assets	140,863	121,670	1,253,465	770,372	471,428	133,144	17,053,469	63,407	-
Estimated third-party payor settlements	33,908	439,381	253,765	1,200,111	867,069	71,096	7,367,543	-	(243,566)
Total current assets	2,734,892	13,492,690	9,220,488	5,437,547	19,358,159	13,048,329	317,015,488	16,333,558	(35,614,119)
Assets Limited as to Use	9,189	95,585	59,402	934	12,262	10,559	2,372,169	871,601	-
Capital Assets - Net	5,303,488	14,099,542	9,707,579	8,706,406	15,218,505	8,455,106	351,360,043	1,110,684	-
Other Assets	3,848	-	-	-	-	-	796,628	-	-
Total assets	8,051,417	27,687,817	18,987,469	14,144,887	34,588,946	21,513,994	671,544,328	18,315,843	(35,614,119)
Deferred Outflows of Resources - Pension	1,948,946	11,513,733	9,567,361	-	18,753,524	7,430,191	271,149,320	8,755,842	-
Total assets and deferred outflows of resources	$ 10,000,363	$39,201,550	$ 28,554,830	$ 14,144,887	$ 53,342,470	$ 28,944,185	$942,693,648	$ 27,071,685	$ (35,614,119)

Assets	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Kona Ambulatory Surgery Center	Eliminations	HHSC Consolidated
Current Assets							
Cash and cash equivalents	$ 105,561,492	$ 39,839	$ 465,207	$ 275,324	$ 61,411	$ -	$ 106,403,273
Cash and cash equivalents - State of Hawaii	8,173,106	-	-	-	-	-	8,173,106
Patient accounts receivable - Less allowances for doubtful accounts	97,959,998	-	62,412	111,254	181,746	-	98,315,410
Investments	7,324,897	-	-	-	-	-	7,324,897
Due from the State of Hawaii	54,474,581	-	-	-	-	-	54,474,581
Due from Affiliates - Net	-	-	-	-	-	-	-
Supplies and other current assets	17,116,876	-	39,816	72,903	117,433	-	17,347,028
Estimated third-party payor settlements	7,123,977	-	-	-	-	-	7,123,977
Total current assets	297,734,927	39,839	567,435	459,481	360,590	-	299,182,272
Assets Limited as to Use	3,243,770	-	-	-	-	-	3,243,770
Capital Assets - Net	352,470,727	-	8,471,999	73,812	2,672,152	-	363,688,690
Other Assets	796,628	-	-	49,607	-	(393,352)	452,883
Total assets	654,246,052	39,839	9,039,434	582,900	3,032,742	(393,352)	666,547,615
Deferred Outflows of Resources - Pension	279,905,162	-	-	-	-	-	279,905,162
Total assets and deferred outflows of resources	$ 934,151,214	$ 39,839	$9,039,434	$ 582,900	$ 3,032,742	$ (393,352)	$ 946,452,777

Statement of Net Position (Deficit) of Facilities (Continued)

June 30, 2017

	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
Liabilities and Net Position										
Current Liabilities										
Accounts payable and accrued expenses	$ 32,082,472	$ 1,412,812	$ 741,758	$ 659,386	$ 9,197,256	$ 668,459	$ 30,095,375	$ 2,529,374	$ 473,319	$ 1,619,600
Current portion of accrued vacation	5,205,157	352,669	254,279	38,625	2,501,407	389,820	10,403,054	1,501,218	186,621	1,530,992
Current portion of long-term debt	321,964	-	-	-	-	-	361,073	-	-	-
Current portion of capital lease obligations	1,876,817	-	-	-	150,968	-	595,378	-	-	-
Due to affiliates - Net	15,139,234	-	-	447,515	-	1,944,992	-	7,106,511	3,248,948	-
Current portion of accrued workers' compensation	1,049,000	165,000	18,000	-	319,000	24,000	1,101,000	398,000	27,000	477,000
Other current liabilities	-	-	-	-	-	-	1,037,805	-	-	-
Total current liabilities	55,674,894	1,930,481	1,014,037	1,145,526	12,168,631	3,027,271	43,613,682	11,535,103	3,946,688	3,827,592
Long-term Debt - Less current portion	7,388,116	-	-	-	-	-	17,870,269	-	-	-
Capital Lease Obligations - Less current portion	1,723,070	-	-	-	460,112	-	2,902,223	-	-	-
Other Liabilities										
Accrued vacation - Less current portion	5,834,448	395,305	285,020	-	1,344,013	209,452	-	-	-	858,125
Accrued workers' compensation - Less current portion	1,960,000	133,000	117,000	-	1,251,000	149,000	3,423,000	401,000	69,000	1,000
Other postemployment benefit liability	101,642,403	8,180,607	5,421,134	-	39,785,749	5,838,485	133,358,549	15,562,949	2,717,938	15,299,099
Due to the State of Hawaii	-	506,153	-	-	7,609,205	528,149	-	1,114,284	-	6,416,781
Due to affiliates - Net	-	-	-	-	-	-	-	-	-	-
Pension liability	227,184,892	20,199,979	12,522,480	-	97,020,968	11,788,102	306,550,074	40,277,401	8,231,428	42,353,743
Other liabilities	-	1,500	-	-	3,833	-	-	-	-	-
Patients' safekeeping deposits	9,778	21,600	7,429	-	-	-	-	50,034	9,189	86,617
Total liabilities	401,447,281	31,368,625	19,367,080	1,145,526	159,639,511	21,340,459	507,717,797	68,940,751	12,994,243	68,942,987
Deferred Inflows of Resources - Pension	3,706,803	309,711	157,329	-	1,671,332	130,922	5,301,771	778,160	70,865	888,298
Total liabilities and deferred inflows of resources	405,154,084	31,678,336	19,524,409	1,145,526	161,310,843	21,471,381	513,019,568	69,718,911	13,065,108	69,831,285
Net Position										
Unrestricted	(246,621,810)	(10,077,664)	(12,191,294)	2,282,987	(82,255,253)	(12,513,474)	(313,225,606)	(42,436,369)	(8,368,435)	(44,729,257)
Net investment in capital assets	37,159,986	18,152,322	5,152,009	21,160,433	32,188,292	4,851,859	127,591,389	16,992,472	5,303,690	14,099,542
Restricted for capital purchases	-	-	-	-	82,043	-	1,190,083	-	-	-
Total net position	(209,461,824)	8,074,658	(7,039,285)	23,443,420	(49,984,918)	(7,661,615)	(184,444,134)	(25,443,897)	(3,064,745)	(30,629,715)
Total liabilities and net position	$ 195,692,260	$ 39,752,994	$ 12,485,124	$ 24,588,946	$ 111,325,925	$ 13,809,766	$ 328,574,434	$ 44,275,014	$ 10,000,363	$ 39,201,570

	Maluhia	Kahuku	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities	Hawaii Health System Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Ali'i Community Care - Maui	Ali'i Community Care - Kona	Kona Ambulatory Surgery Center	Eliminations	HHSC Consolidated
Liabilities and Net Position														
Current Liabilities														
Accounts payable and accrued expenses	$ 1,483,407	$ 2,202,292	$ 4,518,933	$ 1,451,757	$ 89,334,200	$ 2,386,152	$ -	$ 91,720,352	$ -	$ 199,809	$ 1,489,812	$ 39,460	$ (285,389)	$ 93,163,844
Current portion of accrued vacation	848,307	297,016	1,629,006	557,594	25,705,667	664,944	-	26,370,611	-	-	-	-	-	26,370,611
Current portion of long-term debt	-	186,400	-	-	869,437	-	-	869,437	-	873,130	-	-	-	1,742,567
Current portion of capital lease obligations	-	-	50,375	-	2,673,538	1,840,176	-	4,513,714	-	-	13,978	-	-	4,527,692
Due to affiliates - Net	2,080,298	907,576	3,722,990	-	34,579,014	-	(34,864,403)	(285,389)	-	-	-	-	285,389	-
Current portion of accrued workers' compensation	151,000	-	149,000	78,000	3,966,000	-	-	3,966,000	-	-	-	-	-	3,966,000
Other current liabilities	-	-	75,925	10,000	1,123,730	9,000	(243,566)	889,164	-	325,590	-	-	-	1,214,754
Total current liabilities	4,553,012	3,593,284	10,144,234	2,097,351	158,271,568	4,900,272	(35,107,969)	128,063,869	-	1,378,329	1,503,790	39,460	-	130,985,468
Long-term Debt - Less current portion	-	121,801	-	-	25,380,186	-	-	25,380,186	-	9,890,360	-	-	-	35,270,546
Capital Lease Obligations - Less current portion	-	-	-	-	5,085,405	677,977	-	5,763,382	-	-	6,232	-	-	5,769,614
Other Liabilities														
Accrued vacation - Less current portion	1,134,382	-	832,718	1,077,191	12,070,654	884,252	-	12,954,906	-	-	74,919	-	-	13,029,825
Accrued workers' compensation - Less current portion	298,000	-	491,000	178,000	8,509,000	265,000	-	8,774,000	-	-	-	-	-	8,774,000
Other postemployment benefit liability	12,732,154	-	25,507,531	8,958,827	375,805,425	11,929,519	-	387,734,944	-	-	-	-	-	387,734,944
Due to the State of Hawaii	491,450	-	1,043,345	2,417,150	20,122,507	-	-	20,122,507	-	-	-	-	-	20,122,507
Due to affiliates - Net	-	506,150	-	-	506,150	-	(506,150)	-	-	-	-	-	-	-
Pension liability	34,952,105	-	87,283,211	26,332,227	892,696,590	23,414,469	-	916,111,059	-	-	-	-	-	916,111,059
Other liabilities	-	-	22,985	4,480	32,798	-	-	32,798	-	-	-	-	-	32,798
Patients' safekeeping deposits	32,988	934	8,531	9,515	236,613	-	-	236,613	-	-	-	-	-	236,613
Total liabilities	54,194,089	4,222,269	105,333,565	42,072,741	1,498,726,894	42,071,489	(35,614,119)	1,506,184,264	-	2,258,709	1,584,941	39,460	-	1,519,067,374
Deferred Inflows of Resources - Pension	692,712	-	1,349,329	521,365	15,578,597	527,936	-	16,106,533	-	-	-	-	-	16,106,533
Total liabilities and deferred inflows of resources	54,886,801	4,222,269	106,682,894	42,594,106	1,514,305,491	42,599,425	(35,614,119)	1,521,290,797	-	2,258,709	1,584,941	39,460	-	1,535,173,807
Net Position														
Unrestricted	(36,064,085)	1,524,513	(68,512,670)	(22,105,971)	(895,294,488)	(16,199,837)	-	(911,494,325)	39,839	42,238	(1,055,643)	321,130	(393,352)	(912,540,115)
Net investment in capital assets	9,707,579	8,398,105	15,168,127	8,455,106	322,380,811	672,097	-	323,052,908	-	(3,261,511)	53,602	2,672,152	-	322,517,151
Restricted for capital purchases	24,535	-	4,129	1,044	1,301,834	-	-	1,301,834	-	-	-	-	-	1,301,834
Total net position	(26,331,971)	9,922,618	(53,340,414)	(13,649,821)	(571,611,843)	(15,527,740)	-	(587,139,583)	39,839	(3,219,273)	(1,002,041)	2,993,282	(393,352)	(588,721,130)
Total liabilities and net position	$ 28,554,830	$ 14,144,887	$ 53,342,470	$ 28,944,285	$ 942,693,648	$ 27,071,685	$ (35,614,119)	$ 934,151,214	$ 39,839	$ (960,564)	$ 582,900	$ 3,032,742	$ (393,352)	$ 946,452,677

Hawaii Health Systems Corporation

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

Year Ended June 30, 2017

	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital
Operating Revenue								
Net patient service revenue	$ 168,514,574	$ 17,821,904	$ 7,978,767	$ 12,715,677	$ 85,085,584	$ 7,904,036	$ 247,118,643	$ 19,541,209
Other revenue	2,313,008	48,114	56,575	-	682,117	1,293,370	1,640,808	73,447
Total operating revenue	170,827,582	17,870,018	8,035,342	12,715,677	85,767,701	9,197,406	248,759,451	19,614,656
Operating Expenses								
Salaries	77,246,962	7,121,697	4,856,989	4,973,064	31,657,072	4,640,810	102,274,096	11,991,406
Employee benefits	62,425,871	5,580,980	3,142,171	438,932	24,280,931	3,647,713	72,564,798	9,556,267
Medical supplies and drugs	23,412,492	802,194	306,760	602,236	8,501,965	55,875	44,427,495	622,172
Depreciation and amortization	6,287,283	825,727	545,084	746,145	5,609,516	335,062	16,790,737	1,740,053
Utilities	3,176,806	530,472	228,795	911,934	1,337,647	156,363	4,317,089	256,425
Repairs and maintenance	3,680,769	391,301	111,237	111,560	3,992,880	219,410	5,291,770	97,861
Other supplies	4,225,987	622,540	291,547	156,834	1,421,252	272,954	5,718,393	771,968
Purchased services	27,556,885	2,304,255	1,045,006	2,198,310	18,889,069	1,440,758	40,132,088	3,435,782
Professional fees	8,702,848	237,068	24,731	78,971	449,892	325,959	8,182,975	90,179
Insurance	1,573,004	155,506	137,194	1,247,836	457,965	20,168	1,334,032	111,926
Rent and lease	2,586,006	37,892	47,827	48,712	571,561	84,945	2,953,848	78,682
Other	3,316,832	126,295	121,004	692,596	989,173	159,510	1,852,261	119,921
Total operating expenses	224,390,745	18,845,927	10,860,355	12,217,130	98,168,923	11,359,526	303,727,561	29,071,632
Operating (Loss) Income	(53,563,163)	(975,909)	(2,825,013)	498,547	(12,401,222)	(2,162,120)	(54,968,110)	(9,456,976)
Other Income (Expense)								
General appropriations from the State of Hawaii	26,214,000	2,393,000	1,778,000	-	14,012,000	1,257,000	31,287,000	4,051,000
Collective bargaining pay raise appropriation from the State of Hawaii	903,164	38,627	35,848	-	321,564	30,136	1,085,240	77,752
Restricted contributions	501,307	-	51,085	-	350,500	23,194	1,152,202	-
Loss on disposal of capital assets	(21,287)	-	-	(4,500)	(10,607)	-	-	-
Interest expense	(3,498,485)	(239,832)	(137,556)	1,535	(2,115,378)	(233,405)	(8,057,685)	(690,950)
Interest and dividend income	65,588	4,002	755	-	32,925	7,055	190,399	6,294
Transfer agreement expense	-	-	-	-	-	-	(12,092,349)	-
Other nonoperating revenue - Net	852,731	195,533	196,002	4,308	(3,784,242)	(62,241)	633,568	(154,590)
Total nonoperating income (expense)	25,016,016	2,391,330	1,924,134	1,343	8,806,762	1,021,739	14,198,375	3,289,506
Excess of Revenue (Under) Over Expenses	(28,547,147)	1,415,421	(900,879)	499,890	(3,594,460)	(1,140,381)	(40,769,735)	(6,167,470)
Capital Contributions	(356,433)	-	-	-	3,213,053	-	(763,910)	2,918,824
Transfer (to) from Affiliate	(430,052)	(37,194)	(20,553)	-	(185,569)	(20,489)	(579,151)	(56,723)
(Decrease) Increase in Net Position	(29,333,632)	1,378,227	(921,432)	499,890	(566,976)	(1,160,870)	(42,112,796)	(3,304,369)
Net Position - Beginning of year	(180,128,292)	4,696,431	(6,117,853)	22,943,530	(49,417,942)	(6,500,745)	(142,331,338)	(22,139,529)
Net Position - End of year	$ (209,461,924)	$ 6,074,658	$ (7,039,285)	$ 23,443,420	$ (49,984,918)	$ (7,661,615)	$ (184,444,134)	$ (25,443,897)

	Lanai Community Hospital	Leahi Hospital	Maluhia	Kahuku	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities	Corporate
Operating Revenue								
Net patient service revenue	$ 3,628,806	$ 15,034,080	$ 14,215,246	$ 12,026,276	$ 33,019,908	$ 14,973,271	$ 859,575,983	$ -
Other revenue	215,683	203,039	28,542	2,286,313	298,933	19,147	9,161,096	-
Total operating revenue	3,844,489	15,237,119	14,243,788	14,312,589	33,318,841	14,992,418	868,737,079	-
Operating Expenses								
Salaries	2,356,386	11,417,145	10,584,085	6,350,458	18,235,173	8,379,911	302,087,274	8,802,568
Employee benefits	1,517,172	9,310,508	7,375,577	2,548,951	15,166,233	6,138,961	223,704,063	7,900,779
Medical supplies and drugs	290,596	381,588	289,468	1,410,128	2,125,274	259,411	83,687,654	-
Depreciation and amortization	378,640	589,028	526,660	1,120,738	2,426,123	877,161	38,806,947	518,949
Utilities	108,003	850,081	588,017	419,742	1,042,538	328,540	14,255,432	338,342
Repairs and maintenance	101,330	422,526	851,377	442,341	514,818	110,420	16,539,600	92,333
Other supplies	179,929	566,483	621,988	384,308	797,151	468,449	16,509,784	168,786
Purchased services	1,672,589	403,775	601,957	1,641,771	5,606,767	1,904,890	108,843,894	179,046
Professional fees	42,987	73,231	33,729	1,018,074	1,348,417	323,857	18,910,625	339,892
Insurance	7,772	196,671	96,142	78,185	217,498	87,067	5,700,964	16,417
Rent and lease	2,200	23,311	417	135,917	257,040	41,447	6,869,785	220,537
Other	127,412	71,740	61,741	651,921	649,162	116,353	9,055,921	409,372
Total operating expenses	6,783,006	24,311,087	21,631,155	16,204,535	48,386,192	19,014,167	1,044,971,943	18,987,021
Operating (Loss) Income	(2,938,517)	(9,073,968)	(7,387,367)	(1,891,946)	(15,067,351)	(4,021,749)	(176,234,864)	(18,987,021)
Other Income (Expense)								
General appropriations from the State of Hawaii	1,458,000	7,960,000	4,194,000	1,425,000	8,395,000	2,943,000	107,365,000	-
Collective bargaining pay raise appropriation from the State of Hawaii	19,408	97,256	71,100	-	297,558	58,564	3,036,217	288,980
Restricted contributions	-	-	-	-	-	-	2,078,288	-
Loss on disposal of capital assets	-	(14,907)	(4,657)	-	-	-	(55,958)	-
Interest expense	(165,048)	(499,089)	(460,272)	(45,010)	(960,781)	(381,201)	(17,484,157)	15,724,922
Interest and dividend income	524	8,278	4,642	-	16,143	507	337,110	63,062
Transfer agreement expense	-	-	-	-	-	-	(12,092,349)	-
Other nonoperating revenue - Net	(80,010)	260,032	-	-	153,941	167,343	(1,615,625)	8,312
Total nonoperating income (expense)	1,232,874	7,811,570	3,804,813	1,379,990	7,901,861	2,788,213	81,568,526	16,085,276
Excess of Revenue (Under) Over Expenses	(1,705,643)	(1,262,398)	(3,582,554)	(511,956)	(7,165,490)	(1,233,536)	(94,666,338)	(2,901,745)
Capital Contributions	876,568	918,441	204,360	-	2,605,682	414,959	10,031,544	(22)
Transfer (to) from Affiliate	(14,002)	1,909,480	(2,007,472)	-	(93,830)	(36,873)	(1,571,428)	-
(Decrease) Increase in Net Position	(843,077)	1,565,523	(5,385,666)	(511,956)	(4,653,638)	(855,450)	(86,206,222)	(2,901,767)
Net Position - Beginning of year	(2,221,669)	(32,185,238)	(20,946,305)	10,434,574	(48,686,776)	(12,794,471)	(485,405,621)	(12,625,973)
Net Position - End of year	$ (3,064,746)	$ (30,619,715)	$ (26,331,971)	$ 9,922,618	$ (53,340,414)	$ (13,649,921)	$ (571,611,843)	$ (15,527,740)

	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Kona Ambulatory Surgery Center	Eliminations	HHSC Consolidated
Operating Revenue								
Net patient service revenue	$ -	$ 859,575,983	$ -	$ -	$ 3,885,770	$ 1,218,485	$ -	$ 864,678,238
Other revenue	(402,271)	8,758,825	-	4,427,687	1,305,138	-	-	14,491,651
Total operating revenue	(402,271)	868,334,808	-	4,427,687	5,190,908	1,218,485	-	879,169,889
Operating Expenses								
Salaries	-	310,889,842	-	-	4,485,736	653,898	-	316,009,476
Employee benefits	-	231,604,842	-	-	1,753,425	14,288	-	233,372,555
Medical supplies and drugs	-	83,687,654	-	-	353,098	379,084	-	84,419,836
Depreciation and amortization	-	39,325,896	-	894,214	46,088	133,802	-	40,400,080
Utilities	-	14,593,774	-	349,144	-	-	-	14,942,918
Repairs and maintenance	-	16,631,933	-	84,947	288,231	358,076	-	17,321,189
Other supplies	-	16,678,570	-	402,470	34,010	-	-	17,115,050
Purchased services	(402,271)	108,620,669	-	41,504	222,687	-	-	108,884,840
Professional fees	-	19,250,517	-	2,611,622	(520,622)	483,688	-	21,825,203
Insurance	-	5,717,381	-	111,378	1,168,375	-	-	6,997,134
Rent and lease	-	7,090,322	-	164,782	659,293	-	-	7,914,407
Other	-	9,465,293	198	170,202	382,109	-	-	10,027,802
Total operating expenses	(402,271)	1,063,556,693	198	4,810,273	8,840,380	2,022,936	-	1,079,230,490
Operating (Loss) Income	-	(195,221,885)	(198)	(382,586)	(3,649,472)	(806,451)	-	(200,060,601)
Other Income (Expense)								
General appropriations from the State of Hawaii	-	107,365,000	-	-	-	-	-	107,365,000
Collective bargaining pay raise appropriation from the State of Hawaii	-	3,325,197	-	-	-	-	-	3,325,197
Restricted contributions	-	2,078,288	-	-	406,000	-	-	2,486,288
Loss on disposal of capital assets	-	(55,958)	-	-	-	-	-	(55,958)
Interest expense	-	(1,759,235)	-	(718,420)	(290)	-	-	(2,477,945)
Interest and dividend income	-	400,172	-	8,285	-	-	-	408,457
Transfer agreement expense	-	(12,092,349)	-	-	-	-	-	(12,092,349)
Other nonoperating revenue - Net	-	(1,607,313)	-	-	2,796,389	-	878,482	2,067,558
Total nonoperating income (expense)	-	97,653,802	-	(710,135)	3,206,090	-	878,482	101,028,239
Excess of Revenue (Under) Over Expenses	-	(97,568,083)	(198)	(1,092,721)	(443,381)	(806,451)	878,482	(99,032,362)
Capital Contributions	-	10,031,522	-	-	-	806,400	(806,400)	10,031,522
Transfer (to) from Affiliate	-	(1,571,428)	-	1,571,428	-	-	-	-
(Decrease) Increase in Net Position	-	(89,107,989)	(198)	478,707	(443,381)	(51)	72,082	(89,000,840)
Net Position - Beginning of year	-	(498,031,594)	40,037	(3,697,982)	(558,660)	2,993,333	(455,434)	(499,720,290)
Net Position - End of year	$ -	$ (587,139,583)	$ 39,839	$ (3,219,275)	$ (1,002,041)	$ 2,993,282	$ (383,352)	$ (588,721,130)

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

Independent Auditor's Report

To Management and the Board of Directors
Hawaii Health Systems Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hawaii Health Systems Corporation (the "Corporation"), which comprise the basic statement of net position as of June 30, 2017 and the related basic statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as Findings 2017-02, 2017-03, 2017-04, and 2017-07 to be material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as Findings 2017-01, 2017-05, 2017-06, and 2017-08 to be significant deficiencies.

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

Compliance and Other Matters

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

Hawaii Health Systems Corporation's Responses to Findings

Hawaii Health Systems Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings. Hawaii Health Systems Corporation's responses were not subjected to the auditing procedures applied in the financial statements and, accordingly, we express not opinion on them.

To Management and the Board of Directors
Hawaii Health Systems Corporation

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 12, 2017

Section II - Financial Statement Audit Findings

Reference Number	Finding
2017-01	**Finding Type** - Significant deficiency, Alii Community Care, Inc.

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

Condition - A property and equipment lapse schedule is not being updated properly at Roselani Place. Also, depreciation expense had not been recorded correctly in fiscal year 2017.

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

Cause - An adjustment to depreciation expense of $25,133 needed to be recorded in fiscal year 2017.

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

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

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

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-02	**Finding Type** - Material weakness, Alii Community Care, Inc.

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

Condition - Alii Community Care, Inc. reported financial results on a cash basis throughout 2017.

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

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

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

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

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

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-03	**Finding Type** - Material weakness, Kahuku Medical Center

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

Condition - Account balances were not properly stated on the trial balance received. Completed construction projects funded by the State of Hawaii were not capitalized during the year and depreciation expense was not recorded for these assets. Additionally, the receivable balance from the State of Hawaii was not appropriately adjusted for completion of Capital Improvement Projects during the year.

Context - Multiple balances not being appropriately trued up at year end. Adjustments were made to the following balances:

(1) Accounts receivable
(2) Accounts payable
(3) Fixed assets
(4) Net assets

These adjustments resulted in an overstatement of State Grant CIP and an understatement of Building Improvements amounts due from the State of Hawaii and corresponding understatement of capitalized assets of approximately $1,270,000, net decreases in expenses of approximately $63,000. The adjustments impacted the balance sheet accounts and the net effect on income resulted in approximately $30,000 in depreciation that had not been recognized.

Cause - Appropriate review, tracking, and monitoring procedures were not in place during the year.

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

Recommendation - We recommend that Kahuku Medical Center put appropriate review controls in place to ensure balances are appropriately stated at the end of each period. We also recommend that KMC put appropriate procedures in place to track Capital Improvement Projects as they are in progress, and the related funding from the State of Hawaii. Upon project completion, these assets should be placed in service and depreciated.

Views of Responsible Officials - Considering the mid-year transition of accounting personnel, existing and new personnel have dedicated abundant time and resources streamlining practices to improve the efficiency and effectiveness of the accounting function for KMC.

As part of management's plan, the accounting personnel have implemented and are keeping more detailed records of invoices paid by the State of Hawaii specific to Capital Improvement Projects. Accounting personnel recorded a corresponding decrease in the receivable balance of amounts due from the State of Hawaii, to reflect the completion of specific Capital Improvement Projects. In addition, accounting personnel are reviewing project invoices more closely to identify when each project has been completed and should be placed into service within the fixed asset tracking spreadsheet.

As a result of management's executed plan, management has corrected the account balances and implemented and developed procedures to monitor and properly review the aforementioned account balances: accounts receivable, accounts payable, fixed assets, and net assets.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-04	**Finding Type** - Material weakness, Kauai Region

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

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

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

(1) Cash
(2) Inventory
(3) Accounts receivable
(4) Allowance for contractual adjustments
(5) Due from affiliates
(6) Accounts payable
(7) Accrued salaries and wages
(8) Accrued vacation

These adjustments resulted in a net decrease in operating income and decreased assets of approximately $1,750,000.

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

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

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

Views of Responsible Officials - Considering the loss of the CFO at the end of the year, existing and new personnel have dedicated abundant time and resources streamlining practices to improve the efficiency and effectiveness of the accounting function for the hospitals. As a result of the executed plan, management has corrected these account balances.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-05	**Finding Type** - Significant deficiency, East Hawaii Region **Criteria** - Invoices for expenses and capital purchases should be reviewed at year end and subsequent to year end to ensure all liabilities and expenses related to the year are appropriately recorded. **Condition** - Invoices for expenses and capital purchase were not appropriately reviewed for cut-off at year end. **Context** - Multiple items were improperly excluded from accounts payable and capital assets and some amounts in accounts payable at year end were improperly duplicated in the accrual process. **Cause** - Invoices for expenses and capital purchase were not appropriately reviewed throughout the year-end close process. **Effect** - Multiple account adjustments were identified as a result of audit procedures. **Recommendation** - We recommend the East Hawaii Region closely monitor all invoices received at and subsequent to year end to ensure the appropriate liabilities and related expenses are recorded. **Views of Responsible Officials** - Management has corrected the error and continues to improve procedures to properly review invoices near cutoff periods.

Reference Number	Finding
2017-06	**Finding Type** - Significant deficiency, Maui Region **Criteria** - Policies and procedures should be maintained to ensure all significant balance sheet accounts are reconciled to relevant detail. **Condition** - The accrued payroll accounts were not reviewed to ensure that only amounts related to payroll were included within the general ledger balance as of June 30, 2017. **Context** - Accrued expenses and employee benefits expense were overstated by approximately $777,000 as of June 30, 2017 for amounts related to compensatory time that was already accrued for in a separate general ledger account. **Cause** - A detailed review of the reconciliation was not performed to ensure the accrual of compensatory time was not duplicated. **Effect** - As a result of this deficiency, accrued expenses and employee benefits expense were overstated as of June 30, 2017. **Recommendation** - We recommend that all significant balance sheet accounts be reviewed in detail to ensure that only relevant amounts are included within the general ledger balance. **Views of Responsible Officials** - Management has corrected the issue.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-07	**Finding Type** - Material weakness, East Hawaii Region

Criteria - Account receivable balances should be reviewed and adjusted to net realizable value.

Condition - Net accounts receivable were not appropriately adjusted to net realizable value during the fiscal year.

Context - Estimates used during the fiscal year to calculate net realizable value of accounts receivable varied from the true experienced rates of collection.

Cause - Accounts receivable balances were not appropriately reviewed and estimated during the year.

Effect - Accounts receivable were overstated by approximately $2,900,000 at year end.

Recommendation - We recommend the East Hawaii Region closely monitor accounts receivable by payor, perform a regular analytical review of balances, and also perform a hindsight on estimates used to ensure period-end balances are appropriate.

Views of Responsible Officials - Management has corrected the error and put procedures in place to properly review and calculate accounts receivable balances in the future.

Reference Number	Finding
2017-08	**Finding Type** - Significant deficiency, Maui Region

Criteria - Inventory general ledger accounts should be adjusted to accurately reflect their value, determined at the lesser of first-in, first-out cost or market.

Condition - The surgical supplies inventory general ledger accounts were not updated to the correct valuation as of June 30, 2017.

Context - The surgical supplies inventory balances are understated as of June 30, 2017 as a result of incorrect pricing.

Cause - Final surgical supplies inventory pricing determinations were not completed in a timely manner.

Effect - Surgical supplies inventory is understated and operating expenses are overstated by approximately $207,000 as of June 30, 2017.

Recommendation - We recommend that all inventory accounts be adjusted on a regular basis to reflect the correct valuation.

Views of Responsible Officials - Management is working to correct the issue.

KAUAI REGION 2017 LEGISLATIVE REPORT

Facilities and Services

West Kauai Medical Center (WKMC), also known as **Kauai Veterans Memorial Hospital (KVMH),** a Joint Commission accredited hospital was completed 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, WKMC has 45 licensed beds, including 25 acute and 20 long-term care beds. Today, WKMC employs approximately 283 people and provides the following services:

Services Offered

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

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

- Physician Specialists
- Dialysis Services
- Retail Pharmacy
- KVMH Auxiliary Gift Shop
- Community Health Center (Federally Qualified Health Center)
  - Medical
  - Dental

KVMH Patient Volumes:

Inpatient Admissions	1,383
LTC Admissions	14
Births	252
ER Visits	6,962
Outpatient Ancillary Visits	6,610
Outpatient Clinic Visits	28,605
Same Day Surgery	901

Average Daily Census

Acute	6.0
Swing	3.6
LTC	19.8
Total	29.4

In comparison to prior year, inpatient admissions increased by11%, ER visits increased by 5% and outpatient clinic visits increased by 14%. The significant increase in admission and clinic visits is attributed to the addition of primary care providers in the regions community clinics and a rebound from the post RIF environment of 2016 which experienced a decrease in volumes. Births decreased due to construction, and outpatient surgeries decreased as well.

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 134 employees. Currently, SMMH patient services include:

- 24-Hour Emergency services staffed with Board certified physicians
- In-patient Psychiatric Care (Adult)
- Medical Care
- Skilled Nursing Care

- Long-Term Care
- Radiology
- Inpatient Pharmacy
- Recreational Therapy
- Occupational Therapy
- Physical Therapy
- Dietary Counseling
- Social Services

SMMH Patient Volumes

Inpatient Admissions	193
LTC Admissions	52
ER Visits	5,980
Outpatient Visits	1,710

Average Daily Census

Psych	4.0
LTC	48.0
Total	52.0

Inpatient psychiatric census increased by 14% over prior year, while long term care days decreased as a reflection of the industry trend of shorter rehab patient length of stay and fewer LTC admissions.

Charitable Organizations Serving The Kauai Region

Kauai Veterans Memorial Hospital Charitable Foundation, Inc.

The KVMH Foundation was formed in the fall of 1998. The board consists of 10 community members and three employees of the hospital. The foundation's main focus is to support the many services, equipment purchases, and programs that West Kauai Medical Center and KVMH provides for its island communities. Through donations and fundraising the Foundation has been able to purchase equipment utilized for the comfort and safety of our patients.

Foundation President: Steven Kline
Foundation Secretary: Kelly Lebertore

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 5
- Number of Volunteer Hours provided 960

KVMH Auxiliary

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

Active Auxiliary Volunteers

Number of Active Volunteers:	18
Number of Total Volunteer Hours:	2,573
Volunteer Auxiliary Contributions:	$17,167

2017 KAUAI REGION ACCOMPLISHMENTS

On behalf of the Kauai Region of the Hawaii Health Systems Corporation (HHSC), we are pleased to submit our report highlighting the accomplishments in fiscal year 2016.

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

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

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

People

Mr. Rohit Mehta serves as chair of the Kauai Board which includes Mr. Kurt Akamine; Mrs. Stephanie Iona; Mrs. Laurel Loo; Mr. Patrick Gegen; Mrs. Donna Okada-Asher and Mr. Tito Villanueva. Mr. Peter Klune has served as the Chief Executive Officer since April of 2015.

The Kauai Region's medical staff totals 44 credentialed physicians and physician extenders of which 14 are employed providers. During 2016 and 2017, the hospital recruited a total of four (4) providers; one (1) general practitioners, one (1) obstetrician and two (2) physician extenders. These additions to the medical staff were necessary to address prior year's attrition, relieve burdensome call schedules, enhance resident care at our SMMH long-term care facility, and increase patient access to primary care. These additional providers have increased clinic visits by 14% and contributed to the 11% increase in KVMH admissions.

Management continues to integrate the two main hospital campuses under a shared leadership structure. The goal of the regionalization of our facilities is to provide medical resources of high quality to all who need them; to ensure good quality of life; to cure illnesses when possible; and to extent life expectancy. After regionalizing the Senior Executive Team in 2016, the process was extended to middle management. In 2017, the department heads of Dietary, Facilities, Education, Radiology, Pharmacy, Physical Therapy, and Recreational Therapy were "regionalized". It is our belief that through the regionalization of staff we will improve our ability to provide facilities and services that are safe, effective and patient-centered.

In 2017, a restructure of the medical staff at SMMH was implemented in order to provide an improved ability to deliver continuum of care for our patients/residents. In addition to a new medical team structure, which includes four physicians SMMH hired a Physician Extender (Nurse Practitioner) with a specialty in geriatrics which enhances continuity of care.

Quality

In 2016 and 2017, the Kauai Region participated in a total of 4 surveys between Medicare / State Office of Healthcare Assurance, Centers for Medicare & Medicaid Federal Licensure. West Kauai Medical Center / KVMH, the Mahelona Medical Center / SMMH and the West Kauai Clinics were recertified for state licensure. WKMC was accredited in good standing with the Joint Commission in 2017.

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

- Participation with National Healthcare Safety Network (NHSN) for infection prevention initiatives including utilization of central line insertion checklists, and limiting indwelling urinary catheters to prevent UTIs. KVMH is the only CAH in the state to participate, and SMMH began participation with NHSN in 2016.
- KVMH participates in the American Heart Association Get with the Guidelines Stroke initiative.
- KVMH is meeting or exceeding the threshold for Evidence-Based care and Safety for 2017.
- 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.
- KVMH LTC achieved 5 Star ratings on Nursing Home Compare in 2017
- SMMH is deeply committed to the health and well-being of their residents. We have a vigorous activities program to ensure that we keep the residents engaged with life and participating in enrichment programs to facilitate their psychological well-being.
- SMMH implemented a Falls Prevention task force to evaluate and ensure patient safety and have decreased fall rates by over 50%.

KVMH/SMMH installed an Electronic Medical Record (EMR) in July 2015. The implementation has been a success to the Kauai region by bringing the digital age with respect to patient data storage and compliance with federally mandated regulatory initiatives. EMR has improved clinical documentation; Quality measures/reporting data analytics. The facility has since successfully attested to CMS/Medicaid for Meaningful Use, Stage 1 and 2 which resulted in receipt of financial incentives for meeting those standards. Currently, The Kauai Region is working on Stage 3 implementation for Meaningful Use. To better assist us in tracking our ongoing performance on specific quality measures, KVMH continues participation in HMSA's advanced hospital care program and successfully meets the statements of work associated with the specific measures. In order to comply with specific measures and meet ongoing performance on specific quality measures in the West Kauai clinics, we are looking into implementing an EMR in the clinics in 2018.

Facilities

Capital improvements to the facilities of the Kauai Region in 2016 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 $3.9M in capital projects:

- KVMH, Radiology equipment
- KVMH, OR Sterilization Equipment
- KVMH, Bed replacement
- SMMH, Dental equipment upgrade
- SMMH, Resurfacing of parking lot
- SMMH, Nurse Call system
- SMMH, Waterline replacement

Ongoing projects of $8.8M include:

- KVMH, Electrical upgrades
- KVMH, Irrigation system upgrade
- KVMH Nurse Call System
- KVMH Air Conditioning upgrades
- KVMH, Electrical room replacement
- KVMH, Nursing facility renovation
- SMMH, Replace exterior doors
- SMMH, Resident room renovations
- SMMH, Psychiatric unit renovation
- SMMH, Endoscopy suite renovation
- SMMH, Nurses Station renovation
- SMMH, Storage tank removal

The Kauai Region has also completed and opened The Clinic at Poipu which increases primary care access to the population on the south side of Kauai.

Finance

The Kauai Region has focused on improving internal processes to increase efficiency. These focused areas include staffing, purchased goods and services, CIP management and revenue cycle. Accounts Receivable (AR) and AR days have improved (reduced) over prior year and the improvement in our cash position has allowed the region to pay down past due liabilities to creditors and this improvement is evident in the reduction seen in Accounts Payable days.

The Kauai Region continues to face financial challenges from numerous factors:

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

The Kauai Region anticipates minimal growth to volume and net revenue. We project our operating expenses to increase due to collective bargaining raises and the proposed increases to the State post-employment benefits.

EAST HAWAII REGION 2017 LEGISLATIVE REPORT

The East Hawaii Region, consisting of Hilo Medical Center, Hale Ho`ola Hamakua, Ka`u Hospital and 9 outpatient clinics, is the second largest region in the Hawaii Health Systems Corporation. The Region is the largest employer on Hawaii Island with 1,200 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 276-licensed beds, consisting of 137 acute, including a 20-bed psychiatric unit, a separate 119-bed licensed extended care facility and an accredited home care agency. Built in 1984, the facility sits on roughly 20.5 acres of land, next to the new 95-bed Yukio Okutsu Veterans Home, Hawaii's first State Veterans Home, and the previous site of the "old hospital."

Today, HMC is the only 4-star ranked hospital by Centers for Medicaid & Medicare on Hawaii Island and is the largest employer in Hilo with over 1,187 employees. Our campus houses Hawaii Pacific Oncology Center, Cardiology, Neurology Clinics and the Veteran's Administration (VA) Community-Based Outpatient Clinic. Other off-campus clinics include Family Medicine, Surgery, Orthopedics, Otolaryngology, and Urology.

HMC patient services include:

- 24-Hour CAP-Accredited Pathology Laboratory and Blood Bank Services
- 24-Hour Physician-Staffed Emergency Care
- Acute Inpatient Dialysis
- Adult Psychiatric Care
- Bronchoscopy
- Cardiac Care, Echocardiography, Thallium Stress Treadmills, Pacemakers, Cardiac Telemetry
- EEG
- Endoscopy
- Food and Nutrition Services and Counseling
- Hospitalist Services
- Imaging Services – X-ray, CT, MRI, angiography, interventional radiology, nuclear medicine, ultrasound
- Inpatient and Outpatient Rehabilitation Services – Physical, Occupational, and Speech Therapies
- In-Patient Pharmacy
- Critical and Progressive Care
- Neurology
- Obstetrics/Gynecology Services, Labor and Delivery, Post-Partum, and Childbirth, Breastfeeding and Car Seat Classes
- Oncology Care—Medical and Radiation Oncology

- Outpatient Clinics – Cardiology, Family Medicine, Pediatrics, Oncology, Orthopedics, Neurology, Pain Medicine, ENT, Surgery, and Urology
- Pediatrics
- Respiratory Therapy
- Skilled Nursing and Long Term Care
- Social Services
- Surgical Services—Same Day Surgery, Post-Anesthesia Care, and Special Procedures
- Subspecialty Surgical Services—Vascular Surgical Services (Open and Endo-), Orthopedics, Ophthalmology, Otorhinolaryngology, Urology
- Telemedicine and Teleradiology
- Wound and Ostomy Care

Patient Census

- Admissions 8,840
  - Acute 7,712
  - LTC 69
- ER Visit 48,523
- Births 1,150
- Clinic Visits 48,377

Community-Based Foundation Support Of Hilo Medical Center

Total Private Donations	$133,356
Total Fundraising -	$171,471
Total Federal/State/Private Grants	$259,922

TOTAL - **$564,749**

Volunteer Services

- Number of Active Volunteers: 110
- Number of Total Volunteer Hours: 11,800
- Volunteer Auxiliary Contributions: $25,000

In FY 2017, Hale Ho'ola Hamakua (HHH) was ranked 5 stars for long term care by the Centers for Medicaid & Medicare. **HHH,** originally known as Honoka'a Hospital, has served the healthcare needs of the communities of Hamakua, North Hawaii and South Kohala since 1951. In November 1995, a new fifty-bed (50) facility was opened above the old hospital, to provide long-term-care services. The facility was renamed Hale Ho'ola Hamakua (Haven of Wellness in Hamakua) in 1997 to reflect its new focus. HHH employs 109 (FTE, FY17) employees of which a significant number are residents of the area who were former employees or related to employees of the Hamakua Sugar Company that phased out in 1994. The Hamakua Sugar

Company Infirmary, which became the Hamakua Health Center, provides primary care and behavioral health services to the community in a building owned and leased from HHH and adjacent to the hospital.

The greater part of the "old" Honokaa Hospital building is being leased to the University of Hawaii-Hilo for the North Hawaii Education and Research Center (NHERC), a project providing college, vocational, and special interest courses in North Hawaii. It will also function as a base for offsite distance learning for the university to all parts of the State. One of the goals for NHERC is to offer Certified Nurse Aide classes at least twice per year and incorporate a Licensed Practical Nurse Program with the Hawaii Community College using HHH as one of several clinical sites. The nursing programs will assist with the staffing the health facilities and community health services in the North Hawaii area.

HHH was converted as a Critical Access Hospital on November 2005, which resulted in bed configuration changes and the provision of new Emergency Room (ER) and expanded ancillary services. In 2010, the Maile Wing was added to HHH, bringing the total number of beds to 77 and increasing its capacity. HHH employs 114 dedicated medical professionals who care for the Hamakua Coast community.

Services provided by HHH include:

- 11 Acute/SNF Swing Beds
- 66 Long Term Care (ICF/SNF) Beds
- Emergency Room Services, 24 hours/7 days per week, on call within 30 minute
- Inpatient Physical Therapy
- Inpatient Occupational Therapy
- Inpatient Speech Therapy
- Inpatient Social Services
- Inpatient and Outpatient Laboratory Services
- Inpatient and Outpatient X-Ray Services
- Inpatient Dietary/Food Services
- Auxiliary and Community Volunteer Services

Patient Census

- Admissions 222
    - CAH 106
    - LTC 116
- ER Visits 2,253

**Ka`u Hospital,** in Pahala, is a 21-bed facility with 16 long-term care beds and 5 acute beds with 60 employees. It also operates a 24-hour/7 day a week Emergency Department. Replacing the last sugar plantation hospital on the island, Ka`u Hospital was built in 1971 to serve the needs of a vast rural area. There are no other hospitals within a 55-mile radius in any direction. As of

July 2001, Ka`u Hospital was designated as a CAH (Critical Access Hospital). This is a federal designation given to small hospitals that provide essential emergency and acute services in remote areas to assist them with the financial burdens associated with their size and isolation. Adding to the spectrum of services provided by Ka`u Hospital, a Medicare certified Rural Health Clinic was established on the hospital campus in September of 2003.

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

Services provided by Ka`u Hospital include:

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

Patient Census

- Admissions 66
    - CAH 56
    - LTC 10
- ER Visits 2,750
- Clinic Visits 4,600

Community-Based Foundation Support Of Ka`u Hospital

Total Private Donations	$41,248.16
TOTAL	$41,248.16

Volunteer Services

- Total Number of Active Volunteers: 11
- Total Number of Total Volunteer Hours: 505

East Hawaii Region Foundations Supporting HHSC Hospitals
Background / Contact Information

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

Foundation President: Ami Lamson
Foundation Administrator: Lisa Rantz
lrantz@hhsc.org

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

Ka`u Hospital Charitable Foundation
Ka`u Hospital Charitable Foundation was created to raise funds for the benefit of Ka`u Hospital and Rural Health Clinic 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 Foundation
P.O. Box 773
Pahala, HI 96777
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EAST HAWAII REGION 2017 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

The East Hawaii Region welcomed approximately 20 new physicians to the community whose specialties include cardiology, emergency medicine, pediatrics, internal medicine and surgery. In addition, the Hawaii Island Family Medicine Residency Program the third class of four residents and graduated its first class of residents.

In FY 2016, the East Hawaii Regional Board appointed new members, Dr. Jerry Gray and Barry Taniguchi, and welcomed the return of Brenda Ho and Carol VanCamp.

Quality

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

- The Center for Medicare and Medicaid Services (CMS) national rankings for Overall Hospital Quality Star Ratings named Hilo Medical Center was one of just four hospitals statewide to achieve the coveted four-star ranking and the only hospital on Hawaii Island to receive the ranking. The ranking also placed HMC among the top 20% of hospitals nationwide.
- **Hilo Medical Center** received another "A" rating with the Leapfrog Hospital Safety Grade for the third year in a row. Hospitals that repeatedly earn an "A" grade have attained the nation's most prestigious honor for patient safety.
- CMS released the national rankings for Overall Nursing Home Quality Star Ratings and ranked Hale Ho`ola Hamakua in the top 10% of 46 nursing homes statewide to achieve the five-star ranking. HHH is one of over 15,000 Medicare- and Medicaid-participating nursing homes that are included in the nationwide rating for quality of care and staffing information.

Growth

Imaging
Hilo Medical Center's Imaging Department continued making great strides its modernization project with the installation of a 160-slice CT scanner to compliment the 640-slice CT scanner

installed the previous year. A new MRI suite is slated for construction in 2018 to house a new MRI unit on the hospital's main floor.

Residency Training Program
Our Hawaii Island Family Medicine Residency Program graduated our first class of residents and welcomed additional faculty and staff to support the program.

Puna Community Medical Center
In June, Hilo Medical Center and Puna Community Medical Center entered into an affiliation agreement. The affiliation will bring healthcare expertise and financial support to the conveniently located walk-in medical clinic that provides urgent care services to Pahoa and the surrounding Puna community.

Finance

Hilo Medical Center
Total Operating Revenue for FY 2017 was $171M compared to a budget of $164M, a 4% favorable variance. FY 2017 Total Operating Expense was $201M versus a budget of $196M, a 2% unfavorable variance. Operating Income (Loss) for FY 2017 was ($30M) compared to a budget of ($32M).
After Corporate Overhead and other appropriations, the Net Income (Loss) was ($0.2M) for FY 2017 versus a budget of ($8.1M).

Hale Ho'ola Hamakua
Total Operating Revenue for FY 2017 was $17.7M compared to a budget of $15.6M, a 13% favorable variance. FY 2017 Total Operating Expense was $16.8M versus a budget of $16.7M. Operating Income for FY 2017 was $0.8M compared to a budget of ($1.0M). After Corporate Overhead and other appropriations, the Net Income was $3.2M for FY 2017 versus a budget of $1.3M.

Ka'u Hospital
Total Operating Revenue for FY 2017 was $7.8M compared to a budget of $8.4M, a 7% unfavorable variance. FY 2017 Total Operating Expense was $9.6M versus a budget of $9.6M. Operating Income (Loss) for FY 2017 was ($1.8M) compared to a budget of ($1.1M). After Corporate Overhead and other appropriations, the Net Income was $0.09M for FY 2017 versus a budget of $0.6M.

OAHU REGION 2017 LEGISLATIVE BRIEFING

The Hawaii Health Systems Corporation (HHSC) Oahu Region provides essential services to our community's most vulnerable populations through its operation of two long-term care facilities, Maluhia and Leahi Hospital. Located respectively in lower Alewa Heights and Kaimuki, Maluhia and Leahi provide in-patient skilled nursing and intermediate care services to the elderly, disabled and otherwise incapacitated population – most of who are covered under Medicare and Medicaid programs. Maluhia and Leahi also provide access to much needed Adult Day Health Centers and a Geriatric Outpatient Clinic. For many of our clinic patients, nursing home residents and day health participants – especially those receiving Medicaid benefits due to a lack of personal assets (approximately 85% of our in-patients) – the Oahu Region's facilities are often the only options for quality post-acute and community-based health care services.

In fiscal year 2017, the Oahu Region's ability to effectively provide the long term care needs for our aged, blind and disabled community continued to struggle financially. Over the years, delayed payments and insufficient reimbursement levels from insurance providers (especially Medicaid) have had an adverse impact on our revenue stream. Additionally, having to fund the collective bargaining increases negotiated by the State of Hawaii has significantly increased our expenditures.

Due to the general fund and capital improvement project subsidies granted by the Legislature and the Oahu Region's implementation of new operational efficiencies and other cost saving measures, we have been able to continue providing long-term care services and support for the existing 237 (estimated) people who reside in our buildings and hundreds of others in the community that are provided care through the Adult Day Health Programs and Geriatric Physician Clinic. It should be noted that we are now making additional efforts to develop and improve programs to support our seniors with community-based services. Our programs provide support for caregivers which, in turn, enable them to continue caring for their family members in the comfort of their own homes.

Additionally, priorities were set on the use of cash to meet payroll and make payments to critically necessary vendors. The Oahu Region also reduced overtime that was not directed toward immediately essential matters and interchanged staff between our facilities to maximize efficiency. All told, the subsidy and net savings realized through efficient operations played a crucial role in our financial survival during the 2017 fiscal year.

With respect to operations, the Centers for Medicare and Medicaid Services (CMS) surveyed both Oahu Region facilities under the Quality Indicator Survey guidelines. The survey guidelines involve a more in-depth review of a facility's operations and include resident, family and staff interviews. Both facilities were determined to be in substantial compliance with the survey guidelines. In November 2016, the CMS began implementation of comprehensive requirements of participation mandate for long-term care facilities. This is the first substantial revision of rules since 1991, despite significant changes in the delivery of services for this sector in health care. The Oahu Region is currently developing a procedural plan to ensure that its facilities will be in full compliance with the new requirements.

The Oahu Region received Capital Improvement Project funding for the development of a Leahi Master Plan. The Master Plan is a work-in-progress strategic planning effort developed to include community services and possible partnerships with private entities. The Oahu Region's vision of a partnership would include active solicitation of public funds and private investment to design and construct new buildings to house operations for increased services and support for the aged, blind and disabled population. We believe that this approach would increase our outreach to the community and ensure that ancillary services and facilities are more accessible and sustainable. The Oahu Region intends to play an active role in the development and control of the new operations.

The Oahu Region's vision also includes partnering with the Kapiolani Community College (KCC) and its health, institutional foods and other trade programs. We believe this partnership would enable us to collectively increase learning opportunities for both KCC students and employed staff and create a corridor for additional collaborative ventures. Additional improved coordinated service efforts for the community continue to be developed with other state agencies including the University of Hawaii, Department of Health (specifically the Executive Office of Aging and Hawaii State Hospital), and Department of Defense.

In order to successfully develop its Master Plan, it is imperative that the Oahu Region be granted primary control over the Leahi property. We believe that this can be accomplished through a transfer of control from the University of Hawaii, through an Executive Order issued by the Governor or a long-term lease extension without the imposition of complex land use restrictions.

Capital Improvement Projects:
During the past fiscal year the following CIP projects were completed:

Leahi Hospital		Cost ($)
Repair Spalling and Repaint Admin and Atherton Bldgs.		559,588
Reroof Young Building		731,345
Renovate 2nd and 3rd floor Atherton restrooms		176,000
Replace hot water storage tank		46,000
Lighting Upgrades		38,057
	Total	**$ 1,550,990**

During The Past Fiscal Year The Following CIP Projects Were Completed:

Maluhia	Cost ($)
Parking Lot Resurfacing	90,000
Upgrade Emergency Generator	533,937
Upgrade Dietary plumbing and flooring	1,004,135
Replace windows	1,193,410
Replace rock wall along Keola Road	294,365
Repair CMU wall and reroute gas line	100,000
Replace Mitori door	4,656
Replace kitchen air conditioning system	660,000
Replace Dietary compressors for walk-ins	24,077
Total	**$3,904,580**

Ongoing Projects Estimated costs

Leahi Hospital	Cost ($)
Fire Alarm System	1,148,172
Renovate Trotter for Memory Care Center	384,000
Install photovoltaic panels	906,253
Repaint Trotter, Sinclair, and Maintenance Buildings	981,000
Reroof Administration Building	463,058
Reroof Sinclair Building	580,799
Resurface driveways and parking lots	111,900
Replace windows	800,577
Replace sewer lines	16,000
Re-floor Solariums	22,980
Re-floor patient rooms	213,000
Reroof Trotter Building	667,800
Renovation for Tray Line	192,387
Replace Walk-In Freezer and refrigerator	67,672
Replace water shut-off valves	196,000
Renovate Atherton 3rd floor	158,584
Upgrade patient rooms overbed lights, air conditioning, flooring	126,219
Total	**$7,036,401**

Ongoing Projects Estimated Costs:

Maluhia	Cost ($)
Upgrade air-conditioning on 1st floor	384,310
Replace chill water insulation	445,640
Replace transformer housing	533,937
Photovoltaic panels	695,000
Auxiliary Parking lot and reroute Keola	693,100
Upgrade Lobby and Kitchen Elevators	428,925
Spalling Repairs and repainting	600,000
Upgrade Plumbing	489,268

Re-floor Patient Activity areas		39,395
Refloor 2nd and 3rd floors		230,000
	Total	**$4,539,575**

Nursing

Since the 2015 downsizing of available beds at Leahi Hospital and Maluhia and an increase of available private SNF beds in the community, we have experienced difficulty in admitting the higher reimbursement SNF patients. Despite these challenges, the overall census in both facilities remains high (more than 92%) and the complexity of the health conditions of residents have been greater than in previous years including multiple chronic conditions with physical, mental/behavioral, and functional impairments. Nevertheless, the staff's dedication to person-centered and quality care has been commendable. Through training and hands-on support, we continuously strive to be recognized as high-performing long-term care facilities.
The Oahu Region facilities have successfully met the Centers for Medicare & Medicaid (CMS) annual re-licensure survey. Both facilities are actively addressing the CMS Requirements of Participation (RoP) Phase 1 and 2 changes to improve the delivery of quality care to our residents by integrating person-centered values and practices. Both facilities collaborated in the selection, planning and implementation phases of Point Click Care, our new electronic medical record system.

Section 6106 of the Affordable Care Act (ACA) requires facilities to electronically submit direct care staffing information (including agency and contract staff) based on payroll and other auditable data. In furtherance of this requirement, CMS has developed a system for facilities to submit their respective data called the Payroll-Based Journal (PBJ). The data in the PBJ, when combined with census information, enables CMS to not only determine the level of staff in each nursing home, but also the rates of employee turnover and tenure, which is a vital element of a nursing home's ability to provide quality care. Staffing information is posted on the CMS Nursing Home Compare website, and is used in the Nursing Home Five-Star Quality Rating System to help consumers understand the level and differences of staffing in nursing homes. Leahi Hospital and Maluhia have been successfully submitting staffing and census data.
The Impact Act (Improving Medicare Post-Acute Transformation Act) of 2014 requires post-acute care providers to report standardized assessment data for Medicare recipients. Effective October 2016, CMS has implemented new nursing requirements regarding the need to monitor and evaluate the admission and discharge status of Medicare patients' self-care and mobility status. The Oahu Region's facilities have been in compliance with the new requirements in submitting required data for the Skilled Nursing Quality Reporting Program (SNF QRP) which will monitor other quality measures such as falls with major injury and pressure ulcers that are new or worsened.

The HHSC Oahu Region Infection Control and Prevention Program (ICPP) continues to play a pivotal role in ensuring patient safety through the development of a region wide surveillance system that promotes the early identification and treatment of infections utilizing standardized assessment tools and evidenced-based protocols.. The program integrates best practice interventions including immunization, hand hygiene, standard and transmission-based precautions, environmental infection control, and antibiotic stewardship. Influenza immunization rates in the region have successfully reached greater than 95% consistently. The impact of high immunization rates have been demonstrated in minimal morbidity and mortality usually associated with influenza in frail and immunocompromised populations. As hand hygiene provides the single most important intervention to prevent infection, the Region has developed a robust program which includes monthly monitoring in addition to annual competency validation for every employee. The framework for the Regional Antibiotic Stewardship initiative was developed in early 2017 to meet the CMS RoP, and is aligned with national standards to optimize the treatment of infections, reduce the risk of adverse events and antibiotic resistance, and the development of c. difficile infections. Rates for adverse events, antibiotic resistance and c. difficile continue to be minimal in the Region.

The American Association of Colleges in Nursing (AACN) noted that nursing research has effectively established that education does make a difference in clinical practice. These studies demonstrate that nurses who hold a baccalaureate degree have better patient outcomes such as lower mortality and failure-to-rescue rates. The Oahu Region continues to mentor new graduates and serves as a clinical site for the nursing programs at the University of Hawaii, Kapiolani Community College and Chaminade University. Leahi's nurse management team has achieved the Institute of Medicine's goal of having 80% of nurses with Bachelor of Nursing degrees.

Quality Assurance Performance Improvement

As part of the new CMS Requirements of Participation, we are now required to have a Quality Assurance and Performance Improvement (QAPI) Program. Listed below are examples of how we are addressing the 5 main elements of QAPI.

ELEMENT 1: DESIGN AND SCOPE
QAPI requires house-wide education. Our QAPI Plan includes participation of all services and departments.

ELEMENT 2: GOVERNANCE AND LEADERSHIP
As an extension to our Customer Service Team and to promote more line staff involvement in our QAPI program, we created an Ambassador role for our Certified Nurse Aides (CNA) to become a bridge between the resident and management. CNAs were trained to interview residents regarding their quality of care and quality of life, as well as their overall satisfaction with the facility. Accordingly, actions were taken to improve our call light response and honoring the preferences of our residents, allowing them to have a voice in decision making.

ELEMENT 3: FEEDBACK, DATA SYSTEMS AND MONITORING
An example of this element includes hospital transfers as part of CMS' Quality Reporting Program. Our Medical Director has initiated a Rapid Response Rules program to help reduce our unnecessary hospital transfers.

ELEMENT 4: PERFORMANCE IMPROVEMENT PROJECTS
Our QAPI Committee routinely performs a prioritization for Performance Improvement Projects, based on quality measures, quality of care and quality of life issues. One goal for FY17 is to continue working on gradual dose reduction of anti-psychotic medication use.

ELEMENT 5: SYSTEMATIC ANALYSIS AND SYSTEMATIC ACTION
Our Safety Committee is working on decreasing our resident falls rate. Both safety & risk management have been performing root cause analysis especially for significant events such as falls with major injury such as fractures. Frequent rounding by staff and adjusting to residents' patterns was also used in lieu of notification by alarms.

Personnel

Full Time Equivalent (FTE) figures are as follows:

FY **17** - 403.22

FY **16** – 405.39

FY **15** – 597.97

FY **14** – 612.20

FY **13** – 626.72

FY **12** – 686.94

FY **11** – 582.54

FY **10** – 588.00

Financial

Approximately 85% of the Oahu Region's patients receive benefits through Hawaii's managed Medicaid program, which is administered by the State of Hawaii Department of Human Services (more commonly known as the Quest Integration program). The Oahu Region's revenues and cash flow are dependent on the reimbursement rates and timeliness of payments provided by the Medicaid programs. Although Medicaid reimbursement rates were recently adjusted in an attempt to account for inflation and the increasing costs to provide health care in Hawaii, such adjustment was unfortunately only for a one-year period and amounted to much less than the actual rate of inflation.

Given the low Medicaid reimbursement rates, inflation and the increased costs of providing quality health care, the Oahu Region remains unable to maintain our provision of services without continued General Fund support from the legislature.

Another issue heavily impacting the Oahu Region's ability to continue serving our community is that, in recent years, the Legislature has not appropriated the General Funds necessary to completely fund the collective bargaining payroll increases that were negotiated and agreed to by the State.

Special funded agencies like HHSC are required to fund a significant portion of payroll and the entire fringe benefit increases through its special fund. With regard to HHSC, the "special fund" is, in actuality, simply the revenues derived from its facilities' operations. In the case of the Oahu Region – which roughly expends $490 per day per resident and only receives $220 per day per resident in Medicaid reimbursements – there are no means by which the Oahu Region can increase the amount of its revenues (in other words, the size of its "special fund") to cover any payroll increases.

<u>Electronic Health Records</u>

The Oahu Region continues to support the trajectory of implementing Electronic Health Records (EHR) systems for all HHSC facilities. Adopting an EHR solution will automate existing manual aspects of providing care and, more importantly, will serve as a vehicle to provide better quality of care by Oahu Region staff and enable the Oahu Region to participate in the electronic interchange of information with other health care systems and healthcare providers.

The Oahu Region's EHR software provider, PointClickCare (hereinafter "PCC"), was procured in February of 2017. PCC is the largest vendor in the Post-Acute Long Term Care (PALTC) market with 14,000 installs in North America and 14 installs in nursing homes here in Hawaii.

To better manage the complexity and cost of the implementation, Oahu Region has scheduled a phased implementation project plan for PCC. This approach has enabled the team to 'right size' each phase and internally staff the project, reducing the staffing and overall costs of implementation. Both of the Oahu Region's facilities, Leahi Hospital and Maluhia, are well underway on their time lines and are scheduled to complete implementation by fall of 2018. It is with great pride that we have named our EHR project, "Laulima," meaning "many hands working together."

As an additional point, it should be noted that Skilled Nursing/Intermediate Care (SNF/ICF) facilities across the nation all produce the same standard documentation (Minimum Data Set – MDS) and must electronically submit their MDS to the Centers for Medicare and Medicaid Services (hereinafter, "CMS") on a regular basis. This includes detailed documentation of a SNF/ICF facility's staffing, workflow, activities, length of stay, billing, and reimbursement data. Given the many material differences between the data points necessary for SNF/ICF facilities and those necessary for acute care facilities, our decision to procure a PALTC-specific EHR system has thus far proven to be a more suitable and effective choice for the Oahu Region – which solely operates two SNF/ICF facilities – than the alternative EHR system which was designed specifically for acute level facilities.

The Maluhia Out-Patient Clinic successfully implemented its own EHR system, "eClinical Works," this past summer. Implementing an EHR this year for the Clinic was necessary to meet CMS meaningful use (MU) requirements. Due to the small size of the Clinic and the resulting low cost of its required EHR program, we were able to secure eClinical Works without the issuance of an RFP. To date, eClinical Works has worked out well for the Clinic as all significant MU requirements have been met.

The CMS in 2016 released the "Requirements of Participation" revisions which provide the largest changes for nursing homes and other long-term care facilities since 1991, the implementation of which will occur over a three-year period. The CMS revisions emphasize the strengthening and modernizing of the nation's health care system, noting that *technology in health care can effectively and efficiently help facilities improve their internal care delivery practices, and can be equally effective in supporting the exchange of information across an individual's continuum of care.*

The intent of the CMS revisions, combined with the Oahu Region's continuous efforts to improve our delivery of quality long-term care services to the community, have led the Oahu Region to continue making our EHR project a top priority for this and upcoming fiscal years.

Strategic Planning

Our strategic planning efforts are part of a concerted effort by HHSC and its Regions to deliver sustainable health care services to its target communities. Each Region may have a different path from others in order to sustain and thrive. Each Region must explore what is best for them. Our Strategic Plan was used to develop our biennium operating and capital funding budgets for fiscal years 2018-19. The Oahu Region Board of Directors participated in the development of our Strategic Plan and provides continued support for its planned implementation.

Specific to this fiscal year, most of the Strategic Plan efforts were directed towards the following key activities:

(1) Continued development of a long term vision for Oahu Region This included continued work on obtaining long term control of the Leahi Hospital site; master plan development for the Leahi Hospital site, which included clarification on possible use of the campus property by interested parties;
(2) Maintain & Improve the Quality of Care: Compliance with Phase 1 of the Requirements of Participation updated regulations for long term care facilities that began in FY2016.

(3) Increased efficiency, productivity and reduction of cost by standardizing and regionalizing our clinical and administrative processes.
(4) Developing services that are needed by the community as we continue to reach out to existing community agencies for shared efforts in clinical education, partnerships and participation in statewide emergency disaster activities.
(5) Completion of numerous capital improvement projects that were needed to replace, upgrade and enhance our environment of care to improve our residents' quality of care and quality of life.

Unlike other HHSC Regions, Oahu Region's future lays primarily in long-term care and the provision of community-based and outpatient services. Its future direction is shaped by sustaining and broadening existing services as the aging and chronically ill population continues to grow. This will be done by forming partnerships with other long-term care providers, stakeholders, and related community support services. It will require that our facility and staff increase their competencies to be able to manage this more challenging patient population. The Oahu Region will also look to develop previously uncommitted spaces to enhance services and/or develop potential new partnerships within the community that will help to address emerging needs.

Risk Management

Recent national tragedies related to natural and man-made causes have brought increased awareness and the need for action by Oahu region facilities. We have increased our preparedness for our annual hurricane events in partnership with HAH Emergency Preparedness Committee and its members. Recently updated standards and guidelines addressing nursing facilities disaster preparedness will require changes to current practices by all facilities.

We have also updated our policies and increased our awareness in preparing staff for the possibility of an Active Shooter event on our campuses. This has included attendance at conferences, notifications and training on our campuses as recommended by the Office of Homeland Security and the Honolulu Police Department.

New federal Requirements of Participation for CMS licensed nursing facilities have progressed into Phase Two and Phase Three with compliance due by 11/28/17 and 11/28/19, respectively. These licensure requirements are comprehensive and will be subject to survey audit beginning November 28, 2017. Intended to improve the quality of life and care management, the new standards require new care processes and facility improvements that could strain our staffing levels and existing financial structures. Nevertheless, we are currently working to ensure full compliance with the new ROPs while simultaneously striving to develop efficiencies that would minimize the extent of the anticipated challenges.

State Veteran's Home

The Oahu Region continues to support the state Department of Defense's initiative to move forward with the construction of a Veterans' Home here on Oahu. Current discussions include working with the Department of Accounting and General Services to oversee the site selection and preliminary design phase of the project in anticipation of the DOD's expenditure of federal grant monies and matching state funds for construction of the facility over the next several years.

The Leahi-Maluhia Foundation

The Leahi-Maluhia Foundation was established in 2003.

Mission

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

Vision

The Leahi – Maluhia Foundation provides gap funding to boost and expand the quality of life for patients. The Foundation supports Leahi and Maluhia the same way that 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 2017

Michelle Kato, President
Jane Schramko, Vice-President
Shari Shinsato, Treasurer
Jerilyn Yamashiro, Secretary
Laurie Narahara, Director
Sean Sanada, Director
Sean Simmons, Director
Ken Takeuchi, Director
Miles Takaaze, Director
Jerry Tsuda, Director
Joan Watanabe, Director
Neal Yanagihara, Director

FY 2017 Highlights

1. Established a fundraising committee to raise additional funds to support the mission of the Foundation.

2. Supported Maluhia and Leahi Hospital with the purchase of privacy curtains, wheelchairs and temporal thermometers.
3. Provided educational support to international college students studying to become a nurse, certified nurse aide, social worker or other health care staff.
4. Current development of plans to construct a walking path for residents and families on Leahi Hospital grounds.
5. Continued approval to participate in the Aloha United Way's Donor Choice program. This area continues to be a challenge since the Foundation has not been able to meet the $25,000 fundraising threshold has been grandfathered into the program in the past.

To re-cap:

Total Private Donations: $13,556.05
Total Fundraising: N/A
Total Federal/State/Private Grants $1,298.00
Total: $14,854.05

Contact Information:
Leahi-Maluhia Foundation
c/o Maluhia
1027 Hala Drive
Honolulu, HI 96817
Tele: 808-832-3001

WEST HAWAII REGION 2017 LEGISLATIVE REPORT

Kona Community Hospital, the primary health care facility serving West Hawaii, is a 94-bed full service medical center and designated Level III Trauma Center; 67 beds Medical Surgical acute; 7 labor, delivery, postpartum beds in the Obstetrics unit; 11 beds behavioral health unit; and, a 9 bed intensive care unit. It is located in Kealakekua, Kona, and 18 miles south of Kona International Airport. The hospital has expanded considerably from its initial wooden structure with 52 beds built in 1941. It is currently housed in a three-story structure constructed in 1975.

This facility employs 440 (FTE, FY17) employees. There are over 73 active medical staff members representing a wide variety of medical specialties. Patient services include:

- 24-hour Emergency Room
- Level III Trauma Center
- Inpatient & Outpatient Surgery
- Acute Inpatient Care (Obstetrics/Gynecology, Medical/Surgical, Intensive Care, Behavioral Health)
- Outpatient Nursing Services (Chemotherapy)
- Rehabilitation Services (PT, OT, Respiratory Therapy, Speech Therapy)
- Pharmacy
- Laboratory and Pathology Services
- Imaging Center (MRI, 128-slice CT Scan, Ultrasound, Echocardiogram, Nuclear Medicine)
- 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)

Patient Census

• Admissions	3,354
• Patient Days	17,812
• Births	551
• ER Visits	21,897

Community - Based Foundation Support Of West Hawaii Facilities

- Total Private Donations - $73,653
- Total Fundraising - $43,911
- Total Federal/State/Private Grants - $100,000

TOTAL - $217,564

Volunteer Services

• Number of Active Volunteers:	32
• Number of Total Volunteer Hours:	3,605

- Volunteer Auxiliary Contributions: $5,800

Kohala Hospital, located in the rural town of Kapaau (North Kohala), opened its doors to patients on April 1, 1917. At that time, it was a 14-bed facility. Miss Mina Robinson, a medical, surgical and maternity nurse, arrived from Australia to "take charge" of the hospital. The cost of hospitalization at that time was $1.50 per day. In 1962, Kohala Hospital was relocated into a new lava rock and hollow tile structure consisting of 26 inpatient beds providing both long-term and short-term acute care. Today, Kohala Hospital employs 58 (FTE, FY17) employees, has 26 licensed acute, skilled and long-term care beds, and as a critical access hospital provides the following services:

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

Patient Census
- Number of Admissions: 61
- Patient Days: 8,498
- Emergency Visits: 1,669

Community- Based Foundation Support Of West Hawaii Facilities
- Total Private Donations - $
- Total Fundraising - $
- Total Federal/State/Private Grants - $

TOTAL - $

Volunteer Services – Kohala Hospital
- Number of Active Volunteers: 5
- Number of Total Volunteer Hours: 978
- Volunteer Auxiliary Contributions: $1,750

West Hawaii Region Foundations - Background and Contact Information

Kona Community Hospital Foundation

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

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

Foundation President: John P. Bunnell, DDS

Foundation Vice Chair: Judith Ann Nakamaru

Contact information:
Kona Hospital Foundation
www. khfhawaii.org
79-1019 Haukapila Street
Kealakekua, HI 96750
Tel: 808-322-9311 Fax: 808-322-6963
Email: info@khf.org

Kohala Hospital Charitable Foundation

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

Foundation President: Giovanna Gherardi
Foundation Vice President: Rhoady Lee

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