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

DEPT. COMM. NO. 349

REPORT TO THE
THIRTY-FIRST
HAWAII STATE LEGISLATURE
FOR FISCAL YEAR 2020

December 2020

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CORPORATION
Quality Healthcare For All

PCEO-21-001

Report to the Legislature
Hawaii Health Systems Corporation Annual Audit and Report for FY2020;
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 FY2021 and a list of capital improvement projects planned for implementation in FY2020; and (b) regional system board reports.

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

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

In June 2015, the Legislature passed Act 103, H.B. 1075, effective June 10, 2015, which allowed for the transition of the management of the Maui Region facilities to a new entity. The Maui Region selected Kaiser Permanente as the entity that would manage the three Maui Region facilities. As a result, Kaiser Permanente formed a new not-for-profit entity, Maui Health System (MHS), to manage the three Maui Region facilities. In January 2016, HHSC entered into a transition agreement with an expected effective date of July 1, 2016. Due to legal challenges and other delays, the expected transition date was pushed back to July 1, 2017. The legal challenges were resolved with the passage of Act 18, S.B. 207, effective July 1, 2017, which provided severance benefits for those Maui Region employees affected by the transition of operations from

HHSC to MHS. These severance benefits were paid out to eligible recipients in October 2017. HHSC entered into a transfer agreement and a lease agreement with Maui Health System to effectuate the transfer during fiscal year 2017. The transfer of operations was completed on July 1, 2017.

In fiscal year 2020, the COVID-19 pandemic had a tremendous impact on HHSC's operations. COVID-19 started its spread in Hawaii in the second half of March 2020, and spread quickly from that point on. The Governor issued a series of "stay-at-home" emergency proclamations that required a shut-down of non-essential businesses and arriving trans-Pacific passengers to quarantine for a minimum of 14 days. The effect of these emergency proclamations was a crippling of Hawaii's economy, with many businesses forced to close, causing unemployment rates to rise to unprecedented levels, going from a pre-COVID-19 level of 2.4% up to a high of 23.8%. In addition, people were encouraged to stay at home and practice "social distancing," which resulted in further slowdowns even for those businesses that remained open. This had a negative impact on HHSC's facilities, as the combined effect of people complying with the stay-at-home order, people choosing to defer medical care due to financial hardship, the cancellation of elective surgeries and other procedures to comply with Center for Disease Control guidelines, and the lack of visitors to Hawaii caused a significant drop in patient volumes. For the period from March 2020 through June 2020, acute care discharges dropped 12% as compared to the period from March 2019 through June 2019. The biggest impact was seen in emergency room visits, as emergency room visits for the period from March 2020 through June 2020 decreased over 34% as compared to the period from March 2019 through June 2019. These declines in patient volume resulted in a decrease in net patient service revenues of $19.9 million from the period between March 2019 through June 2019 as compared to the period between March 2020 and June 2020. Besides the drop in patient revenues as a result of these volume decreases, HHSC's facilities also incurred almost $2.8 million in expenses during fiscal year 2020 specifically related to additional labor, equipment, supplies, and personal protective equipment to prepare for and treat the COVID-19 outbreak in Hawaii.

To mitigate the negative impacts of the COVID-19 pandemic on its facilities, HHSC aggressively pursued federal funding for COVID-19 relief. During fiscal year 2020, HHSC applied for and received over $45 million in Health & Human Services Provider Relief Fund grants. HHSC also applied for and received almost $20 million in Small Business Association Paycheck Protection Program (PPP) loans. The PPP loans contain a provision for forgiveness of the loans, and HHSC has already applied to the Small Business Administration for forgiveness. Two of HHSC's regions also applied for approximately $14.4 million in advance payments from Medicare. Under this program, repayment for the advance payments will be delayed until one year after the advance payment was issued; after that, repayment will be recouped over a maximum period of 29 months, after which the remaining balance must be paid in full subject to an interest rate of four percent.

The COVID-19 pandemic has demonstrated 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 2020, HHSC's acute discharges for the four HHSC regions were 13,599, which accounts for approximately 12% of all acute care discharges in the State of Hawaii. In fiscal year 2020, HHSC's emergency department visits for the four HHSC regions were 80,288, representing approximately 18.3% of all emergency department visits statewide. The impact of HHSC's facilities on the neighbor islands is even more impressive. For residents of the County of Hawaii, HHSC's facilities cared for 73% of all acute care discharges and 84% of all emergency department visits. For residents of the County of Kauai, HHSC's facilities cared for approximately 22% of all acute care discharges and 37% 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 employee benefit expenses compared to the private sector. HHSC was forced to absorb collective bargaining raises of varying percentages negotiated by the State of Hawaii which increased salaries and benefits expense by approximately $7.7 million in fiscal year 2020 alone. Further, the collective bargaining agreements negotiated by the State of Hawaii are meant to cover employees supporting the static business environment of administrative offices, not the dynamic working environment found in the hospitals that HHSC operates. As a result, the work rules and pay schedules dictated by those collective bargaining agreements makes it difficult for HHSC to operate its facilities efficiently and cost effectively.

In addition, the State assessed HHSC a fringe benefit rate of 63.08% during fiscal year 2020. The increase in the fringe benefit rate from fiscal year 2019 equates to approximately $6 million in additional salaries and benefits expense. Cumulatively, since the start of fiscal year 2018, the mandated increases in the fringe benefit rate have burdened HHSC with an increase in cost of approximately $27.1 million over just three years. Other private hospitals across the United States pay a fringe benefit rate of between 25-30%. The impact to HHSC of the difference between its FY 20 fringe benefit rate and the private hospital fringe rate of 30% is approximately $66.2 million in additional annual expense to HHSC.

HHSC annually has a detailed independent financial audit conducted for the entire system. Additionally, HHSC has a myriad of internal reporting/performance measures that are utilized by the board of directors and management to insure compliance, quality, and financial efficiency in all system work. We have continued to focus on improving our financial management and accounting systems throughout the year. HHSC has received its thirteenth consecutive "clean" unqualified consolidated audit for every fiscal year from FY 1998 through FY2020.

The following information is attached in accordance with section 323F-22, HRS: (1) projected revenues for each facility for FY2021, (2) proposed capital improvement projects during FY2020; and (3) Hawaii Health Systems Corporation, Regional System Board Reports.

Foundations

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

Respectfully submitted,

Linda Rosen

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

Edward N. Chu
Chief Financial Officer

Attachments:

1. Projected FY2021 Revenues
2. CIP Expenditures FY2020
3. Regional Board Reports, FY2020.

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

Attachment A
Financial Report with Other Supplemental Information

December 2020

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Hawaii Health Systems Corporation

Financial Report
with Other Supplemental Information
June 30, 2020

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Independent Auditor's Report

To the Board of Directors
Hawaii Health Systems Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Health Systems Corporation (the "Corporation"), a component unit of the State of Hawaii, as of and for the years ended June 30, 2020 and 2019 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, 2020 and 2019 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 Matters

As described in Note 13 to the financial statements, the COVID-19 pandemic has impacted operations of the Corporation. Our opinion is not modified in respect to this matter.

As described in Note 1, the financial statements present only Hawaii Health Systems Corporation (a component unit of the State of Hawaii) and do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2020 and 2019 or the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

To the Board of Directors
Hawaii Health Systems Corporation

Other Matter

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

Required Supplemental Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 7, 2020 on our consideration of Hawaii Health Systems Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hawaii Health System Corporation's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 7, 2020

This discussion and analysis of Hawaii Health Systems Corporation's (the "Corporation" or HHSC) financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2020, 2019, and 2018. Please read it in conjunction with the Corporation's financial statements, which begin on page 9.

Using This Annual Report

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

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

Our analysis of the Corporation's finances begins on page 9. One of the most important questions asked about the Corporation's finances is, "Is the Corporation as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses, and changes in net position report information about the Corporation's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

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

The Statement of Cash Flows

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

The Corporation's Net Position

The Corporation's net position is the difference between its assets and deferred outflows and liabilities and deferred inflows, reported in the statement of net position on page 9. The Corporation's net position decreased by $85,517,002 in 2020, decreased by $42,882,031 in 2019, and increased by $313,227,772 in 2018.

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

Summarized financial information of Hawaii Health Systems Corporation's statement of net position as of June 30, 2020, 2019, and 2018 is as follows:

	2020	2019	2018
Assets			
Current assets	$ 330,040,478	$ 250,552,705	$ 270,520,262
Capital assets - Net	336,580,909	345,636,530	352,989,995
Other	22,874,815	19,168,571	12,804,398
Total assets	689,496,202	615,357,806	636,314,655
Deferred Outflows	142,907,522	191,351,753	192,593,251
Total assets and deferred outflows	832,403,724	806,709,559	828,907,906
Liabilities			
Current liabilities	143,976,004	79,466,835	99,154,954
Other postemployment liability	547,829,574	547,178,995	541,845,124
Due to the State of Hawaii	19,008,243	19,008,243	19,008,243
Pension liability	576,687,523	542,374,488	530,455,687
Other liabilities	80,913,836	61,767,812	50,383,059
Total liabilities	1,368,415,180	1,249,796,373	1,240,847,067
Deferred Inflows	34,782,798	42,190,438	30,456,060
Total liabilities and deferred inflows	1,403,197,978	1,291,986,811	1,271,303,127
Net Position			
Net investment in capital assets	302,431,814	309,317,653	317,035,159
Restricted	8,616,846	8,657,640	98,970
Unrestricted	(881,842,914)	(803,252,545)	(759,529,350)
Total net position	**$ (570,794,254)**	**$ (485,277,252)**	**$ (442,395,221)**

At June 30, 2020, 2019, and 2018, Hawaii Health Systems Corporation's current assets approximated 48, 41, and 43 percent, respectively, of total assets. Current assets increased approximately $79.5 million in 2020 primarily due to an increase in cash and cash equivalents of $81 million from the receipt of approximately $87 million from various federal financing programs to combat the effects of the coronavirus. Current assets decreased approximately $20.0 million in 2019 primarily due to a decrease in patient accounts receivable of $7.6 million and a decrease in cash and cash equivalents of approximately $7.9 million. Current assets decreased approximately $28.6 million in 2018 due to a decrease in patient accounts receivable of $38.6 million and an increase in cash and cash equivalents of approximately $10 million.

At June 30, 2020, 2019, and 2018, Hawaii Health Systems Corporation's current liabilities approximated 11, 6, and 8 percent of total liabilities, respectively. The increase in current liabilities in 2020 related to Medicare Accelerated payments received by the Corporation and unearned revenue related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

At June 30, 2020, 2019, and 2018, Hawaii Health Systems Corporation's portion of net position that is reflected as its net investment in capital assets, net of related debt, was approximately $302 million, $309 million, and $317 million, respectively. Total net position was approximately $(571) million in 2020, $(485) million in 2019, and $(442) million in 2018.

Capital Assets

At June 30, 2020, 2019, and 2018, Hawaii Health Systems Corporation's capital assets, net of accumulated depreciation, comprised approximately 49, 56, and 55 percent, respectively, of its total assets. These assets consist mainly of land, hospital buildings, and equipment that are used in Hawaii Health Systems Corporation's operations. The decrease in the net capital assets each year is due to depreciation expense in excess of capital additions.

A summary of Hawaii Health Systems Corporation's capital assets as of June 30, 2020, 2019, and 2018 is as follows:

	2020	2019	2018
Land and land improvements	$ 10,807,306	$ 10,613,439	$ 7,814,855
Building and improvements	555,202,188	537,473,329	519,812,210
Equipment	274,343,866	269,596,091	255,443,860
Construction in progress	30,571,327	29,951,480	44,504,036
Total cost	870,924,687	847,634,339	827,574,961
Less accumulated depreciation and amortization	(534,343,778)	(501,997,809)	(474,584,966)
Capital assets - Net	**$ 336,580,909**	**$ 345,636,530**	**$ 352,989,995**

Long-term Debt and Capital Lease Obligations

At June 30, 2020, 2019, and 2018, Hawaii Health Systems Corporation had long-term debt and capital lease obligations totaling approximately $64.0 million, $43.6 million, and $43.8 million, respectively. The increase of $20.4 million in 2020 was due to the application and borrowings under the Coronavirus Aid, Relief, and Economic Security Act's Paycheck Protection Program. The decrease of $0.2 million in 2019 and the decrease of $4.5 million in 2018 were due to continuing payments on existing debt obligations along with very little new issuances of capital lease obligations. More detailed information about Hawaii Health Systems Corporation's long-term debt and capital lease obligations is presented in the notes to the financial statements.

Operating Results and Changes in Net Position

Summarized financial information of Hawaii Health Systems Corporation's statement of revenue, expenses, and changes in net position for the years ended June 30, 2020, 2019, and 2018 is as follows:

	2020	2019	2018
Operating Revenue	$ 460,131,162	$ 447,883,646	$ 446,897,857
Operating Expenses			
Salaries and wages	248,977,091	228,740,526	241,453,293
Employee benefits	207,154,907	153,661,967	220,063,620
Purchased services and professional fees	93,028,853	92,822,867	87,257,245
Medical supplies and drugs	50,550,558	47,964,892	47,099,184
Depreciation and amortization	36,638,280	38,932,208	41,122,426
Insurance	8,310,974	7,925,398	9,685,164
Other	56,874,028	54,075,282	55,277,610
Total operating expenses	701,534,691	624,123,140	701,958,542
Operating Loss	(241,403,529)	(176,239,494)	(255,060,685)
Nonoperating Revenue			
General appropriations from the State of Hawaii	127,501,003	120,231,971	112,301,548
Other nonoperating revenue - Net	9,725,342	2,858,886	32,579,818
Total nonoperating revenue	137,226,345	123,090,857	144,881,366
Excess of Expenses Over Revenue before Capital Contributions and Transfers	(104,177,184)	(53,148,637)	(110,179,319)
Capital Contributions	18,660,182	10,266,606	25,138,791
Transfer of Liabilities to the State of Hawaii	-	-	403,451,094
Transfer Agreement Expense	-	-	(5,182,794)
(Decrease) Increase in Net Position	$ (85,517,002)	$ (42,882,031)	$ 313,227,772

Operating Losses

For the years ended June 30, 2020, 2019, and 2018, Hawaii Health Systems Corporation's operating expenses exceeded its operating revenue by $241.4 million, $176.2 million, and $255.1 million, respectively. General appropriations from the State of Hawaii totaled $127.5 million, $120.2 million, and $112.3 million in 2020, 2019, and 2018 respectively. In addition, appropriations from the State of Hawaii for capital contributions totaled $18.7 million, $10.3 million, and $25.1 million in 2020, 2019, and 2018, respectively. These items, along with the other nonoperating revenue and the transfer of certain liabilities to the State of Hawaii, contributed to a decrease in net position of $85.5 million in 2020, a decrease in net position of $42.9 million in 2019, and an increase in net position of $313.2 million in 2018.

Operating expenses for the fiscal year ended June 30, 2020 were approximately 12.4 percent higher than 2019. Operating expenses for the fiscal year ended June 30, 2020 increased $77 million from fiscal year 2019, which was primarily due increased costs as a result of fringe benefit assessments imposed by the State of Hawaii, as well as increases in statewide pension and other postretirement benefit liabilities.

Operating revenue for the fiscal year ended June 30, 2020 was approximately 2.7 percent higher than 2019, as decreases in patient service volumes as a result of the coronavirus pandemic were offset by increases in uncompensated care revenue.

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

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

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

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

Systemwide Outlook

In fiscal year 2020, the coronavirus pandemic had a tremendous impact on HHSC's operations. The coronavirus started its spread in Hawaii in the second half of March 2020, and spread quickly from that point on. The governor quickly issued a series of stay-at-home emergency proclamations that required a shutdown of nonessential businesses and arriving trans-Pacific passengers to quarantine for a minimum of 14 days. The effect of these emergency proclamations was a crippling of Hawaii's economy, with many businesses forced to close, causing unemployment rates to rise to unprecedented levels, going from a pre-coronavirus level of 2.4 percent up to a high of 23.8 percent. In addition, people were encouraged to stay at home and practice social distancing, which resulted in further slowdowns even for those businesses that remained open. This had a tremendous impact on HHSC's facilities, as the combined effect of people complying with the stay-at-home order, people choosing to defer medical care due to financial hardship, the cancellation of elective surgeries and other procedures to comply with Center for Disease Control guidelines, and the lack of visitors to Hawaii caused a significant drop in patient volumes. For the period from March 2020 through June 2020, acute-care discharges dropped 12 percent as compared to the period from March 2019 through June 2019. The biggest impact was seen in emergency room visits, as emergency room visits for the period from March 2020 through June 2020 decreased over 34 percent as compared to the period from March 2019 through June 2019. These declines in patient volume resulted in a decrease in net patient service revenue of $19.9 million from the period between March 2020 through June 2020 as compared to the period between March 2019 and June 2019. Besides the drop in patient revenue as a result of these volume decreases, HHSC's facilities also incurred $4.1 million in expenses during fiscal year 2020 specifically related to additional labor, equipment, supplies, and personal protective equipment to prepare for and treat the coronavirus outbreak in Hawaii.

In order to mitigate the negative impacts of the coronavirus pandemic on its facilities, HHSC aggressively sought after federal funding for coronavirus relief. During fiscal year 2020, HHSC applied for and received over $50 million in Health and Human Services Provider Relief Fund grants. HHSC also applied for and received almost $23 million in Small Business Association Paycheck Protection Program (PPP) loans. Two of HHSC's regions also applied for approximately $14.4 million in advance payments from Medicare. Under this program, repayment for the advance payments will be delayed until one year after the advance payment was issued; after that, repayment will be recouped over a maximum period of 29 months, after which the remaining balance must be paid in full subject to an interest rate of 4 percent.

The coronavirus pandemic demonstrated how critical HHSC's facilities are in terms of access to health care in the State of Hawaii, particularly on the neighboring islands. In fiscal year 2020, HHSC's acute discharges for the four HHSC regions were 13,599, which accounts for approximately 12 percent of all acute-care discharges in the State of Hawaii. In fiscal year 2020, HHSC's emergency department visits for the four HHSC regions were 80,288, representing approximately 18.3 percent of all emergency department visits statewide. The impact of HHSC's facilities on the neighboring islands is even more impressive. For residents of the County of Hawaii, HHSC's facilities cared for 73 percent of all acute-care discharges and 84 percent of all emergency department visits. For residents of the County of Kauai, HHSC's facilities cared for approximately 22 percent of all acute-care discharges and 37 percent of all emergency department visits.

Despite the high volume of care that is provided at HHSC's facilities, HHSC continues to face growing operating losses due to excessive levels of salaries and benefits expense as compared to industry benchmarks. HHSC was forced to absorb collective bargaining raises of varying percentages negotiated by the State of Hawaii, which increased salaries and benefits expense by approximately $7.7 million in fiscal year 2020 alone. Further, the collective bargaining agreements negotiated by the State of Hawaii are meant to cover employees supporting the static business environment of administrative offices, not the dynamic working environment found in the hospitals that HHSC operates. As a result, the work rules and pay schedules dictated by those collective bargaining agreements make it difficult for HHSC to operate its facilities efficiently and cost effectively.

In addition, the State assessed HHSC a fringe benefit rate of 63.08 percent during fiscal year 2020. The increase in the fringe benefit rate from fiscal year 2019 equates to approximately $6 million in additional salaries and benefits expense. Cumulatively, since the start of fiscal year 2018, the mandated increases in the fringe benefit rate have burdened HHSC with an increase in cost of approximately $27.1 million over just three years. Other private hospitals across the United States pay a fringe benefit rate of between 25-30 percent. The impact to HHSC of the difference between its fiscal year 2020 fringe benefit rate and the private hospital fringe rate of 30 percent is approximately $66.2 million in additional annual expense to HHSC.

As a result of these ever-increasing cost pressures, HHSC's salaries and benefits expense as a percent of net patient service revenue was 101 percent for fiscal year 2020, as compared to the U.S. Not-for-Profit Healthcare System Median of 58.3 percent (per Standard & Poor's Global Ratings for 2019).

Future Outlook

Although the State of Hawaii and the counties have eased the restrictions from the earlier emergency proclamations to more fully allow businesses to operate and to allow trans-Pacific arrivals to avoid quarantine through the State's pretravel testing program, the impact of the coronavirus pandemic is still being felt. Many hotels and restaurants in popular tourist areas are still not open or not fully open due to the slow influx of tourists that were allowed into Hawaii starting in October 2020. General excise tax and transient accommodation tax collections are still much lower than pre-coronavirus levels, and the latest projections from the State Council of Revenues project that the State will face a $2.3 billion budget shortfall in fiscal years 2022 and 2023. Coupled with the State funding shortfall is the uncertainty around the potential further spread of the coronavirus in Hawaii and the timing and availability of a vaccine for the coronavirus. While HHSC's facilities have restarted elective surgeries and have recovered some of the business that was lost during the coronavirus shutdown, HHSC's current patient volumes are still not up to the levels prior to the coronavirus pandemic, particularly in the emergency room and outpatient areas. HHSC's projections show that revenue losses from the coronavirus pandemic could be as much as $63 million each for fiscal years 2022 and 2023 as compared to pre-coronavirus pandemic projections. Further, it is unclear at this time whether any further federal funding will be made available to hospitals to deal with further outbreaks of the coronavirus.

Contacting the Corporation's Financial Management

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

Statement of Net Position

June 30, 2020 and 2019

	2020	2019
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents (Note 2)	$ 186,742,457	$ 112,739,307
Cash and cash equivalents - State of Hawaii (Note 2)	12,510,376	5,290,501
Patient accounts receivable - Less allowance for doubtful accounts of $22,478,757 and $28,795,224 in 2020 and 2019, respectively (Notes 2 and 3)	61,538,542	55,519,424
Investments (Note 4)	7,961,296	7,608,485
Due from the State of Hawaii (Note 6)	41,952,795	41,726,770
Assets limited as to use - Current (Note 2)	-	5,000,000
Supplies and other current assets	12,501,958	11,316,331
Estimated third-party payor settlements	6,833,054	11,351,887
Total current assets	330,040,478	250,552,705
Assets Limited as to Use - Net of current portion (Note 2)	22,874,815	17,276,312
Capital Assets - Net (Note 5)	336,580,909	345,636,530
Other Assets	-	1,892,259
Total assets	689,496,202	615,357,806
Deferred Outflows of Resources		
Pension (Note 8)	87,421,754	101,366,835
Postemployment benefits other than pensions (Note 9)	55,485,768	89,984,918
Total deferred outflows of resources	142,907,522	191,351,753
Total assets and deferred outflows of resources	**$ 832,403,724**	**$ 806,709,559**

See notes to financial statements.

Statement of Net Position (Continued)

June 30, 2020 and 2019

	2020	2019
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable and accrued expenses	$ 60,312,075	$ 55,359,978
Current portion of accrued vacation (Note 7)	15,597,066	15,945,360
Current portion of long-term debt (Note 10)	5,617,448	1,699,082
Current portion of capital lease obligations (Note 10)	2,032,291	1,957,410
Current portion of accrued workers' compensation (Note 11)	2,916,000	3,661,000
Other current liabilities:		
Medicare accelerated payments (Note 13)	14,436,041	-
Unearned revenue - CARES Act Provider Relief Fund (Note 13)	42,204,398	-
Other current liabilities	860,685	844,005
Total current liabilities	143,976,004	79,466,835
Long-term Debt - Net of current portion (Note 10)	50,984,317	33,953,949
Capital Lease Obligations - Net of current portion (Note 10)	5,402,157	5,968,521
Other Liabilities		
Accrued vacation - Less current portion (Note 7)	15,571,471	13,611,420
Accrued workers' compensation - Less current portion (Note 11)	8,668,000	8,037,000
Other postemployment liability (Note 9)	547,829,574	547,178,995
Due to the State of Hawaii (Note 6)	19,008,243	19,008,243
Pension liability (Note 8)	576,687,523	542,374,488
Other liabilities	9,813	27,898
Patients' safekeeping deposits	278,078	169,024
Total liabilities	1,368,415,180	1,249,796,373
Deferred Inflows of Resources		
Pension (Note 8)	26,490,118	31,216,935
Postemployment benefits other than pensions (Note 9)	8,292,680	10,973,503
Total deferred inflows of resources	34,782,798	42,190,438
Total liabilities and deferred inflows of resources	1,403,197,978	1,291,986,811
Net Position		
Unrestricted	(881,842,914)	(803,252,545)
Net investment in capital assets	302,431,814	309,317,653
Restricted for lender covenants and other (Note 2)	8,616,846	8,657,640
Total net position	(570,794,254)	(485,277,252)
Total liabilities, deferred inflows of resources, and net position	**$ 832,403,724**	**$ 806,709,559**

See notes to financial statements.

Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenue		
Net patient service revenue (net of provision for doubtful accounts of $16,249,196 and $13,759,039 for 2020 and 2019, respectively)	$ 449,273,641	$ 433,794,269
Other revenue	10,857,521	14,089,377
Total operating revenue	460,131,162	447,883,646
Operating Expenses		
Salaries	248,977,091	228,740,526
Employee benefits	207,154,907	153,661,967
Medical supplies and drugs	50,550,558	47,964,892
Depreciation and amortization	36,638,280	38,932,208
Utilities	12,263,285	12,011,468
Repairs and maintenance	14,549,614	12,603,945
Other supplies	13,655,123	13,758,076
Purchased services	74,891,799	72,978,589
Professional fees	18,137,054	19,844,278
Insurance	8,310,974	7,925,398
Rent and lease	5,104,761	4,540,536
Other	11,301,245	11,161,257
Total operating expenses	701,534,691	624,123,140
Operating Loss	(241,403,529)	(176,239,494)
Nonoperating Income (Expense)		
General appropriations from the State of Hawaii	127,501,003	120,231,971
Restricted contributions	1,200,844	1,025,643
Interest expense	(1,692,962)	(2,595,900)
Interest and dividend income	1,216,879	1,685,270
Contributions - CARES Act Provider Relief Fund (Note 13)	7,649,537	-
Other nonoperating revenue - Net	1,351,044	2,743,873
Total nonoperating income	137,226,345	123,090,857
Excess of Expenses Over Revenue before Capital Contributions	(104,177,184)	(53,148,637)
Capital Contributions	18,660,182	10,266,606
Decrease in Net Position	(85,517,002)	(42,882,031)
Net Position - Beginning of year	(485,277,252)	(442,395,221)
Net Position - End of year	$ (570,794,254)	$ (485,277,252)

See notes to financial statements.

Statement of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Cash received from government, patients, and third-party payors	$ 462,209,397	$ 439,655,879
Cash payments to employees for services	(369,697,180)	(361,910,854)
Cash payments to suppliers for services and goods	(211,654,022)	(201,601,563)
Other receipts from operations	10,857,521	14,081,001
Net cash used in operating activities	(108,284,284)	(109,775,537)
Cash Flows from Noncapital Financing Activities		
Appropriations from the State of Hawaii	127,501,003	120,231,971
Contributions - CARES Act Provider Relief Fund	49,853,935	-
Other nonoperating revenue - Net	1,351,044	2,743,873
Proceeds from long-term debt	22,714,000	-
Net cash provided by noncapital financing activities	201,419,982	122,975,844
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(7,895,348)	(6,775,170)
Interest paid	(1,692,962)	(2,595,900)
Repayments on long-term debt	(1,765,266)	(19,010,562)
Repayments on capital lease obligations	(2,122,703)	(2,673,319)
Restricted capital contributions	1,298,041	1,157,684
Proceeds from long-term debt	-	18,385,898
Net cash used in capital and related financing activities	(12,178,238)	(11,511,369)
Cash Flows from Investing Activities		
Interest and dividend income	1,216,879	1,685,270
Purchase of short-term investments and assets limited as to use	(951,314)	(10,854,858)
Net cash provided by (used in) investing activities	265,565	(9,169,588)
Net Increase (Decrease) in Cash and Cash Equivalents	81,223,025	(7,480,650)
Cash and Cash Equivalents - Beginning of year	118,029,808	125,510,458
Cash and Cash Equivalents - End of year	**$ 199,252,833**	**$ 118,029,808**
Statement of Net Position Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 186,742,457	$ 112,739,307
Cash and cash equivalents - State of Hawaii	12,510,376	5,290,501
Total cash and cash equivalents	**$ 199,252,833**	**$ 118,029,808**

See notes to financial statements.

Statement of Cash Flows (Continued)

Years Ended June 30, 2020 and 2019

	2020	2019
A reconciliation of operating loss to net cash used in operating activities is as follows:		
Cash Flows from Operating Activities		
Operating loss	$ (241,403,529)	$ (176,239,494)
Adjustments to reconcile operating loss to net cash from operating activities:		
Provision for doubtful accounts	16,249,196	13,759,039
Depreciation and amortization	36,638,280	38,932,208
Loss on disposal of capital assets	280,869	126,684
Changes in assets and liabilities:		
Patient accounts receivable	(22,268,314)	(6,159,782)
Supplies and other assets	706,632	(961,572)
Accounts payable, accrued expenses, and other liabilities	5,059,746	(9,226,371)
Accrued workers' compensation liability	(114,000)	(334,000)
Postemployment benefit liability	650,579	5,333,871
Pension liability	34,313,035	11,918,801
Deferred outflows and inflows	41,036,591	12,975,876
Estimated third-party payor settlements	4,518,833	(1,746,023)
Accrued vacation	1,611,757	1,845,226
Medicare advance funds	14,436,041	-
Net cash used in operating activities	**$ (108,284,284)**	**$ (109,775,537)**
Noncash Financing and Investing Activities		
Capital assets contributed by the State of Hawaii and others	$ 18,336,960	$ 22,220,495
Net change in accounts payable related to capital assets acquired	-	(408,739)
Change in due from the State of Hawaii	(226,025)	12,085,930
Assets acquired via capital lease	1,631,220	3,118,501

See notes to financial statements.

Note 1 - Organization

Structure

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

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

East Hawaii Region:

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

West Hawaii Region:

- Kona Community Hospital
- Kohala Hospital

Kauai Region:

- Kauai Veterans Memorial Hospital
- Samuel Mahelona Memorial Hospital

Oahu Region:

- Leahi Hospital
- Maluhia

Kahuku Medical Center

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

Maui Region (or HHSC - Maui):

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

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

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

Note 1 - Organization (Continued)

Negotiations between Hawaii Health Systems Corporation and the State relating to the transfer of assets and assumption of liabilities pursuant to Act 262 had not been finalized as of June 30, 2020. Accordingly, the assets, liabilities, and net assets of Hawaii Health Systems Corporation reflected in the accompanying statement of revenue, expenses, and changes in net position may be significantly different from those eventually included in the final settlement.

The following entities are being presented as part of Hawaii Health Systems Corporation: Hawaii Health Systems Foundation (HHSF); Alii Community Care, Inc. (Alii); Alii Health Center (AHC); Kona Ambulatory Surgery Center (KASC); and East Hawaii Medical Group (EHMG). 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 health care facilities in the state.

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

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

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

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

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

Maui Region

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

Note 1 - Organization (Continued)

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

Act 103 also called for the transfer of certain liabilities from the Corporation to the State. These liabilities included the net pension liability and other postemployment benefit liability and any related deferred inflows and deferred outflows of resources. As part of Act 103, these liabilities were transferred back to the State.

Kahuku Medical Center

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

Liquidity

During the years ended June 30, 2020 and 2019, Hawaii Health Systems Corporation incurred losses from operations of approximately $241 million and $176 million, respectively, and had negative cash flows from operations of approximately $108 million and $110 million, respectively. Management believes maintaining the current levels of service provided by Hawaii Health Systems Corporation will require continued funding by the State of Hawaii.

Note 2 - Significant Accounting Policies

Basis of Accounting

Hawaii Health Systems Corporation prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting.

Use of Estimates

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

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of three months or less. It also includes amounts held in the State Treasury. The state director of finance is responsible for the safekeeping of all monies paid into the State Treasury (cash pool). Hawaii Health Systems Corporation's portion of this cash pool at June 30, 2020 and 2019 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 $174,543,000 and $110,472,000 at June 30, 2020 and 2019, 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.

Capital Assets

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

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

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

Note 2 - Significant Accounting Policies (Continued)

Assets Limited as to Use

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

At June 30, 2020 and 2019, assets limited as to use consisted of restricted cash of $22,874,815 and $22,276,312, respectively.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Hawaii Health Systems Corporation has two items that qualify for reporting in this category. They are the deferred outflows of resources related to the cost-sharing defined benefit pension plan (see Note 8) and the State of Hawaii OPEB plan (see Note 9).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Hawaii Health Systems Corporation has two items that qualify for reporting in this category. They are the deferred inflows of resources related to the cost-sharing defined benefit pension plan (see Note 8) and the State of Hawaii OPEB plan (see Note 9).

Accrued Vacation and Compensatory Pay

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

Postemployment Benefits

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

Pension

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

Note 2 - Significant Accounting Policies (Continued)

Net Position

Net position is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Corporation. The restricted net position at June 30, 2020 was composed of $137,833 restricted for capital purchases and $8,479,013 restricted by lender covenants. The restricted net position at June 30, 2019 was composed of $178,627 restricted for capital purchases and $8,479,013 restricted by lender covenants. 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 health care services. The income and expenses relating to capital and related financing activities, noncapital financing activities, and investing activities are excluded from that definition.

Net Patient Service Revenue

Net patient service revenue is recorded on an accrual basis in the period in which the related services are provided at established rates, less contractual adjustments and provision for doubtful accounts. Hawaii Health Systems Corporation, as a safety net provider, provides charity care to certain patients; the specific cost of such care for the years ended June 30, 2020 and 2019 was approximately $920,000 and $1,180,000, 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 2020 financial statements.

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

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

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

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

Note 2 - Significant Accounting Policies (Continued)

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

- Medicaid - Inpatient acute services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined rate per day and per discharge, with a cost settlement for capital costs. Medicaid long-term care services are reimbursed based on a price-based case-mix reimbursement system. The case-mix reimbursement system uses the resource utilization groups classification system calculated from the minimum data set assessment. The case-mix reimbursement payment method takes into account a patient's clinical condition and the resources needed to provide care for the patient. Medicaid outpatient services are reimbursed based on a fee schedule using current procedure terminology (CPT) codes established for the State.
- Critical Access Hospital (CAH) - Hawaii Health Systems Corporation has six facilities (Hale Ho'ola Hamakua, Kauai Veterans Memorial Hospital, Kahuku Medical Center, Ka'u Hospital, Kohala Hospital, and Samuel Mahelona Memorial Hospital) that are designated as critical access hospitals by the Centers for Medicare & Medicaid Services (CMS). CAHs are limited-service hospitals located in rural areas that receive cost-based reimbursement. To be designated a CAH, a facility must, among other requirements: (1) be located in a county or equivalent unit of a local government in a rural area, (2) be located more than a 35-mile drive from a hospital or another health care facility, or (3) be certified by the State as being a necessary provider of health care services to residents in the area. These facilities are paid an interim reimbursement rate throughout the year based on each facility's expected costs per inpatient day or the allowable outpatient cost to charge. After the close of each fiscal year, the facility would receive retrospective settlements for the difference between interim payments received and the total allowable cost, as documented in the Medicare cost reports.
- Sole Community Hospital - Hawaii Health Systems Corporation has two facilities (Hilo Medical Center and Kona Community Hospital) that are designated as sole community hospitals by the CMS. Inpatient case rates for services rendered to Medicare beneficiaries are finally determined upon the filing of the annual Medicare cost reports.
- Hawaii Medical Service Association (HMSA) - Inpatient services rendered to HMSA subscribers are reimbursed at prospectively determined case rates. The prospectively determined case rates are not subject to retroactive adjustment. In addition, outpatient surgical procedures and emergency room visits are reimbursed at a negotiated case rate. All other outpatient services are reimbursed based on a fee schedule using standard CPT codes.
- Other Commercial - Hawaii Health Systems Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established rates, and prospectively determined daily rates.

State Appropriations

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

Note 2 - Significant Accounting Policies (Continued)

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

Bond Interest

Hawaii Health Systems Corporation is allocated an amount for interest paid by the State of general obligation bonds whose proceeds were used for hospital construction. A corresponding contribution from the State is also allocated to Hawaii Health Systems Corporation. The bonds are obligations for the State, to be paid by the State's General Fund, and are not reported as liabilities of Hawaii Health Systems Corporation. For the years ended June 30, 2020 and 2019, interest expense totaled approximately $11,466,000 and $11,264,000, respectively.

Risk Management

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

Change in Accounting Principle

For the year ended June 30, 2020, the Corporation early adopted GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This statement simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. There was no impact to the June 30, 2020 statements as a result of this adoption.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Corporation's financial statements for the year ending June 30, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.*

Note 2 - Significant Accounting Policies (Continued)

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Corporation's financial statements for the year ending June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.*

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90, *Majority Equity Interests*. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. 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 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance.*

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of conduit debt, provides a single method of reporting conduit debt obligations by issuers, and eliminates diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. As a result, issuers should not recognize a liability for items meeting the definition of conduit debt; however, a liability should be recorded for additional or voluntary commitments to support debt service if certain recognition criteria are met. The standard also addresses the treatment of arrangements where capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by a third-party obligor. The provisions of this statement are effective for the Corporation's financial statements for the year ending June 30, 2023 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance.*

In May 2020, the Governmental Accounting Standards Board issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs. 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, 2023.

In June 2020, the Governmental Accounting Standards Board issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 should be considered a pension plan or an other employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the Corporation's financial statements for the year ending June 30, 2022.

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:

	2020	2019
Medicare	35.00 %	30.00 %
Medicaid	25.00	30.00
HMSA	7.00	7.00
Other third-party payors	20.00	18.00
Patient and other	13.00	15.00
Total	100.00 %	100.00 %

Note 4 - Fair Value Measurements

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

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

Hawaii Health Systems Corporation has the following recurring fair value measurements as of June 30, 2020 and 2019:

- U.S. Treasury securities of $5,172,534 and $4,860,701, respectively, are valued using quoted market prices (Level 2 inputs).
- U.S. government agencies of $2,533,273 and $2,685,167, respectively, are valued using a matrix pricing model (Level 2 inputs).
- Money market funds of $255,489 and $62,617, respectively, are valued using a matrix pricing model (Level 2 inputs).

The fair values of U.S. Treasury obligations, U.S. government agencies, and money market funds at June 30, 2020 and 2019 were determined primarily based on Level 2 inputs. Hawaii Health Systems Corporation estimates the fair value of these investments using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

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

Custodial Credit Risk of Investments

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

Note 4 - Fair Value Measurements (Continued)

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, Hawaii Health Systems Corporation's investment policy generally limits maturities on investments to no more than five years from the date of investment. All of Hawaii Health Systems Corporation's investments at June 30, 2020 and 2019 have an original maturity date within five years from the date of investment.

Credit Risk

Hawaii Health Systems Corporation's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds maintaining a Triple-A rating. As of June 30, 2020 and 2019, Hawaii Health Systems Corporation held investments in U.S. Treasury securities and U.S. government agencies.

Concentration of Credit Risk

Hawaii Health Systems Corporation's investment policy provides guidelines for portfolio diversification by placing limits on the amount that may be invested in any one issuer, types of investment instruments, and position limits per issue of an investment instrument. There were no investments that individually exceed 5 percent of Hawaii Health Systems Corporation's total investments at June 30, 2020 and 2019.

Note 5 - Capital Assets

Capital asset activity of the Corporation's governmental activities for the years ended June 30, 2020 and 2019 were as follows:

	Balance July 1, 2019	Transfers and Adjustments	Additions	Retirements	Balance June 30, 2020
Assets not subject to depreciation:					
Land and land improvements	$ 10,613,439	$ 193,867	$ -	$ -	$ 10,807,306
Construction in progress	29,951,480	(22,844,712)	23,619,647	(155,088)	30,571,327
Subtotal	40,564,919	(22,650,845)	23,619,647	(155,088)	41,378,633
Assets subject to depreciation:					
Buildings and improvements	537,473,329	17,100,102	628,757	-	555,202,188
Equipment	269,596,091	5,550,743	3,615,125	(4,418,093)	274,343,866
Subtotal	807,069,420	22,650,845	4,243,882	(4,418,093)	829,546,054
Less accumulated depreciation:					
Buildings and improvements	282,412,568	-	21,284,127	(196,610)	303,500,085
Equipment	219,585,241	-	15,354,153	(4,095,701)	230,843,693
Subtotal	501,997,809	-	36,638,280	(4,292,311)	534,343,778
Capital assets - Net	$ 345,636,530	$ -	$ (8,774,751)	$ (280,870)	$ 336,580,909

Note 5 - Capital Assets (Continued)

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

The State Department of Accounting and General Services and others transferred capital assets, including construction in progress, aggregating $18,336,960 and $22,220,495 to Hawaii Health Systems Corporation during the years ended June 30, 2020 and 2019, respectively.

Note 6 - State of Hawaii Advances and Receivable

The amount due to the State of $19,008,243 at June 30, 2020 and 2019 is made up of cash advances to the Department of Health - Division of Community Hospitals, which was assumed by Hawaii Health Systems Corporation at the date of its formation.

At June 30, 2020 and 2019, $41,952,795 and $41,726,770, respectively, was due from the State for allotments made to Hawaii Health Systems Corporation before June 30, 2020 and 2019.

Note 7 - Accrued Vacation

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

Activity for the years ended June 30, 2020 and 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Accrued vacation - 2020	$ 29,556,780	$ 15,140,701	$(13,528,944)	$ 31,168,537	$ 15,597,066	$ 15,571,471
Accrued vacation - 2019	27,711,554	14,328,476	(12,483,250)	29,556,780	15,945,360	13,611,420

Note 8 - Cost-sharing Defined Benefit Pension Plan

Plan Description

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

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

Benefits Provided

The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Eligible employees who were in service and members of the existing contributory plan on June 30, 1984 were given an option to remain in the existing plan or join the noncontributory plan effective January 1, 1985. All new eligible employees hired after June 30, 1984 automatically become members of the noncontributory plan. Both plans provide death and disability benefits and cost of living increases. Benefits are established by state statute. In the contributory plan, employees may elect normal retirement at age 55 with 5 years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2 percent of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching five years of service; retirement benefits are actuarially reduced for early retirement. Covered contributory plan employees are required by state statute to contribute 7.8 percent of their salary to the plan; Hawaii Health Systems Corporation is required by state statute to contribute the remaining amounts necessary to pay contributory plan benefits when due. In the noncontributory plan, employees may elect normal retirement age at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25 percent of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching 10 years of service; retirement benefits are actuarially reduced for early retirement. Hawaii Health Systems Corporation is required by state statute to contribute all amounts necessary to pay noncontributory plan benefits when due.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, Session Laws of Hawaii of 2004. Participants prior to July 1, 2006 could choose to participate in this hybrid plan or remain in the existing plans. New employees hired from July 1, 2006 are required to join the hybrid plan. Participants will contribute 6 percent of their salary to this plan. Furthermore, members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or at age 55 and 30 years of credited service. Members will receive a multiplier of 2 percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan.

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 2020 and 2019 was 17 percent. Contributions to the pension plan from the Corporation were approximately $44 million and $36 million for the fiscal years ended June 30, 2020 and 2019, 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, 2020 and 2019, the Corporation reported a liability of approximately $577 million and $542 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, 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 years ended June 30, 2020 and 2019 relative to all other contributing employers. At June 30, 2020, the Corporation's proportion was 4.1 percent. At June 30, 2019, the Corporation's proportion was also 4.1 percent, which was no change from its proportion measurement at June 30, 2018 of 4.1 percent.

For the years ended June 30, 2020 and 2019, the Corporation recognized pension expense of approximately $85,387,000 and $57,612,000, respectively. At June 30, 2020 and 2019, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 10,331,436	$ (1,203,361)	$ 9,905,817	$ (3,509,676)
Net difference between projected and actual earnings on plan investments	10,376,064	(32,514,878)	18,077,051	(41,492,351)
Changes in assumptions	23,648,666	10,376,064	36,054,593	18,077,052
Changes in proportion	1,210,106	(3,147,943)	1,598,553	(4,291,960)
Employer contributions to the plan subsequent to the measurement date	41,855,482	-	35,730,821	-
Total	$ 87,421,754	$ (26,490,118)	$ 101,366,835	$ (31,216,935)

The $41,855,482 and $35,730,821 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2021 and 2020, respectively. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2021	$ 11,389,339
2022	5,050,434
2023	1,041,157
2024	1,394,325
2025	200,899

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

Actuarial Assumptions

The total pension liability in the June 30, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2019
Inflation	2.5%
Salary increases	3.5%
Investment rate of return	7.0% per year, compounded annually, including inflation

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

There were no changes to ad hoc postemployment benefits, including COLA, in the June 30, 2019 and 2018 valuations.

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

The actuarial assumptions used in the June 30, 2019 and 2018 valuations were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The ERS updates its experience studies every five years.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent as of June 30, 2019 and 2018, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the ERS will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Projected Cash Flows

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

The long-term expected rate of return on pension plan investments for June 30, 2019 and 2018 was determined using a top-down approach of the client-constrained simulation-based optimization model (a statistical technique known as resampling with a replacement that directly keys in on specific plan-level risk factors as stipulated by the ERS' board of trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage.

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

The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following tables for June 30, 2019 and 2018:

	2019	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	63 %	7 %
Principal protection	7	3
Real return	10	4
Crisis risk offset	20	5

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

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, 2020 and 2019 calculated using the discount rate of 7.00 percent, as well as what the Corporation's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate:

	1 Percentage Point Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net pension liability - 2020	$ 748,398,545	$ 576,687,523	$ 453,058,837
Net pension liability - 2019	705,496,543	542,374,488	407,905,404

Pension Plan Fiduciary Net Position

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

Note 9 - Other Postemployment Benefit Plan

Plan Description

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

Benefits Provided

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

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

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

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Corporation were $46,929,179 and $45,645,221 for the fiscal years ended June 30, 2020 and 2019, respectively. The Corporation is required to make all contributions for members.

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

At June 30, 2020 and 2019, the Corporation reported a net OPEB liability of approximately $548 million and $547 million, respectively. The net OPEB liability was measured as of July 1, 2019 and 2018, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates. At June 30, 2020, the Corporation's proportion was 5.8151 percent, which was a decrease from its proportion measurement at June 30, 2019. At June 30, 2019, the Corporation's proportion was 5.8171 percent, which was a decrease from its proportion measurement at June 30, 2018, which was 6.7905 percent.

There were no changes between the measurement dates, July 1, 2019 and 2018, and the reporting dates, June 30, 2020 and 2019, respectively, that are expected to have a significant effect on the net OPEB liability.

Note 9 - Other Postemployment Benefit Plan (Continued)

For the years ended June 30, 2020 and 2019, the Corporation recognized OPEB expense of approximately $79,399,000 and $53,993,000, respectively. For the year ended June 30, 2020, OPEB expense of approximately $38 million is included in the amounts recognized above by the Corporation, which relates to an adjustment to deferred outflows. At June 30, 2020 and 2019, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on OPEB plan investments	$ -	$ (8,128,557)	$ -	$ (9,843,214)
Difference between projected and actual earnings	918,938	(164,123)	-	(1,130,289)
Changes in assumptions	7,637,111	-	5,957,412	-
Contributions subsequent to the measurement date	46,929,719	-	84,027,506	-
Total	$ 55,485,768	$ (8,292,680)	$ 89,984,918	$ (10,973,503)

The $46,929,719 and $84,027,506 reported as deferred outflows of resources related to OPEB resulting from the Corporation's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the years ending June 30, 2021 and 2020, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30	Amount
2021	$ (161,092)
2022	(161,092)
2023	45,811
2024	98,669
2025	441,073
Total	$ 263,369

Note 9 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability in the July 1, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions adopted by the board of trustees of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii, on January 13, 2020, based on the experience study covering the five-year period ended June 30, 2018:

	2019
Inflation	2.50 percent
Salary increases	3.50 percent to 7.00 percent, including inflation
Investment rate of return	7.00 percent
Health care cost trend rates:	
PPO*	Initial rate of 8.00 percent, declining to a rate of 4.86 percent after 12 years
HMO*	Initial rate of 8.00 percent, declining to a rate of 4.86 percent after 12 years
Part B and base monthly contribution	Initial rate of 5.00 percent, declining to a rate of 4.70 percent after 11 years
Dental	Initial rate of 5.00 percent for first 2 years, followed by 4.00 percent
Vision	Initial rate of 0.00 percent for first 2 years, followed by 2.50 percent
Life insurance	0.00 percent

	2018
Inflation	2.50 percent
Salary increases	3.50 percent to 7.00 percent, including inflation
Investment rate of return	7.00 percent
Health care cost trend rates:	
PPO*	Initial rate of 10.00 percent, declining to a rate of 4.86 percent after 13 years
HMO*	Initial rate of 10.00 percent, declining to a rate of 4.86 percent after 13 years
Part B and base monthly contribution	Initial rates of 4.00 percent and 5.00 percent, declining to a rate of 4.70 percent after 12 years
Dental	Initial rate of 5.00 percent for first 3 years, followed by 2.50 percent
Vision	Initial rate of 0.00 percent for first 3 years, followed by 2.50 percent
Life insurance	0.00 percent

*Blended rates for medical and prescription drugs

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

Note 9 - Other Postemployment Benefit Plan (Continued)

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments at June 30, 2020 and 2019 was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

	2020	
	Target Allocation	Long-term Expected Real Rate of Return
Asset class:		
Private equity	10.00 %	8.80 %
U.S. microcap	7.00	7.30
U.S. equity	15.00	5.35
Non-U.S. equity	17.00	6.90
Global options	7.00	4.75
Core real estate	10.00	3.90
Private credit	6.00	5.60
Core bonds	3.00	1.50
TIPS	5.00	1.20
Long treasuries	6.00	2.00
Alternative risk premia	5.00	2.75
Trend following	9.00	3.25

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

Note 9 - Other Postemployment Benefit Plan (Continued)

Discount Rate

The discount rate used to measure the net OPEB liability at June 30, 2020 was 7.00 percent, based on the expected rate of return on OPEB plan investments of 7.00 percent and the municipal bond rate of 3.13 percent (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-year Municipal GO AA index"). The discount rate used to measure the net OPEB liability at June 30, 2019 was 7.00 percent, based on the expected rate of return on OPEB plan investments of 7.00 percent and the municipal bond rate of 3.62 percent (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-year Municipal GO AA index"). Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

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

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

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

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

	1 Percentage Point Decrease (6.00%)	Discount Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net OPEB liability - 2020	$ 652,729,130	$ 547,829,574	$ 465,058,722
Net OPEB liability - 2019	646,896,856	547,178,995	468,825,190

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

	1 Percentage Point Decrease	Health Care Cost Trend Rate	1 Percentage Point Increase
Net OPEB liability - 2020	$ 461,288,109	$ 547,829,574	$ 659,639,924
Net OPEB liability - 2019	464,554,910	547,178,995	654,406,904

Note 10 - Long-term Debt

Long-term debt activity for the years ended June 30, 2020 and 2019 can be summarized as follows:

	2020				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Long-term debt	$ 35,653,031	$ -	$ (1,765,266)	$ 33,887,765	$ 1,765,813
Direct borrowings and direct placements - Notes payable	-	22,714,000	-	22,714,000	3,851,635
Capital leases	7,925,931	1,631,220	(2,122,703)	7,434,448	2,032,291

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

The long-term debt obligations are summarized as follows:

Roselani Place

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

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

In 2019, Alii refinanced the note payable, maturing in 2029. The refinanced note payable requires monthly payments of $109,431, including interest at 4.53 percent, through April 2029. The note is collateralized by certain property and equipment. The outstanding amount on this note payable is $9,616,203 and $10,574,964 as of June 30, 2020 and 2019, respectively.

Note 10 - Long-term Debt (Continued)

Maui Bonds

In 2012, MMMC issued general obligation bonds. These bonds were executed in two parts: Series 2012A and Series 2012B. The Series 2012A bonds were issued to refinance MMMC's existing $8 million loan, which had been held with the Bank of Montreal. Total borrowing under the first agreement was $8,100,000. These bonds carry an interest rate of 4.05 percent. The Series 2012A bonds are secured by a loan note guarantee issued by the United States Department of Agriculture (USDA) through its Rural Development division. The Series 2012B bonds provided initial funding for the purpose of construction of a physician clinic adjacent to the hospital, partial funding for a building renovation, and equipment associated with imaging services. Borrowing costs under the second agreement totaled $901,000. These bonds carried a variable interest rate that started at 5 percent until September 1, 2017, at which point the rate shall reset on each September 1, occurring every five years thereafter at a rate equal to 3.75 percent over the prevailing five-year FHLB Bulled Rate (Seattle). In the event that such rate is no longer available or practicable, a similar index as mutually agreed upon by the issuer and holders of the bonds will be used. The effective interest rate on the Series 2012B bonds as of June 30, 2020 and 2019 was 5.875 percent. The Series 2012B bonds are unsecured. The bonds are payable in annual installments ranging from $188,000 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, 2020 and 2019, MMMC was not in compliance with those covenants. A waiver for the covenant requirements was granted by the lender.

In January 2015, MMMC issued Revenue Bond Number 3, the proceeds of which were used to refinance the previously issued Series 2013 bonds. These bonds were issued under the existing master trust indenture dated April 1, 2008. Monthly payments are due in the amount of $46,433, including principal and interest, through January 2045 when all remaining principal and accrued interest are payable. Revenue Bond Number 3 carries an interest rate of 3.50 percent as of June 30, 2019 and 2020. In connection with the Revenue Bond Number 3, MMMC is subject to certain financial covenants. As of June 30, 2020 and 2019, MMMC was not in compliance with those covenants, and, as a result, Revenue Bond Number 3 is shown as current in the financial statements. A waiver for the covenant requirements was granted by the lender.

During 2019, MMMC executed an agreement to replace the lessor on the two capital leases with a new lessor. The agreement was part of an overall refinancing done on various debt and capital leases of HHSC entities. The arrangement results in overall financial savings for MMMC specific to interest expense over the remaining lease life. As part of the transaction, MMMC agreed to pledge assets as security for this lease, which are restricted by the lender's covenants. The restricted amount at June 30, 2020 and 2019 was $8,479,013.

Hilo Residency Training Program

In June 2001, Hawaii Health Systems Corporation acquired land, building, and medical equipment of $11,893,162 from Hilo Residency Training Program, Inc. (HRTP) to ensure the uninterrupted operation of the Hilo Medical Center Cancer Treatment Center and its radiation and medical oncology services. As part of the acquisition, Hawaii Health Systems Corporation assumed HRTP's outstanding balances on the loans and notes payable of $5.9 million from Central Pacific Bank and the United States Department of Agriculture. The assets and related liabilities have been recorded in the region's accounting records. The loans and notes payable are collateralized by a security interest in the capital assets acquired from HRTP, as well as any rights, interest, and other tangible assets relating to such property. In October 2007, the loans and notes payable to Central Pacific Bank and the USDA were refinanced into a single note payable to Academic Capital Group, Inc. This note was refinanced during 2019 and is held by American Savings Bank. The underlying collateral of the note remained unchanged as a result of this refinancing.

Under the terms of the refinancing of the Roselani Place and Hilo Residency Training Program debt, the Corporation is subject to semiannual financial covenants, including days cash on hand being no less than 30 days and a cash to debt ratio of 0.75. Failure to meet the covenants results in an event of default. Management has indicated they have remained in compliance with all covenants during 2020.

Note 10 - Long-term Debt (Continued)

During 2020, the debt of a capital lease with a vendor was transferred to Hilo Medical Center from HHSC in the amount of $1,563,421. The lease term is 60 months with monthly payments of $27,849. The lease is collateralized by the equipment. There is interest included in the capital payments. No capital leases were transferred to the region during the year ended June 30, 2019.

At June 30, 2020 and 2019, the balance outstanding under lease agreements was $2,350,231 and $1,402,735, respectively. The gross amount of assets recorded under capital leases at June 30, 2020 and 2019 was $4,272,251 and $6,731,646, respectively. Accumulated amortization related to assets recorded under capital leases at June 30, 2020 and 2019 was $3,919,724 and $6,049,966, respectively. Amortization expense on capital leases is recorded within depreciation expense on the statement of revenue, expenses, and changes in net position and totaled $330,274 and $330,274 at June 30, 2020 and 2019.

Kahuku Medical Center

During July 2012, Kahuku Medical Center entered into a purchase and maintenance services agreement with Holden Hospital Supply, Inc. to finance the purchase and maintenance of an oxygen generator. The note required monthly payments of $4,188, which included an interest component. The note matured in June 2019.

In April 2014, Kahuku Medical Center entered into a note to acquire land with monthly payments of $12,481, including interest at 4.75 percent. The note was collateralized by land owned by the facility. The note matured in April 2019.

During 2019, Kahuku Medical Center entered into a capital lease agreement to acquire equipment with monthly payments of $3,909, including interest at 3.1 percent, maturing in fiscal year 2024. The gross amount of assets recorded under the capital lease agreement was $197,000 at June 30, 2020 and 2019. Accumulated amortization related to the assets under the capital lease agreement was $51,999 and $9,850 at June 30, 2020 and 2019, respectively. The amortization associated with the capital lease asset is included in depreciation in the accompanying statement of revenue, expenses, and changes in net position.

Kahuku Medical Center had secured a line of credit for $500,000 that matured on May 2020. As of June 30, 2019, the facility had no borrowings against the line.

Kauai Region

During 2019, Kauai Region entered into three separate capital lease agreements for equipment The gross amount of assets recorded under capital leases at June 30, 2020 and 2019 was $2,989,300 and $2,921,501, respectively. Accumulated amortization related to assets under capital lease at June 30, 2020 and 2019 was $202,014 and $28,036, respectively. Amortization expense on capital assets under capital lease is recorded within depreciation expense in the statement of revenue, expenses and changes in net position and totaled $173,978 and $28,036 during the years ended June 30, 2020 and 2019, respectively.

Two of Kauai Region's capital leases are considered direct borrowings. Both leases have a term of 60 months and an interest rate of 3.58 percent.

In September 2019, Kauai Region entered into a master lease arrangement that provides capital lease financing as needed. The total amount available to Kauai Region is $10 million; however, Kauai Region is not required to utilize the entire amount available.

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

Note 10 - Long-term Debt (Continued)

Paycheck Protection Program

During 2020, Hawaii Health Systems Corporation received approximately $23 million from banks pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act's Paycheck Protection Program. The note structure required the Corporation's officials to certify certain statements that permitted the Corporation to qualify for the loan and provides loan forgiveness for a portion up to all of the borrowed amount if the Corporation uses the loan proceeds for the permitted loan purpose described in the note agreement; the portion not forgiven will require the Corporation to pay back this amount in full by the maturity. The Paycheck Protection Program loans are uncollateralized and bear interest at 1.00 percent. Monthly installments of principal and interest were due starting on November 1, 2020 and December 1, 2020, with a maturity date of April 1, 2022 and May 1, 2022.

Under the Paycheck Protection Flexibility Act of 2020, loan payments of principal and interest are deferred until either (1) the date that the Small Business Administration (SBA) remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness coverage period. Based on this act, the monthly installments of principal and interest are due starting on March 1, 2021 and April 1, 2021, with a maturity date of August 1, 2022 and September 1, 2022.

Debt Service Requirements to Maturity

The table below indicates the future scheduled principal and interest payments as of June 30, 2020. While presentation of the statement of net position contains certain amounts that are included within current portion of long-term debt, the schedule below has been prepared based on contractually scheduled payments as of June 30, 2020:

	Long-term Debt		Direct Borrowings and Direct Placements - Notes Payable		Capital Lease Obligation	
Years Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2021	$ 1,765,813	$ 1,279,563	$ 3,851,635	$ 148,068	$ 2,032,291	$ 160,815
2022	1,834,858	1,208,179	15,143,487	119,342	1,854,648	109,701
2023	1,912,300	1,134,351	3,718,878	6,118	1,264,132	69,236
2024	1,992,577	1,058,193	-	-	1,072,147	41,400
2025	2,073,148	977,266	-	-	779,146	20,812
2026-2030	10,051,804	3,169,942	-	-	432,084	11,794
2031-2035	5,816,872	2,124,929	-	-	-	-
2036-2040	4,182,512	1,261,861	-	-	-	-
Thereafter	4,257,881	386,811	-	-	-	-
Total	$ 33,887,765	$ 12,601,095	$ 22,714,000	$ 273,528	$ 7,434,448	$ 413,758

Significant Terms

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

Note 11 - Commitments and Contingencies

Professional Liability

Hawaii Health Systems Corporation maintains professional and general liability insurance with a private insurance carrier with a $1 million limit per claim and a $5 million aggregate. Hawaii Health Systems Corporation has also purchased additional excess insurance with a $34 million per claim and aggregate limit. Hawaii Health Systems Corporation's general counsel advises that, in the unlikely event any judgments rendered against Hawaii Health Systems Corporation exceed Hawaii Health Systems Corporation's professional liability coverage, such amounts would likely be paid from an appropriation from the State's General Fund. Settled claims have not exceeded the coverage provided by the insurance carrier in any of the past three fiscal years. The Corporation has accrued approximately $1,130,000 and $1,200,000 as of June 30, 2020 and 2019, respectively, as accounts payable and accrued expenses on the statement of net position.

Workers' Compensation Liability

Hawaii Health Systems Corporation is self-insured for workers' compensation claims. Hawaii Health Systems Corporation pays a portion of wages for injured workers (as required by law), medical bills, judgments as stipulated by the State's Department of Labor, and other costs. Hawaii Health Systems Corporation also directly provides treatment for injured workers. The estimated liability is based on actuarial projections of costs using historical claims-paid data. Estimates are continually monitored and reviewed, and, as settlements are made or estimates adjusted, differences are reflected in current operations. Hawaii Health Systems Corporation has accrued a liability of $11,584,000 and $11,698,000 for unpaid claims as of June 30, 2020 and 2019, respectively.

	2020	2019	2018
Estimated liability - Beginning of year	$ 11,698,000	$ 12,032,000	$ 12,740,000
Estimated claims incurred - Including changes in estimates	2,676,000	3,379,000	3,304,000
Claim payments	(2,790,000)	(3,713,000)	(4,012,000)
Estimated liability - End of year	$ 11,584,000	$ 11,698,000	$ 12,032,000

Operating Leases

MMMC and Alii entered into various operating leases and related sublease agreements. Future minimum lease payments and sublease receipts at June 30, 2020 are as shown in the below table. Additionally, MMMC now receives lease income as a result of transferring hospital operations to Kaiser. The lease income amounts are shown in the table, and a description of the income is provided below the table.

Years Ending June 30	Lease Payments	Lease Income
2021	$ 2,537,399	$ 1,477,874
2022	2,071,473	1,558,913
2023	1,447,056	1,471,719
2024	368,726	1,370,838
2025	274,717	1,367,491
Thereafter	5,083,162	21,240,303
Total	$ 11,782,533	$ 28,487,138

Note 11 - Commitments and Contingencies (Continued)

Lease Income

In relation to the transfer of the HHSC - Maui hospital operations to Kaiser in 2018, the two parties signed a lease agreement wherein Kaiser leases the property and equipment owned by the region. The lease was effective as of July 1, 2017, has a 30-year term, and calls for monthly payments to the Corporation for annual base minimum rent and for reimbursement of capital leases to which the Corporation remains obligated. Total lease income included within other operating revenue in the statement of revenue, expenses, and changes in net position for the years ended June 30, 2020 and 2019 was approximately $1,496,000 and $1,958,000, respectively.

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

Ceded Lands

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

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

On September 20, 2006, the governor of the State of Hawaii issued Executive Order No. 06-06, which established procedures for the state agencies to follow in order to carry out the requirements of Act 178. Each state agency that collects receipts from the use of ceded or public land trust land is to determine OHA's share of such receipts by calculating the ceded/nonceded fraction of the parcel that generated the receipt, multiplying the receipt by the ceded/nonceded fraction, and multiplying that result by 20 percent. The resulting amounts are to be deposited into a trust holding account established for such purpose and within 10 days of the close of each fiscal quarter, the amounts are to be transferred to OHA. Within a specified period after the close of each quarter, the director of finance is to reconcile the actual amounts transferred to OHA with the required amount of $2.1 million and adjust each specific agency's payments accordingly.

For the years ended June 30, 2020 and 2019, there were no payments made to OHA.

Litigation

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

Note 12 - Employee Benefits

Sick Leave

Accumulated sick leave as of June 30, 2020 and 2019 was approximately $59,759,000 and $59,533,000, 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 13 - Impact of Disease Outbreak

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals in the United States and worldwide. In response, the United States federal government and individual state and local governments have implemented measures to combat the outbreak that have impacted health care business operations. During the last quarter of fiscal year 2020, the Corporation's operations were significantly impacted as shelter-in-place orders and government mandates related to the suspension of elective procedures and travel restrictions to the state of Hawaii reduced volumes at the Corporation during this period. The Corporation has moved to mitigate the impact by adjusting its workforce, eliminating and delaying capital expenditures, and actively managing cash disbursements.

Enacted on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act was established, which authorizes $100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus pandemic, such as forgone revenue from canceled procedures, and to provide support for related health care expenses, such as constructing temporary structures or emergency operation centers; retrofitting facilities; purchasing medical supplies and equipment, including personal protective equipment and testing supplies; and increasing workforce. Further, these relief funds ensure uninsured patients are receiving testing and treatment for COVID-19.

In April, 2020, the U.S. Department of Health and Human Services (HHS) began making payments to health care providers from the $100 billion appropriation from the CARES Act and $75 billion from the Paycheck Protection Program and Healthcare Enhancement Act. These are payments to health care providers that will not need to be repaid as long as the Corporation complies with certain terms and conditions outlined by HHS. Hawaii Health Systems Corporation received approximately $50 million of payments as part of the general and targeted distributions of the CARES Act Provider Relief Fund. As of June 30, 2020, the Corporation has recognized approximately $8 million as contribution revenue within nonoperating revenue (expense) on the statement of revenue, expenses, and changes in net position, as the Corporation has asserted that it has met the conditions and restrictions outlined within the HHS published terms and conditions for the CARES Act as of June 30, 2020. The Corporation relied upon the guidance in the HHS frequently asked questions (FAQs) published as of June 19, 2020 to determine the amount of grant revenue eligible for recognition as of June 30, 2020. Such FAQs stated general and targeted distributions of the CARES Act Provider Relief Fund could be used to offset lost revenue that is attributable to the coronavirus and that any reasonable method of estimating the revenue lost could be utilized. Such FAQs also stated that general distributions could be shared within a health system.

Note 13 - Impact of Disease Outbreak (Continued)

Subsequent to June 30, 2020, HHS issued new reporting requirements for the CARES Act Provider Relief Fund. The new requirements first require the recipient to identify health care-related expenses attributable to the coronavirus pandemic that another source has not reimbursed. If those expenses do not exceed the funding received, the recipient will need to demonstrate the remaining funding was applied toward lost revenue, defined as the difference between calendar years 2019 and 2020 actual patient care revenue, with an additional six months to use through June 2021. HHS is entitled to recoup amounts in excess of the negative change in patient care revenue reported net of health care-related expenses attributable to the coronavirus pandemic. Management reviewed the calculation determining the targeted and general distributions earned by the Corporation using the guidance published by HHS subsequent to June 30, 2020, noting the additional guidance resulted in no changes to the amounts recognized. HHS' requirements for the uses of the CARES Act funds are subject to change, open to interpretation, and clarification and, therefore, may result in changes in the amounts recognized as income during the year ended June 30, 2020.

Hawaii Health Systems Corporation determined expenses related to COVID and lost revenue for January 2020 through June 2020 compared to the same period in 2019 to derive the total of approximately $8 million earned on targeted and general distributions. The Corporation also has approximately $42 million recorded as a liability on the statement of net position, as the Corporation has not met the conditions and restrictions of this CARES Act funding as of June 30, 2020.

During 2020, Hawaii Health Systems Corporation requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of accelerated Medicare payments for acute-care hospitals. The initial repayment terms for this funding stated that repayment was to begin 120 days past receipt of the accelerated payment, with claims for services provided to Medicare beneficiaries being applied against the accelerated payment balance. Any unapplied accelerated payment amounts must be paid in full within one year from receipt of the accelerated payments for acute-care hospitals. As of June 30, 2020, the Corporation received approximately $14 million from these accelerated Medicare payment requests, which is recorded as a current liability.

Subsequent to year end, the U.S. Congress and CMS extended the repayment terms of the accelerated Medicare payments to begin one year after the first payment was issued, at which point these amounts will be repaid at 25 percent of the Medicare payments for 11 months. After 11 months, the recoupment will increase to 50 percent of the Medicare payments for 6 additional months (or until all amounts are repaid). Any unapplied accelerated payment amounts that are unpaid after this 17-month period are due to CMS, plus an interest at a rate of 4 percent on the outstanding balance. With the change in repayment terms issued subsequent to year end, repayment of the accelerated payments for the Corporation will begin during the year ending June 30, 2021 and will continue into the year ending June 30, 2023.

Required Supplemental Information

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

Years Ended June 30

	2020	2019	2018	2017	2016	2015	2014
Corporation's proportion of the net pension liability	4.1 %	4.1 %	4.1 %	6.9 %	7.1 %	7.3 %	7.2 %
Corporation's proportionate share of the net pension liability	$ 576,687,523	$ 542,374,488	$ 530,455,687	$ 916,111,059	$ 623,325,233	$ 583,997,239	$ 638,368,793
Corporation's covered payroll	$ 197,655,015	$ 191,534,713	$ 172,037,521	$ 282,760,136	$ 288,121,862	$ 285,988,382	$ 268,597,949
Corporation's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	291.8 %	283.2 %	308.3 %	324.0 %	216.3 %	204.2 %	237.7 %
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	54.9 %	55.5 %	54.8 %	51.3 %	62.4 %	63.9 %	58.0 %

See note to pension required supplemental information schedules.

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

Years Ended June 30

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 45,328,800	$ 38,354,000	$ 33,088,000	$ 50,418,500	$ 51,584,604	$ 49,213,969	$ 53,279,576
Contributions in relation to the contractually required contribution	45,328,800	38,354,000	33,088,000	50,418,500	51,584,604	50,272,620	47,500,308
Contribution (Excess) Deficiency	$ -	$ -	$ -	$ -	$ -	$ (1,058,651)	$ 5,779,268
Corporation's Covered Payroll	$ 197,655,015	$ 191,534,713	$ 172,037,521	$ 282,760,136	$ 288,121,862	$ 285,988,382	$ 268,597,949
Contributions as a Percentage of Covered Payroll	22.9 %	20.0 %	19.2 %	17.8 %	17.9 %	17.6 %	17.7 %

See note to pension required supplemental information schedules.

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

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

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

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

The valuation methods and assumptions used to determine contribution for the fiscal year ended June 30, 2020 are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent, closed
Remaining amortization period	25 years
Asset valuation method	Market
Inflation	2.5 percent
Salary increases	3.5 percent wage inflation
Investment rate of return	7.0 percent per year, compounded annually, including inflation

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

Last Three Fiscal Years
Years Ended June 30

	2020	2019	2018
Corporation's proportion of the net OPEB liability	5.81510 %	5.81710 %	6.79050 %
Corporation's proportionate share of the net OPEB liability	$ 547,829,574	$ 547,178,995	$ 541,845,124
Corporation's covered payroll	$ 202,294,694	$ 197,656,054	$ 191,546,061
Corporation's proportionate share of the net OPEB liability as a percentage of its covered payroll	270.81 %	276.83 %	282.88 %
Plan fiduciary net position as a percentage of total OPEB liability	17.24 %	12.10 %	8.63 %

See note to OPEB required supplemental information schedules.

Required Supplemental Information
Schedule of OPEB Contributions

Last Three Fiscal Years
Years Ended June 30

	2020	2019	2018
Contractually required contribution	$ 49,002,433	$ 43,988,025	$ 43,306,409
Contributions in relation to the contractually required contribution	46,929,719	45,645,221	38,382,284
Contribution (Deficiency) Excess	**$ (2,072,714)**	**$ 1,657,196**	**$ (4,924,125)**
Corporation's Covered Payroll	$ 202,294,694	$ 197,656,054	$ 191,546,061
Contributions as a Percentage of Covered Payroll	23.20 %	23.09 %	20.04 %

See note to OPEB required supplemental information schedules.

Actuarial valuation information relative to the determination of contributions:

Valuation date	The actuarially determined contribution for fiscal year ended June 30, 2020 was developed in the July 1, 2017 valuation.
Methods and assumptions:	
Actuarial cost method	Entry age normal
Discount rate	7.00 percent
Inflation	2.50 percent
Amortization method	Level percent. Closed bases are established at each valuation for new unfunded liabilities.
Equivalent single amortization period	25.0 as of fiscal year ended June 30, 2020
Payroll growth	3.50 percent
Salary increase	3.50 percent to 7.00 percent, including inflation
Demographic assumptions	Based on experience study covering the five-year period ended June 30, 2015, as conducted for the Hawaii Employees' Retirement System
Health care cost trend rates:	
PPO*	Initial rates of 6.60, 6.60, and 9.00 percent, declining to a rate of 4.86 percent after 14 years
HMO*	Initial rate of 9.00 percent, declining to a rate of 4.86 percent after 14 years
Part B	Initial rates of 2.00 and 5.00 percent, declining to a rate of 4.70 percent after 14 years
Dental	3.50 percent
Vision	2.50 percent
Life insurance	0.00 percent

*Blended rates for medical prescription drugs

Other Supplemental Information

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

		June 30, 2020
Cash and Cash Equivalents - State of Hawaii		
Special funds:		
Appropriation symbol S-18-303-H	$	530,801
Appropriation symbol S-19-350-H		5,500,000
Appropriation symbol S-19-351-H		451,273
Appropriation symbol S-17-352-H		406,679
Appropriation symbol S-10-355-H		154
Appropriation symbol S-10-371-H		3,847
Appropriation symbol S-10-358-H		1
Appropriation symbol S-20-365-H		767,605
Appropriation symbol S-20-312-H		923,371
Appropriation symbol S-20-359		729,825
Appropriation symbol S-20-373		300,000
Appropriation symbol S-17-353-H		340,176
Appropriation symbol S-17-354-H		2,556,644
Total per State		12,510,376
Assets Limited as to Use - Patient Funds		
Appropriation symbol T-04-923-H		13,811
Appropriation symbol T-04-919-H		37,184
Appropriation symbol T-20-911-H		22,912
Appropriation symbol T-20-909-H		6,630
Appropriation symbol T-20-925-H		70,440
Total per State		150,977
Reconciling Items		
Patients' safekeeping deposits held by financial institutions		163,561
Restricted assets held by financial institutions		22,560,277
Total per HHSC	**$**	**35,385,191**

Hawaii Health Systems Corporation

June 30, 2020

	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities	Hawaii Health Systems Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Alii Health Center	Kona Ambulatory Surgery Center	East Hawaii Medical Group	Kahuku	Eliminations	HHSC Consolidated
Assets and Deferred Outflows of Resources																										
Current Assets																										
Cash and cash equivalents	$ 50,147,610	$ 8,913	$ 29,113	$ 6,955,793	$ 38,599,742	$ 6,611,877	$ 15,652,709	$ 1,597,779	$ 357,343	$ 6,160,212	$ 8,052,513	$ 29,646,002	$ -	$ 164,019,646	$ 11,388,399	$ -	$ 175,408,045	$ 39,276	$ 1,349,902	$ -	$ 1,942,779	$ 248,907	$ 314,691	$ 7,436,857	$ -	$ 186,742,457
Cash and cash equivalents - State of Hawaii	5,500,000	451,273	406,679	-	2,556,644	340,176	154	3,647	1	823,371	767,605	729,625	300,000	11,979,575	530,801	-	12,510,376	-	-	-	-	-	-	-	-	12,510,376
Patient accounts receivable - Less allowances for doubtful accounts	27,943,504	1,316,466	1,251,736	1,413,506	13,897,284	904,764	-	-	-	1,098,376	619,114	5,699,291	3,656,697	57,999,746	-	-	57,999,746	-	301,959	-	966,420	110,791	-	2,159,626	-	61,538,542
Investments	7,961,296	-	-	-	-	-	-	-	-	-	-	-	-	7,961,296	-	-	7,961,296	-	-	-	-	-	-	-	-	7,961,296
Due from the State of Hawaii	6,960,000	2,100,000	500,000	-	3,515,000	725,000	3,536,000	858,000	634,000	3,457,000	3,622,000	3,613,000	8,972,000	40,098,000	-	-	40,098,000	-	-	-	-	-	-	1,654,796	-	41,752,796
Due from affiliates - Net	-	27,537,297	6,545,835	-	4,214,260	-	2,382,072	123,671	-	2,328,066	171,737	-	16,007,406	59,320,344	478,162	(58,489,150)	1,309,356	-	-	-	-	454	257,990	-	(1,567,804)	-
Supplies and other current assets	5,533,674	211,771	222,022	12,673	3,274,710	63,442	7,436	12	-	335,877	191,776	1,000,803	247,768	11,102,367	108,808	-	11,212,175	-	647,290	-	214,982	47,275	-	480,368	-	12,501,958
Estimated third-party payor settlements	1,611,964	36,306	331,729	-	767,514	336,440	214,061	-	-	619,720	549,006	584,946	913,859	6,494,563	-	-	6,494,563	-	-	-	-	-	-	338,491	-	6,833,054
Total current assets	105,664,048	31,662,995	9,286,113	10,382,172	68,050,158	8,981,723	21,602,455	2,563,309	1,181,344	17,121,754	12,373,751	40,673,957	30,096,722	356,975,541	12,507,170	(58,489,150)	312,993,561	39,276	2,199,141	-	3,124,091	407,427	572,681	12,272,135	(1,567,804)	330,040,479
Assets Limited as to Use - Net of current portion	15,054	49,631	14,582	-	10,252,382	-	11,166,832	-	-	86,137	63,701	13,611	37,184	21,729,834	1,071,996	-	22,800,830	-	-	-	-	-	-	73,985	-	22,874,815
Capital Assets - Net	57,294,978	15,230,065	4,787,000	20,015,408	39,542,724	6,075,136	100,799,890	14,406,477	4,875,415	15,864,376	11,527,992	14,681,585	10,593,878	320,894,801	349,736	-	321,244,537	-	6,029,598	-	205,700	2,531,536	-	6,569,534	-	336,580,909
Other Assets	-	-	-	-	132,155	-	-	-	-	-	-	-	-	132,155	-	-	132,155	-	-	-	-	-	-	-	(132,155)	-
Total assets	163,274,060	46,942,711	14,087,705	30,397,580	118,782,469	15,056,859	133,768,977	16,969,786	6,056,759	33,062,267	23,964,844	55,369,353	40,727,782	701,731,331	13,928,902	(58,489,150)	657,171,083	39,276	8,228,739	-	3,329,791	2,938,963	572,681	18,915,654	(1,699,959)	689,496,202
Deferred Outflows of Resources																										
Pension	37,178,130	3,136,478	2,230,408	-	13,861,803	2,003,882	-	-	-	3,646,388	4,564,784	9,969,338	3,941,749	94,181,962	3,200,291	-	97,421,754	-	-	-	-	-	-	-	-	97,421,754
Postemployment benefits other than pensions	24,008,991	1,962,138	1,335,662	-	9,510,651	1,229,968	-	-	-	3,541,293	2,613,082	6,046,719	2,427,765	52,967,861	2,517,907	-	55,485,768	-	-	-	-	-	-	-	-	55,485,768
Total assets and deferred outflows of resources	$ 224,461,221	$ 52,041,328	$ 17,712,675	$ 30,397,580	$ 141,974,973	$ 18,287,749	$ 133,768,977	$ 16,969,786	$ 6,066,759	$ 43,297,050	$ 31,492,690	$ 71,391,482	$ 47,097,387	$ 848,838,656	$ 19,737,060	$ (58,489,150)	$ 810,078,605	$ 39,276	$ 8,228,739	$ -	$ 3,329,791	$ 2,938,963	$ 572,681	$ 18,915,654	$ (1,699,959)	$ 852,403,724

Statement of Net Position of Facilities (Continued)

June 30, 2020

Liabilities, Deferred Inflows of Resources, and Net Position	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities	Hawaii Health Systems Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Alii Health Center	Kona Ambulatory Surgery Center	East Hawaii Medical Group	Kahuku	Eliminations	HHSC Consolidated
Current Liabilities																										
Accounts payable and accrued expenses	$ 27,408,780	$ 2,025,522	$ 1,767,947	$ 1,426,660	$ 10,106,986	$ 772,516	$ 743,157	$ 647	$ 1,911	$ 2,497,060	$ 1,841,469	$ 4,680,023	$ 1,603,461	$ 54,998,389	$ 1,766,504	$ -	$ 56,735,683	$ -	$ 103,648	$ -	$ 1,366,290	$ 143,236	$ -	$ 2,050,022	$ (88,004)	$ 60,312,075
Current portion of accrued vacation	5,316,958	346,839	414,940	94,680	3,074,182	856,232	-	-	-	1,272,441	738,657	1,640,005	834,307	14,093,961	427,637	-	14,521,498	-	-	-	288,906	-	252,581	533,111	-	15,587,066
Current portion of long-term debt	410,083	304,188	201,725	-	1,037,004	-	427,925	-	-	458,290	-	758,002	367,460	3,944,682	-	-	3,944,682	-	927,904	-	212,429	27,423	-	505,130	-	5,617,448
Current portion of capital lease obligations	773,443	-	-	-	368,701	-	362,454	-	-	-	-	403,203	84,490	1,992,293	-	-	1,992,293	-	-	-	-	-	-	38,964	-	2,032,791
Due to affiliates - net	32,951,586	-	-	27,663	149,000	2,911,414	-	-	3,184,624	34,000	2,144,177	18,175,045	(33,004)	57,544,513	-	(58,489,150)	(944,635)	-	-	-	944,633	-	-	1,481,800	(1,481,800)	-
Current portion of accrued workers' compensation	902,000	158,000	10,000	-	663,000	93,000	482,000	255,000	-	140,000	121,000	109,000	63,000	2,916,000	-	-	2,916,000	-	-	-	-	-	-	-	-	2,916,000
Other current liabilities																										
Medicare accelerated payments	-	-	-	-	8,483,867	1,175,773	-	-	-	-	-	3,402,264	364,337	14,436,041	-	-	14,436,041	-	-	-	-	-	-	-	-	14,436,041
Unearned revenue - CARES Act Provider Relief Fund	9,021,022	2,499,918	3,613,064	572,840	10,675,347	3,613,864	-	-	-	431,732	944,529	2,668,723	4,011,660	38,078,429	-	-	38,078,429	-	-	-	87,452	-	-	4,043,317	-	42,204,198
Other current liabilities	-	2,886	-	-	-	-	60,000	-	-	-	-	313,629	42,616	438,141	7,000	-	446,141	-	414,544	-	-	-	-	-	-	860,685
Total current liabilities	78,836,562	5,576,543	6,013,296	2,125,863	35,769,919	9,082,739	2,095,537	255,647	3,186,535	4,833,543	5,429,832	30,149,894	7,058,417	188,414,531	2,201,141	(58,489,150)	132,126,522	-	1,445,896	-	2,494,702	170,659	252,581	8,653,374	(1,567,804)	143,976,004
Long-term Debt - Net of current portion	8,797,790	1,630,232	1,081,175	-	5,557,992	-	18,635,783	-	-	2,308,710	-	3,717,796	1,851,140	39,580,600	-	-	39,580,600	-	8,644,289	-	787,071	146,977	-	1,781,270	-	50,884,317
Capital Lease Obligations - Net of current portion	1,576,768	-	-	-	341,607	-	1,651,858	-	-	-	-	1,446,254	279,237	5,295,744	-	-	5,295,744	-	-	-	-	-	-	106,413	-	5,402,157
Other Liabilities																										
Accrued vacation - Less current portion	6,741,820	489,336	525,487	-	1,407,554	254,678	-	-	-	833,433	1,344,784	1,356,736	1,075,157	14,172,981	945,613	-	15,118,604	-	-	-	132,757	-	320,130	-	-	15,571,471
Accrued workers' compensation - Less current portion	3,345,000	257,000	255,000	-	1,673,000	166,000	478,000	95,000	-	727,000	346,000	664,000	363,000	8,378,000	292,000	-	8,668,000	-	-	-	-	-	-	-	-	8,668,000
Other postemployment liability	237,048,819	18,372,644	13,090,678	-	93,903,617	12,135,711	-	-	-	34,964,277	28,761,933	59,721,035	23,870,334	522,969,439	24,960,135	-	547,629,574	-	-	-	-	-	-	-	-	547,629,574
Due to the State of Hawaii	-	506,153	-	-	7,606,205	528,149	-	-	-	6,416,791	491,450	1,043,343	2,417,150	19,008,243	-	-	19,008,243	-	-	-	-	-	-	-	-	19,008,243
Pension liability	233,076,546	20,694,013	12,949,129	-	99,647,537	12,113,722	-	-	-	43,284,990	35,810,228	68,696,520	26,861,829	553,099,513	23,548,010	-	576,647,523	-	-	-	-	-	-	-	-	576,647,523
Other liabilities	-	1,500	-	-	3,833	-	-	-	-	-	-	-	4,480	9,813	-	-	9,813	-	-	-	-	-	-	-	-	9,813
Patients' safekeeping deposits	15,054	49,631	14,582	-	-	-	-	-	-	89,509	58,981	10,543	35,840	272,150	-	-	272,150	-	-	-	-	-	-	5,926	-	278,076
Total liabilities	565,440,390	48,577,252	33,929,347	2,125,863	245,750,460	34,290,999	20,862,154	300,647	3,186,535	83,558,253	72,085,212	167,812,125	64,078,563	1,361,198,024	51,887,899	(58,489,150)	1,344,596,773	-	10,134,395	-	3,614,510	317,636	572,681	10,546,969	(1,567,804)	1,364,415,160
Deferred Inflows of Resources																										
Pension	11,293,543	950,400	696,758	-	4,751,779	606,540	-	-	-	1,710,309	1,189,253	2,928,136	1,194,407	25,433,122	996,996	-	26,430,118	-	-	-	-	-	-	-	-	26,430,118
Postemployment benefits other than pensions	3,560,288	293,253	198,158	-	1,421,454	183,702	-	-	-	529,266	435,379	904,017	362,847	7,918,364	376,316	-	8,292,680	-	-	-	-	-	-	-	-	8,292,680
Total deferred inflows of resources	14,853,831	1,243,653	894,915	-	6,173,233	790,242	-	-	-	2,239,575	1,624,632	3,832,153	1,557,254	33,409,486	1,373,312	-	34,782,798	-	-	-	-	-	-	-	-	34,782,798
Total liabilities and deferred inflows of resources	580,294,221	49,820,905	34,824,260	2,125,863	251,923,693	35,081,241	20,862,154	300,647	3,186,535	85,797,828	73,909,844	170,844,278	65,635,837	1,394,607,510	53,261,211	(58,489,150)	1,379,379,571	-	10,134,395	-	3,614,510	317,636	572,681	10,546,969	(1,567,804)	1,403,187,978
Net Position																										
Unrestricted	(403,569,874)	(13,009,660)	(21,836,285)	6,256,309	(144,820,267)	(22,866,036)	15,005,654	2,232,482	(1,895,191)	(69,343,877)	(53,987,263)	(112,558,272)	(28,770,023)	(850,758,904)	(33,873,667)	-	(884,630,791)	39,276	1,604,929	-	(690,449)	89,791	-	1,876,445	(132,155)	(881,842,914)
Net investment in capital assets	47,736,874	15,230,083	4,707,000	20,015,408	34,832,414	6,073,185	93,621,452	14,406,477	4,875,415	15,853,899	11,535,704	13,032,128	10,230,149	296,432,300	349,736	-	296,782,036	-	(3,510,545)	-	205,700	2,531,536	-	6,423,127	-	302,431,814
Restricted for lender covenants and other	-	-	-	-	38,133	-	8,478,509	-	-	-	24,535	3,268	1,344	8,547,789	-	-	8,547,789	-	-	-	-	-	-	69,057	-	8,616,846
Total net position	(355,833,000)	2,220,420	(17,111,285)	26,271,717	(109,949,720)	(16,793,501)	117,906,613	16,648,959	2,640,224	(53,529,978)	(42,427,044)	(99,562,876)	(18,538,530)	(545,778,815)	(33,524,151)	-	(579,300,966)	39,276	(1,905,656)	-	(484,749)	2,621,327	-	8,368,669	(132,155)	(570,794,294)
Total liabilities, deferred inflows of resources, and net position	$ 224,461,221	$ 52,041,325	$ 17,712,975	$ 28,397,580	$ 141,974,973	$ 18,287,740	$ 138,768,977	$ 16,949,706	$ 5,826,759	$ 42,267,850	$ 31,482,800	$ 71,281,402	$ 47,097,307	$ 848,828,695	$ 19,737,060	$ (58,489,150)	$ 800,078,605	$ 39,276	$ 8,228,739	$ -	$ 3,129,761	$ 2,938,963	$ 572,681	$ 18,915,638	$ (1,699,959)	$ 832,393,734

Hawaii Health Systems Corporation

Year Ended June 30, 2020

	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital
Operating Revenue													
Net patient service revenue	$ 191,666,182	$ 17,424,784	$ 12,895,347	$ 15,963,327	$ 80,677,327	$ 4,828,812	$ -	$ -	$ -	$ 15,357,754	$ 14,102,452	$ 39,148,698	$ 19,902,837
Other revenue	2,288,576	16,454	16,477	-	357,931	12,083	1,921,232	7,319	644	373,344	88,276	217,130	208,959
Total operating revenue	193,954,758	17,441,238	12,911,824	15,963,327	81,035,258	4,840,895	1,921,232	7,319	644	15,731,098	14,190,728	39,366,093	20,111,796
Operating Expenses													
Salaries	81,627,316	8,188,123	6,148,270	6,297,684	39,604,903	5,214,818	-	-	-	13,206,622	11,647,372	22,985,914	10,548,354
Employee benefits	68,318,287	7,645,143	6,207,118	887,408	36,060,479	4,031,271	21,300	(71,878)	-	13,103,873	10,069,096	21,075,298	9,490,932
Medical supplies and drugs	29,501,295	837,293	433,931	845,063	12,478,456	132,456	-	-	-	475,148	389,459	2,451,931	326,078
Depreciation and amortization	9,037,706	835,817	481,829	787,381	4,712,958	313,554	9,345,267	1,488,493	324,689	1,237,528	831,400	3,271,415	1,379,784
Utilities	4,080,178	583,594	269,233	1,130,832	1,553,789	189,421	-	-	-	830,871	455,272	1,083,941	426,368
Repairs and maintenance	5,090,868	339,537	201,741	157,344	4,387,205	166,596	-	-	-	333,477	346,391	572,297	77,900
Other supplies	5,386,450	634,806	473,684	767,020	1,738,018	611,993	-	-	-	711,683	636,745	335,654	478,143
Purchased services	35,221,693	1,852,351	1,129,037	1,330,092	23,287,811	2,111,454	604,611	7,399	3,399	624,573	856,405	5,667,378	1,614,145
Professional fees	11,322,130	1,286,258	2,740,471	56,227	506,556	408,668	-	-	-	35,613	57,984	4,137,717	1,053,175
Insurance	2,436,601	235,824	156,520	1,649,148	1,261,038	-	144,231	-	-	141,898	128,843	572,335	104,544
Rent and lease	1,656,784	82,145	229,011	29,548	473,863	66,879	-	-	-	36,745	1,683	779,202	48,819
Other	2,880,901	329,873	255,456	772,384	1,526,636	238,831	115,338	493	33	107,343	84,296	1,081,756	256,816
Total operating expenses	265,711,976	22,611,064	18,736,379	14,220,370	127,996,812	14,106,522	10,230,747	1,402,406	328,321	30,946,680	26,022,921	64,214,178	25,965,298
Operating (Loss) Income	(71,756,218)	(5,169,826)	(5,824,555)	1,742,957	(46,961,554)	(9,185,567)	(8,309,517)	(1,395,087)	(327,633)	(15,215,582)	(11,832,193)	(24,848,085)	(5,853,501)
Nonoperating Income (Expense)													
General appropriations from the State of Hawaii	54,951,000	3,466,000	2,542,999	-	29,746,000	2,200,001	-	-	-	5,392,003	4,635,000	12,219,000	3,010,000
Restricted contributions	449,472	105,267	86,123	-	442,481	107,491	-	-	-	-	-	-	-
Interest (expense) income	(313,348)	-	(182)	-	(30,503)	(5,896)	(733,347)	-	-	(699)	846	(28,293)	(2,742)
Interest and dividend income	384,596	3,946	4,067	70,331	140,591	8,758	262,673	-	-	6,694	8,506	82,374	3,181
Contributions - CARES Act Provider Relief Fund	2,312,000	1,367,000	50,000	-	1,043,000	-	-	-	-	96,000	125,000	2,380,000	7,000
Corporate allocation to affiliates	(2,317,000)	(182,000)	(193,000)	-	(1,039,000)	(117,000)	(2,037,067)	-	-	(235,000)	(205,000)	(509,000)	(203,000)
Other nonoperating revenue (expense) - Net	631,197	94,905	(324)	(1,243)	(10,610,747)	24,657	2,389	-	-	29,644	-	117,895	7,337
Total nonoperating income (expense)	56,587,916	4,875,158	2,577,705	69,088	18,650,992	2,216,012	(2,485,348)	-	-	5,287,496	4,565,452	14,261,976	2,821,786
Excess of Revenue (Under) Over Expenses before Capital Contributions and Transfers	(35,168,302)	(294,668)	(3,246,850)	1,812,045	(28,267,622)	(2,949,555)	(10,794,865)	(1,395,087)	(327,633)	(9,928,086)	(7,266,701)	(10,586,109)	(3,031,715)
Capital Contributions	2,288,909	2,148,478	623,380	-	3,161,356	813,866	1,253	(812)	(550)	1,329,229	1,260,534	942,899	5,290,225
Transfer (to) from Affiliate	(288,871)	(15,875)	(12,480)	-	(129,872)	(5,678)	-	-	-	(1,911)	(29,038)	-	-
Change in Reporting Entity	-	-	-	-	-	-	-	-	-	-	-	-	-
(Decrease) Increase in Net Position	(33,169,364)	1,835,936	(2,635,940)	1,812,045	(25,235,239)	(2,141,349)	(10,793,612)	(1,395,899)	(328,183)	(8,701,778)	(6,034,205)	(9,643,210)	2,258,510
Net Position - Beginning of year	(322,663,636)	384,484	(14,475,345)	26,459,672	(94,713,481)	(14,652,153)	128,700,431	18,064,638	3,258,407	(44,828,200)	(36,392,839)	(89,919,606)	(20,797,040)
Net Position - End of year	$ (355,833,000)	$ 2,220,420	$ (17,111,285)	$ 28,271,717	$ (109,948,720)	$ (16,793,501)	$ 117,906,819	$ 16,668,339	$ 2,930,224	$ (53,529,978)	$ (42,427,044)	$ (99,562,816)	$ (18,538,530)

	Facilities	Hawaii Health Systems Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Alii Health Center	Kona Ambulatory Surgery Center	East Hawaii Medical Group	Kahuku	Eliminations	HHSC Consolidated
Operating Revenue													
Net patient service revenue	$ 426,067,820	$ -	$ -	$ 426,067,820	$ -	$ -	$ -	$ 5,937,284	$ 1,810,702	$ -	$15,457,835	$ -	$ 449,273,641
Other revenue	5,509,494	-	-	5,509,494	-	4,684,028	-	1,954,079	-	6,441,833	654,510	(10,390,441)	10,857,521
Total operating revenue	431,577,314	-	-	431,577,314	-	4,684,028	-	7,891,363	1,810,702	6,441,833	16,112,345	(10,390,441)	460,131,162
Operating Expenses													
Salaries	217,639,267	7,251,418	-	232,951,106	-	-	-	9,843,094	1,380,819	5,960,085	8,841,978	-	248,977,081
Employee benefits	195,282,481	6,189,977	-	201,472,458	-	-	-	2,018,455	22,548	1,247,900	2,365,158	-	207,154,907
Medical supplies and drugs	47,513,100	-	-	47,513,100	-	-	-	738,150	1,001,298	-	1,247,100	-	50,550,558
Depreciation and amortization	34,131,080	221,541	-	34,354,621	-	869,480	-	80,936	244,907	-	1,089,236	-	36,634,280
Utilities	10,913,489	307,115	-	11,220,619	-	422,133	-	132,034	-	-	468,504	-	12,283,285
Repairs and maintenance	12,473,218	182,303	-	12,655,521	-	111,039	-	487,919	542,815	-	572,120	-	14,548,614
Other supplies	12,014,548	662,392	-	12,676,940	-	468,153	-	141,012	-	23	367,995	-	13,633,123
Purchased services	74,530,448	-	-	74,530,448	-	64,633	-	620,512	609,708	-	781,086	(1,844,808)	74,691,799
Professional fees	21,604,009	186,351	-	21,790,360	-	2,736,421	-	596,642	-	37,258	1,418,026	(8,545,633)	18,137,054
Insurance	6,829,022	352,335	-	7,181,357	-	75,681	-	689,531	-	-	164,300	-	8,310,879
Rent and lease	3,846,537	221,836	-	4,068,535	-	185,731	-	630,564	-	-	219,941	-	5,104,761
Other	7,644,336	1,152,687	-	8,747,033	198	177,066	-	191,550	-	1,176,657	1,008,841	-	11,301,245
Total operating expenses	642,493,675	18,445,467	-	658,379,142	198	5,155,287	-	16,352,019	3,952,005	6,441,833	18,644,648	(10,390,441)	701,534,681
Operating (Loss) Income	(210,916,361)	(18,445,467)	-	(227,801,828)	(198)	(467,261)	-	(8,460,636)	(2,141,303)	-	(2,532,303)	-	(241,403,529)
Nonoperating Income (Expense)													
General appropriations from the State of Hawaii	117,164,003	8,516,999	-	125,701,002	-	-	-	-	-	-	1,800,001	-	127,501,003
Restricted contributions	1,200,844	-	-	1,200,844	-	-	-	-	-	-	-	-	1,200,844
Interest (expense) income	(1,114,203)	(2,409)	-	(1,116,612)	-	(564,282)	-	(1,006)	-	-	(11,060)	-	(1,692,962)
Interest and dividend income	1,004,668	208,934	-	1,213,602	-	1,647	-	1,230	-	-	-	-	1,216,479
Contributions - CARES Act Provider Relief Fund	7,600,000	-	-	7,600,000	-	-	-	-	-	-	49,537	-	7,649,537
Corporate allocation to affiliates	(6,999,063)	6,999,063	-	-	-	-	-	-	-	-	-	-	-
Other nonoperating revenue (expense) - Net	(9,405,246)	68,729	-	(9,336,517)	-	-	-	8,540,109	-	-	-	2,147,452	1,351,044
Total nonoperating income (expense)	109,471,203	15,791,316	-	125,262,519	-	(562,435)	-	8,540,331	-	-	1,638,478	2,147,452	137,226,345
Excess of Revenue (Under) Over Expenses before Capital Contributions and Transfers	(101,445,158)	(1,094,151)	-	(102,539,309)	(198)	(1,029,696)	-	79,695	(2,141,303)	-	(883,825)	2,147,452	(104,177,184)
Capital Contributions	17,755,687	-	-	17,755,687	-	-	-	-	1,750,000	-	904,485	(1,750,000)	18,660,172
Transfer (to) from Affiliate	(482,826)	(1,338,870)	-	(1,821,696)	-	1,821,696	-	-	-	-	-	-	-
Change in Reporting Entity	-	-	-	-	-	-	564,444	(564,444)	-	-	-	-	-
(Decrease) Increase in Net Position	(84,172,297)	(2,433,021)	-	(86,605,308)	(198)	792,000	564,444	(484,749)	(391,303)	-	20,660	397,452	(85,517,002)
Net Position - Beginning of year	(461,604,528)	(31,081,130)	-	(492,685,658)	38,474	(2,697,656)	(564,444)	-	3,012,630	-	8,158,009	(529,607)	(485,277,252)
Net Position - End of year	$ (545,776,815)	$ (33,514,151)	$ -	$ (579,290,966)	$ 38,276	$ (1,905,656)	$ -	$ (484,749)	$ 2,621,327	$ -	$ 8,368,669	$ (132,155)	$ (570,794,254)

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

Independent Auditor's Report

To Management and the Board of Directors
Hawaii Health Systems Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hawaii Health Systems Corporation (the "Corporation"), which comprise the basic statement of net position as of June 30, 2020 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 7, 2020.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as Findings 2020-002, 2020-003, 2020-004, 2020-006, and 2020-007 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 Finding 2020-001 and 2020-005 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. We did identify deficiencies in internal control that we consider to be material weaknesses. However, additional material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

To Management and the Board of Directors
Hawaii Health Systems Corporation

The Corporation's Responses to the Findings

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

Purpose of This Report

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

Plante & Moran, PLLC

December 7, 2020

Financial Statement Audit Findings

Reference Number	Finding
2020-001	**Finding Type** - Significant deficiency, Alii Community Care, Inc.

Criteria - Transactions relating to debt amounts for Roselani Place should be recorded in line with an appropriate amortization schedule for an outstanding loan.

Condition - Recorded amounts relating to debt for Roselani Place were not recorded in line with the amortization schedule for the outstanding loan.

Context - Current and long-term debt amounts recorded on the general ledger did not reconcile to supporting documentation.

Cause - A superceded amortization schedule was used in the calculation of journal entries relating to debt.

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 of $71,710 was posted to correct this misstatement.

Recommendation - We recommend management at Roselani Place perform a formal review of debt balances and transactions to ensure what is being recorded throughout the year matches appropriate transaction totals.

Views of Responsible Officials - The Roselani Place accountant will review monthly debt entries to ensure alignment with appropriate debt amortization schedule. This process will occur monthly and will include proper documentation of reconciliation activity between the schedule and the general ledger to ensure accurate reconciliation of debt amounts.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2020-002	**Finding Type** - Material weakness, Alii Community Care, Inc.

Criteria - Property and equipment lapse schedules for Roselani Place should be maintained by the entity to track capital assets and the related depreciation on those assets. 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 2020.

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

Cause - A schedule needed to be updated for current year capital asset activity, as this was not performed by management.

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 of $84,217 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 properly captured.

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

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2020-003	**Finding Type** - Material weakness, Kauai Region

Criteria - Account balances should be reconciled and reviewed timely on a monthly basis to ensure accurate financial reporting.

Condition - Adjustments were identified and recorded by Kauai Region after the internal June 30, 2020 financial statements were reported to governance.

In addition, while balance sheet line items were reconciled in totality, there were a number of instances within an account classification where the individual accounts had significant variances from the associated support. However, the differences on individual account balances offset each other in aggregate.

Context - In totality, the adjustments recorded reduced assets and liabilities by approximately $1,139,000 and $836,000, respectively, and increased revenue and expense by approximately $595,000 and $898,000, respectively.

Cause - Internal controls and accounting procedures were not designed effectively to allow for timely account reconciliations.

Effect - The amounts initially reported to governance materially changed compared to what is reported in the audited financial statements.

Recommendation - We 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 in a timely manner and that each individual account balance be reconciled individually.

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

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2020-004	**Finding Type** - Material weakness, Kauai Region

Criteria - Revenue should be posted in a timely manner following the provision of services.

Condition - As of June 30, 2020, no long-term care part B charges had been billed for the entire fiscal year.

Context - Long-term care part B charges were not accumulated within the billing system until late in the fiscal year. System corrections allowed the activity for the year to be accumulated in the system near the end of the fiscal year.

Cause - Kauai Veterans Memorial Hospital and Samuel Mahelona Memorial Hospital's part B charges were not able to be billed timely as a result of transition issues following the implementation of a new billing system on July 1, 2019.

Effect - When services are not billed timely, there is an increased risk that collection will not occur in a manner consistent with management's expectation.

Recommendation - We recommend that management bill the accrued charges as quickly as possible.

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

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2020-005	**Finding Type** - Significant deficiency, Kahuku Medical Center

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

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

Context - Adjustments were identified, both recorded and unrecorded, to the following balances:

(1) Cash - Adjustments of approximately $76,000 in totality were recorded to correct the treatment of voided checks and to remove unsupported reconciling items from the balance sheet.
(2) Capital assets - Construction in progress was unchanged from the prior year balance in the preliminary trial balance, which was corrected through an audit adjustment of approximately $89,000.
(3) Accounts payable - Unsupported reconciling were corrected through audit adjustments of approximately $131,000.
(4) Accrued payroll expenses - An increase to the payroll accrual or approximately $31,000 was identified by management but is not recorded in the audited financial statements.

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

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

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

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

Reference Number	Finding
2020-006	**Finding Type** - Material weakness, Kahuku Medical Center

Criteria - Management should ensure that employment costs are granted in accordance with documentation maintained in personnel files, including pay rates and vacation awards.

Condition - There are insufficient records maintained currently with respect to changes in personnel pay information and the associated approvals.

Context - There were no significant financial statement impacts of this material weakness as of June 30, 2020.

Cause - Lack of sufficient record keeping and testing of the payroll system

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

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

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

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2020-007	**Finding Type** - Material weakness, Hawaii Health Systems Corporation **Criteria** - Management should ensure that reconciliations and review of underlying detail is adequate to produce materially correct financial statements. **Condition** - An adjustment was required in 2020 to correct the deferred outflows of resources related to the postemployment plan. **Context** - The deferred outflow as of June 30, 2019 did not agree to the supporting calculations. An adjusting journal entry was required to adjust the deferred outflows in the fiscal year 2020 financial statements. **Cause** - Lack of sufficient review of account reconciliations. **Effect** - As a result of this issue, financial statements could be misstated, requiring an adjusting entry in the period in which the misstatement is detected. **Recommendation** - We recommend adequate controls to ensure appropriate levels of review are performed on the postretirement account reconciliations. **Views of Responsible Officials and Planned Corrective Actions** - Management will review the support for the deferred outflow and reconcile the amounts recorded to the supporting schedules.

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

Attachment B
Projected Revenues and
Capital Improvement Projects
FY 2020

December 2020

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HAWAII HEALTH SYSTEMS CORPORATION
PROJECTED REVENUES FOR FISCAL YEAR 2021
AMOUNTS IN $'000'S
NOTE: Amounts represent estimated cash collections, not accrual basis revenues

Hilo	169,617
Hamakua	15,947
Ka'u	16,086
Kona	85,086
Kohala	9,192
KVMH	30,500
SMMH	14,100
Leahi	14,267
Maluhia	12,411
TOTAL	**367,206**

CIP Annual Report

Act/Yr	Item No.	Project Title and Brief Project Description	FY 21 Apprn
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations, Hawaii - East Hawaii, Repair and Replacement of Roof	2,000,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations, Hawaii - East Hawaii, HVAC Ducting, Vents & Chiller Repairs	824,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations, Hawaii - East Hawaii, Repair Parking Lots	1,400,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations, Hawaii - East Hawaii, Operating Room Renovation	3,700,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations, Hawaii - East Hawaii, Replace HVAC with RVF system in Lobby and Outpatient Pharmacy	300,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations, Hawaii - East Hawaii, Replace Flooring in Common Areas	1,000,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovation, Hawaii - Kona Hospital - Cancer Center replacement building	2,500,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renoation, Hawaii - Kona Hospital - Cooling Towers Replacements	350,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovation, Hawaii - Kona Hospital - Pharmacy Remodel	801,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovation, Hawaii - Kona Hospital - Sterile Processing Renovation/Upgrade	600,000
6/2020	E-4	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovation, Hawaii - Kohala Hospital - General Construction	500,000
6/2020	E-5	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - KVMH Upgrade AC	675,000
6/2020	E-5	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - SMMH Retrofit Radiology	400,000
6/2020	E-5	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - KVMH Signage	125,000
6/2020	E-5	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - SMMH Solarium and Nursing station	3,332,000

Act/Yr	Item No.	Project Title and Brief Project Description	FY 21 Apprn
6/2020	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Leahi Hospital, Plumbing and Electrical for future Dietary Department	900,000
6/2020	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Maluhia, Renovate Adult Day Health Center	1,592,000
6/2020	E-6	Lump Sum Hawaii Health Systems Corporation; Improvements and Renovations - Leahi Hospital, Correct leakage at Trotter	500,000
6/2020	E-7.1	Kauai Veterans Memorial Hospital, CT Scan Room Renovation	1,300,000
6/2020	E-7.2	Kauai Veterans Memorial Hospital, IT Renovations	300,000
6/2020	E-7.3	Kauai Veterans Memorial Hospital, 3D Mammography Machine	650,000
6/2020	E-7.4	Maluhia, Upgrade Plumbing in Patient Rooms	700,000
6/2020	E-7.5	SMMH, CT Scanner	1,300,000
6/2020	E-7.6	Hilo Medical Center, dba Hawaii Pacific Oncology	6,500,000
6/2020	E-7.7	Hilo Medical Center, Cardiac Center	3,500,000
6/2020	E-7.8	Samuel Mahelona Memorial Hospital, Kauai	500,000
		Grand Total	**36,249,000**

HAWAII HEALTH SYSTEMS
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Attachment C
Regional Reports

December 2020

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EAST HAWAII REGION 2020 LEGISLATIVE REPORT

EAST HAWAII REGION

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

COVID-19 Impact on East Hawaii Region

COVID-19's impact on the East Hawaii Region cannot be overstated. Pre-COVID, HMC was caring for an average of 4,300 patients in the Emergency Department per month. April was the largest variance seen in our Emergency Department of 2,298 or 47%. Pre-COVID, HMC averaged 720 admissions per month. April was the largest variance for admission of 537 or 25%.

COVID translated financially with HMC's budgeted revenue for 2020 at $192 million, but actual revenue was $177 million for a shortfall of 8%. For FY 2021, we are anticipating a 10% shortfall in revenue. Several things happened to help us offset anticipated losses, such as, $11.6 million in CARES funding, a relatively strong cash position, and the state having reduced some of our retirement and pension contribution obligations. We have no plans to institute furloughs and pay cuts in FY 2021. However, we are very concerned about FY 2022 along with everyone else.

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

This year marked a momentous shift and significant growth in meeting our mission to improve access to care through our outpatient clinics. We transitioned the majority of our clinics under the rural health clinic designation and rebranded them under the name "East Hawaii Health Clinic." We also moved a number of the clinics onto our campus to centralize access. Our rural health clinics are at the East Hawaii Health Clinic at 1190 Waianuenue, includes primary care, cardiology, neurology, and behavioral health; the East Hawaii Health Clinic at 1285 Waianuenue Avenue on the second floor, which includes primary care, OB/GYN, urology, ear, nose & throat, and allergy; Puna Community Medical Center, Ka`u Hospital Rural Health Clinic, and coming in 2021, East Hawaii Health Clinic in Keaau. Other non-rural health clinics include orthopedics, oncology, surgery and vascular.

Hilo Medical Center patient services include:

- 24-Hour CAP-Accredited Pathology Laboratory and Blood Bank Services
- 24-Hour Physician-Staffed Emergency Care
- Acute Inpatient Dialysis
- Adult Psychiatric Care
- Bronchoscopy

- Cardiac Care: Diagnostic & Interventional Cardiology, Echocardiography, Thallium Stress Treadmills, Pacemakers, Cardiac Telemetry, Cardiac Rehab
- EEG
- Endoscopy
- Food and Nutrition Services and Counseling
- Hospitalist Services
- Imaging Services – X-ray, CT, MRI, Angiography/Cardiac Catheterization, Interventional Radiology, Nuclear Medicine, Ultrasound
- Inpatient and Outpatient Rehabilitation Services – Cardiac Rehab, Physical, Occupational, and Speech Therapies
- Inpatient Pharmacy
- Critical and Progressive Care
- Neurology
- Obstetrics/Gynecology Services, Labor and Delivery, Post-Partum, and Childbirth, Breastfeeding and Car Seat Classes
- Oncology Care—Medical and Radiation Oncology
- Outpatient Clinics – Behavioral Health, Cardiology, Primary Care, Oncology, Orthopedics, Neurology, ENT, Allergy, Surgery, Vascular, and Urology
- Inpatient Pediatrics
- Respiratory Therapy
- Skilled Nursing and Long Term Care
- Social Services and Case Management
- Surgical Services—Same Day Surgery, Post-Anesthesia Care, and Special Procedures
- Subspecialty Surgical Services—Orthopedics, Ophthalmology, Otorhinolaryngology, Urology
- Telemedicine
- Vascular
- Wound and Ostomy Care

PATIENT CENSUS FY 2020

- Admissions 8,211
- ER Visit 46,041
- Births 952
- Clinic Visits 53,963

COMMUNITY-BASED FOUNDATION SUPPORT OF HILO MEDICAL CENTER

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

VOLUNTEER SERVICES

- Number of Active Volunteers: 75
- Number of Total Volunteer Hours: 8,000
- Volunteer Auxiliary Contributions: $20,000

In FY 2020, **Hale Ho'ola Hamakua** 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 122 (FTE, FY19) employees of which a significant number are residents of the area who were former employees or related to employees of the Hamakua Sugar Company that phased out in 1994. The Hamakua Sugar Company Infirmary, which became the Hamakua Health Center, provides primary care and behavioral health services to the community in a building owned and leased from HHH and adjacent to the hospital.

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

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

Services provided by HHH include:

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

PATIENT CENSUS

- Admissions 265
- ER Visits 1,877

Ka`u Hospital, in Pahala, is a 21-swing bed facility with 75 employees. It also operates a 24-hour/7 day a week Emergency Department. Replacing the last sugar plantation hospital on the island, Ka'u Hospital was built in 1971 to serve the needs of a vast rural area. There are no other hospitals within a 55-mile radius in any direction. As of July 2001, Ka'u Hospital was designated as a CAH (Critical Access Hospital). This is a federal designation given to small hospitals that provide essential emergency and acute services in remote areas to assist them with the financial burdens associated with their size and isolation. Adding to the spectrum of services provided by Ka'u Hospital, a

Medicare certified Rural Health Clinic was established on the hospital campus in September of 2003.

The people of Ka'u truly support their hospital. Their partnership of volunteerism and fundraising has enabled Ka'u Hospital to make many improvements in appearance, functionality and medical equipment that the hospital would be unable to fund on its own. It is a true community hospital where staff work toward being the very best they can be for the people of Ka'u. Demand for services has been growing steadily.

Services provided by Ka'u Hospital include:

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

PATIENT CENSUS

- Admissions 109
- ER Visits 2,960
- Clinic Visits 17,437

COMMUNITY- BASED FOUNDATION SUPPORT OF KA`U HOSPITAL

Total Private Donations - $6,641.61
TOTAL - $6,641.61

VOLUNTEER SERVICES

- Total Number of Active Volunteers: 9
- Total Number of Total Volunteer Hours: 184

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: Chuck Erskine
Foundation Administrator: Lisa Rantz
lrantz@hhsc.org

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

Ka`u Hospital Charitable Foundation

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

Foundation President/Director: Vacant
Foundation Vice President/Director: Wayne Kawachi
Contact information:
Ka`u Hospital Charitable Foundation
P.O. Box 773
Pahala, HI 96777
KauHCF@gmail.com
https://www.facebook.com/4KauHospital/

Hawaii Health Systems Corporation East Hawaii Region Accomplishments

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

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

People

Physicians and Nurse Practitioners

The East Hawaii Region welcomed 21 new physicians to the community, specializing in family medicine, internal medicine, emergency medicine, pediatrics, urology, and vascular. In addition, the Hawaii Island Family Medicine Residency Program welcomed the sixth class of five residents and graduated four residents in its fourth class.

Nursing

Hilo Medical Center's Nurse Residency Program graduated 16 nurses in the class of 2020 and welcomed them onto our nursing staff. Twenty new nurses entered our program as the class of 2020. In total, the 36 new nurses represent a major investment in the future of nursing at Hilo Medical Center. Over the course of the NPR Program 182 nurses have been hired and trained, making up nearly 50% of the nursing staff with a retention rate of over 75%.

Regional Board

In FY 2020, the East Hawaii Regional Board appointed new member Dean Au.

Growth

Imaging/Cardiology

Hilo Medical Center's Imaging Department received funding from the Hawaii State Legislature for the construction of the second catheterization lab to stop heart attacks in progress. This funding will bolster Hilo Medical Center's cardiology services and provide life-saving care for community members close to home.

Finance

Hilo Medical Center

Total Operating Revenue for FY2020 was $194.4M compared to a budget of $207.5M, a 6% unfavorable variance. FY2020 Total Operating Expense was $249.4M versus a budget of $259.4M, a 6% favorable variance. Operating Income (Loss) for FY2020 was ($55M) compared to a budget of ($51.9M). After Corporate Overhead and other appropriations, the Net Income was $6.6M for FY2020 versus a budget of $1.3M.

Hale Ho'ola Hamakua

Total Operating Revenue for FY2020 was $17.4M compared to a budget of $20M, a 13% unfavorable variance. FY2020 Total Operating Expense was $19.7M versus a budget of $21.2M, a 7% favorable variance. Operating Income (Loss) for FY2020 was ($2.3M) compared to a budget of ($1.2M). After Corporate Overhead and other appropriations, the Net Income was $2.3M for FY2020 versus a budget of $2.1M.

Ka'u Hospital

Total Operating Revenue for FY2020 was $13.2M compared to a budget of $9.8M, a 35% favorable variance. FY2020 Total Operating Expense was $16.5M versus a budget of $18.4M, a 10% favorable variance. Operating Income (Loss) for FY 2020 was ($3.3M) compared to a budget of ($8.5M). After Corporate Overhead and other appropriations, the Net Income (Loss) was ($0.3M) for FY2020 versus a budget of ($6M).

WEST HAWAII REGION 2020 LEGISLATIVE REPORT

WEST HAWAII REGION

On behalf of the employees, physicians, volunteers, management and board of the HHSC West Hawaii Region (WHR), we are pleased to submit this brief report highlighting our accomplishments of the last fiscal year. The West Hawaii Region, a member of the Hawaii Health Systems Corporation, consists of Kona Community Hospital, Kohala Hospital, and the Kona Ambulatory Surgery Center. The WHR is also affiliated with Alii Health Center, a primary and specialty care clinic.

Kona Community Hospital

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

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

As one of West Hawaii's largest employers, the staff at KCH includes over 500 highly skilled employees. KCH has 276 medical staff, 82 of whom are active.

HOSPITAL STATISTICS

• Admissions	3,250
• Patient Days	19,210
• Births	458
• ER Visits	20,596

Kohala Hospital

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

The current 26-bed Critical Access Hospital (CAH) consists of 25 long-term care, 2 acute care and 2 skilled nursing beds. The hospital employs 67 full-time and part-time employees.

KH provides emergency services in a new, state-of-the-art emergency department, outpatient lab, radiology and EKG services, inpatient short-stay acute care and inpatient rehab services. Additionally, emergency physicians are on-call at all times, servicing more than 1,500 emergency room patients per year.

In this fiscal year, Kohala Hospital received an approved Certificate of Need to designate all beds to provide CAH long-term care and acute care (swing) services.

HOSPITAL STATISTICS

- Number of Admissions: 58
- Patient Days: 8,352
- Emergency Visits: 1,524

PEOPLE

In the fiscal year, the West Hawaii Region's CEO of 9 years retired. The CEO's initial replacement left the WHR shortly after arriving, which caused some strain on the region. A new CEO is now in place and has had a stabilizing effect on the regional facilities and staff.

Additionally, the Board of Directors of the West Hawaii Region gained three new members who replaced five outgoing members.

Employee engagement activities were held throughout the year. Activities include monthly Town Hall meetings, employee of the month recognition and monthly Employee Birthday Lunches where all employees with birthdays in the current month are invited to have lunch with the CEO. Although KCH continues to celebrate National Volunteer's, National Nurses' and National Hospital Weeks, these events were put on hold in FY20 due to COVID-19.

KCH has dual Blue Zones project certifications as both an approved Worksite and an approved Restaurant. The BZ project initiative provides employee wellness activities throughout the year. Our cafeteria has earned local and national accolades for its successful farm-to-table transition to locally sourced, scratch cooking for patients and employees.

QUALITY

KCH programs improve patient outcomes:

- Designated a Level III Trauma Center in 2011. The Trauma Center averages of 32 trauma activations per month, up from initial stats of 12 per month.
- Participates in the Hawaii Stroke Network and American Heart Association's "Get with the Guidelines" stroke program.
- Uses Tele-mental health to address a shortage of psychiatric care, which provides real-time psychiatric consultations and care to patients.
- Designated Baby-Friendly Hospital. World Health Organization (WHO) and the United Nations Children's Fund (UNICEF).

KCH programs offer community and patient engagement:

- Metabolic and Bariatric Weight Loss program for medical and surgical weight loss options.
- Heartburn and Reflux Program to treat moderate to severe Gastroesophageal Reflux Disease (GERD).
- Total Hip and Knee Joint Replacement Program.

- American Heart Association certified training center, providing courses for hospital-based, and community Providers, and the public in: ACLS (Advanced Cardiac Life Support), BLS (Basic Life Support, PALS (Pediatric Advanced Life Support, and PEARS (Pediatric Emergency Assessment, Recognition and Stabilization) as well as ECG & Pharmacology.
- KCH Women's Services Unit offers programs for expectant mothers:
  - Certified childbirth educators offer six-week prenatal education to improve the labor experience.
  - Partner with NEST for Families – a community based resource to assist new families with breastfeeding support.
  - OB nurses / child passenger technicians offer car seat inspections prior to newborn discharge from KCH.
  - Outpatient lactation consultations.
- Cancer Support Community Partner providing education and psychosocial support to cancer patients.

PHYSICIAN RETENTION & RECRUITMENT

Kohala hospital has 2 physicians.

Kona Community Hospital has eighty-two active physicians representing 28 specialties on its medical staff.

- We have hired a full time medical oncologist / hematologist who will begin treating patients at KCH in August, 2020.

- Sound Physicians provides comprehensive hospitalist in-patient services at KCH. Sound Physicians, has 7 full time hospitalists on staff, and a clinical performance nurse. The hospitalists cover both acute care medical units, and ICU. The hospitalist team is a close group of individuals that take care of the team as well as the Kona community.

- 24/7 emergency medicine services are provided by a contract physician group who employs 28 doctors and 4 physician assistants on staff at KCH.

- Anesthesia services are provided by a contract anesthesia solutions group who employs 11 anesthesia doctors and 19 Certified Registered Nurse Anesthetists (CRNAs) on staff at KCH.

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

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

PARTNERSHIPS & AFFILIATIONS

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

- HHSC (Hawaii Health Systems Corporation)
- Kona Ambulatory Surgery Center
- Iii Health Center
- Hawaii Life Flight

West Hawaii Region Foundations

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

In 2019, the Foundation funded: exercise equipment for the KCH psychiatric unit; 14 Quality Boards for nursing units; training funds for an enhanced pediatric care program; 34 patient room information boards and a Sara 3000 Power Standing and Raising Aid in the acute care units; 20 blood pressure and scales for the Quality Assurance and Performance Department, as well as funds for the Trauma Services and Bereavement Services.

Foundation Chair: Donna Hiranaka
Foundation Vice Chair: Ikaika Hauanio

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

COMMUNITY - BASED FOUNDATION SUPPORT OF KONA COMMUNITY HOSPITAL

Total Private Donations	$ 129,494
Total Fundraising	33,576
Total Federal / State / Private Grants	144,319
TOTAL	**$307,389**

VOLUNTEER SERVICES

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

- Number of Active Volunteers: 37
- Number of Total Volunteer Hours: 2,362
- Volunteer Auxiliary Contributions:
  - Nursing Scholarship $14,000
  - Employee Continuing Educ. $ 620

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

Foundation President: Dixie Adams
Foundation Vice President: Shoshana Matsumura

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

COMMUNITY – KOHALA HOSPITAL CHARITABLE FOUNDATION SUPPORT OF KOHALA HOSPITAL

Total Private Donations	$ 17,624
Total Fundraising	0
Total Federal / State / Private Grants	$ 10,000
TOTAL	**$ 27,624**

VOLUNTEER SERVICES

Kohala Hospital Volunteer Services provides volunteer support for resident activities.

- Number of Active Volunteers: 5
- Number of Total Volunteer Hours: 730
- Volunteer Auxiliary Contributions: $ 865.00

FACILITIES

Over the previous 3 years, $15 million in CIP funding help Kona community hospital to complete the following projects:

- New Elekta-Infinity Linear Accelerator
- Pharmacy expansion and remodel.
- 3 operating rooms remodeled
- Electrical, mechanical and HVAC upgrades

- Patient bathrooms renovated

At Kohala Hospital, $500,000 State CIP dollars assisted with completion of a new parking lot; conversion of one private room; and COVID response.

CLINICAL SERVICES & TECHNOLOGY

Kohala Hospital implemented remote triage capabilities using iPad technology.

FINANCIAL

Kona Community Hospital inpatient volumes again increased by 7% for the first 8 months of FY2020. The financial impact of COVID-19 began in March, and resulted in net revenue loss of 20% for the next 4 months.

KCH experienced $30 million in operating losses due mostly to high benefit costs and restrictive bargaining rules. This was offset by $28 million in State appropriations and $3 million in CIP funding to realize a net increase of $1 million.

Kohala Hospital had a net operating loss of $3 million offset by $2M in State appropriations resulting in a net loss of $1 million for FY 2020.

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

With a strong leadership team in place along with the dedication of employees, physicians, volunteers, Foundation and its Board, the Region has made progressive advancements. We will continue to face critical financial challenges moving into 2021. However, we are focused on projects and initiatives to address the healthcare needs of West Hawaii.

COVID-19 IMPACT AS OF JUNE 30, 2020

Summary: Since the onset of the COVID-19 in Hawaii, the West Hawaii Region facilities have been preparing diligently for a potential influx of COVID positive patients and/or staff members. We have implemented strong infection prevention guidelines and policies that protect employees and our communities. To name a few:

- Daily Incident Command Team meetings to assess readiness, and review and revise our COVID-19 Management Plan as needed.
- Infection Control policies that align with CDC and the Hawaii Department of Health best practices.
- On-going, rigorous employee education empowering employees with the knowledge and skills to protect themselves, their families and our communities.
- Implemented *No Visitor* policies to protect against potential virus spread into our hospitals.
- Daily staff temperature and symptoms screenings.

<u>COVID Testing Data</u> (March, 2020 – June 30, 2020):

	Inpatient Tests	Outpatient Tests	Total Tests	POSITIVE Tests	Negative Tests
March	29	109	138	2	136
April	79	50	129	1	128
May	160	46	206	0	206
June	329	65	394	1	393
Total	597	270	867	4	863

<u>COVID Positive Inpatients</u>

Kona Community Hospital: 2

Kohala Hospital: 0

<u>Financial Impact</u> (combined West Hawaii Region hospitals)

Lost Revenue		$6,920,000
Salary: $660,000	PPE: $473,000	1,133,000
Paycheck Protection Program (PPP) Loan		6,595,000
COVID Funds Received		12,023,000

We will continue to work diligently to provide the best practices, PPE and technology possible for infection prevention and quality patient care that keep employees, patients and our communities safe and healthy.

KAUAI REGION 2020 LEGISLATIVE REPORT

KAUAI REGION

Hawaii Health Systems Corporation (HHSC) – Kauai Region; Kauai Veterans Memorial Hospital (KVMH), a Joint Commission accredited hospital was founded in October 1957 and dedicated to the Veterans of the Korean War. KVMH was built to meet the healthcare needs of all citizens of the surrounding communities. Accredited as a critical access hospital, KVMH has 45 licensed beds, including 25 acute and 20 long-term care beds. Today, KVMH employs 247 people and provides the following services:

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

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

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

KVMH Patient Volumes:

Inpatient Admissions -	1,015
LTC Admissions -	18
Births -	236
ER Visits -	5,873
Outpatient Ancillary Visits -	3,540
Outpatient Clinic Visits -	26,802
Same Day Surgery -	748

Average Daily Census

Acute	6.8
Swing	5.7
LTC	19.30
Total	31.80

In comparison to the prior year, inpatient admissions decreased by 23.2%, outpatient clinic visits decreased by 9.6% and outpatient surgeries decreased by 3.86%. Births decreased by 7.09%. There was a 14.87% decrease in ER visit volume and LTC census was 100% with a waitlist of residents due to unavailability of beds.

Samuel Mahelona Memorial Hospital (SMMH) is the oldest operating hospital on Kauai, and is designated a Critical Access Hospital. Founded in 1917 as a tuberculosis hospital, it received its name from a member of the Wilcox family, who died of TB as a young man. In the 1960s, with a cure for TB well established, SMMH gradually transitioned to providing acute care, psychiatric care, skilled nursing care, and ancillary inpatient and outpatient services. Today, SMMH has 80 licensed beds, with 66 long-term care beds, 9 psychiatric beds, and 5 acute care beds. The hospital has approximately 145 employees. Currently, SMMH patient services include:

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

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

SMMH Patient Volumes	
Inpatient Admissions	217
LTC Admissions	48
ER Visits	5,446
Outpatient Visits	1,114

Average Daily Census	
Psych	3.6
LTC	44.4
Swg	0.3
Total	48.3

Inpatient psychiatric admissions increased by 6.5% over the prior year; Long Term Care days decreased by 7.35%. Swing bed admissions were added after we hired a geriatrician.

The Kauai Region Clinics consist of five clinics and one urgent care located in Waimea, Port Allen, Kalaheo, Poipu and Kapaa and employs 51 people. Each clinic offers the following services:

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

The Clinic at Port Allen
- Pediatrics
- Primary Care

The Clinic at Kalaheo
- Primary Care

The Clinic at Poipu
- Primary Care

Urgent Care at Poipu

The Clinic at Kapaa
- OB
- Primary Care

CHARITABLE ORGANIZATIONS SERVING THE KAUAI REGION

Kauai Veterans Memorial Hospital Charitable Foundation, Inc.

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

Foundation President:	Steven Kline
Foundation Secretary:	Kelly Liberatore

Contact Information:

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

Active Foundation Volunteers

- Total active volunteers 6
- Number of Volunteer Hours provided 1,040
- Volunteer Foundation Contributions $20,000

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:	24
Number of Total Volunteer Hours:	1,380.16
Volunteer Auxiliary Contributions:	$12,687.01

2020 LEGISLATIVE BRIEF
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 2020.

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

PEOPLE

Mrs. Stephanie Iona serves as Chair of the Kauai Regional Board which includes Mrs. Laurel Loo, Mr. Patrick Gegen, Mrs. Donna Okada-Asher, Mr. Tito Villanueva, Mr. Dee Crowell and Mrs. Theresa Wiederoder. Mr. Lance K. Segawa has served as the Chief Executive Officer since March of 2018.

The Kauai Region's medical staff totals 37 active staff members with full privileges at KVMH and SMMH of which 19 are employed providers. During 2019-2020 the Region saw the departure of one (1) employed physician. We have successfully recruited a Long Term Care Medical Director and one Pediatrician. Also recruited were a Chief Medical Officer, OB-Gyn, Family Practice, Hospitalist Medical Director, and Pediatric Physician Assistant. Each will be active in FY2021.

Our current employee turnover rate is 10.83% in comparison to the national healthcare turnover rate of 18.1%. A total of 47 staff members separated from HHSC Kauai Region in FY2020 and of that 11.5% retired, 20.5% left for other employment, 68% resigned for personal reasons and there were no individuals that left due to performance issues.

QUALITY

In 2019 and 2020, the Kauai Region participated in a total of 2 surveys between Medicare / State Office of Healthcare Assurance, Centers for Medicare & Medicaid Federal Licensure. Kauai Veterans Memorial Hospital (KVMH), Samuel Mahelona Memorial Hospital (SMMH) and the Kauai Region Clinics were recertified for state licensure. KVMH was accredited in good standing with The Joint Commission in 2017 and we are looking forward to similar results in 2020 once The Joint Commission is allowed to travel to Kauai.

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

- SMMH was awarded the 2020 Bronze AHCA/NCAL National Quality Award for LTC.
- 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, documentation of COVID-19 for LTC.
- KVMH participates in the American Heart Association Get with the Guidelines Stroke initiative.
- KVMH is meeting or exceeding the threshold for Evidence-Based care and Safety for 2019 and 2020. Our mortality rate is declining with no excess of unexpected deaths.
- KVMH received the Premier HIIN award for Excellence in Patient Safety across the Board for 2018. KVMH is the only hospital in the State of Hawaii to receive this award.
- KVMH has achieved consistently high Core Measure compliance over the past 2 years as reported to CMS and available at www.HospitalCompare.gov. There were no incidents of ventilator associated pneumonia or central line associated infections.
- SMMH and KVMH is deeply committed to the health and well-being of their residents. We have a vigorous activities program to ensure that we keep the residents engaged with life and participating in enrichment programs to facilitate their psychological well-being. SMMH and KVMH has exceeded in providing teleconferencing with families during COVID-19 and purchased additional IPADs through a CMS grant to ensure that families could Face Time, ZOOM conference with families.

- A regional Falls Prevention task force is in place to evaluate and ensure patient safety and strive for not only a reduction in falls but to eliminate all falls in the region. SMMH has seen a 50% reduction in falls in 2019/2020.
- Reduction in 30-day readmission rates to 2.4 % and reduced AMA rates by 5%
- Improvement in HCAHP scores in all areas ensuring that our focus on patient satisfaction was our top priority
- Implemented COVID-19 preparedness actionable items including:
    - Surge Plan
    - Drive thru testing
    - Kauai Region Action Plan
    - Policy and Procedures specifically for COVID-19
    - COVID Drills

The facility has successfully attested to CMS/Medicaid for Meaningful Use, Stage 2 which resulted in receipt of financial incentives for meeting those standards and will be completing Stage 3 in 2020 submission with our new EMR System. To better assist us in tracking our ongoing performance on specific quality measures, KVMH continues participation in HMSA's advanced hospital care program and successfully meets the statements of work associated with the specific measures including the additional COVID-19 measures.

FACILITIES

Capital improvements to the facilities of the Kauai Region in FY2020 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 $6,003,344 in capital projects:

- KVMH Electrical Upgrade
- KVMH Irrigation
- KVMH Nursing Facility Renovation
- KVMH General R&M
- SMMH Emergency Generator
- SMMH Nurse Facility Renovation
- SMMH Exterior Door
- SMMH Nurse Station Renovation

Ongoing projects of $2,000,065 include:

- SMMH Asset Analysis
- SMMH Psych Unit Renovation
- SMMH Repairs and Maintenance
- KVMH ER Renovation
- KVMH General R&M
- KVMH Electrical Room Renovation

OPERATIONS

FY 2020 was a challenging year and will forever be known as the "year of the pandemic". The second half of FY 2020 (January – June 2020) was dominated by COVID 19. Preparing for the virus involved intense staff training and developing nimble plans to manage a potential surge consumed our daily work lives. In spite of the pandemic, leadership continued the efforts to build a high performing healthcare organization. Listed below are noteworthy accomplishments:

- Completion of a 3-year Strategic Plan
- Revised Mission, Vision and Values
- Hiring the Chief Medical Officer
- Studer Leadership Program Implemented
- Reduction in turnover rate with Providers and Staff
- Implemented the Pohaku Award Program (Employee Recognition)
- Launched our online salad order program and alert for leftover meals
- Developed the SMMH Master Campus Plan
- Installed radiology equipment in Urgent Care
- Secured $10M in financing to fund initiatives in the Strategic Plan
    - ❖ Grounds landscaping at KVMH
    - ❖ Parking lot and road paving at SMMH
    - ❖ Nurse station renovation at SMMH
- Achieved LTC SMMH Bronze Award
- Improved Physician Recruitment Process
- Improvement in quality metrics (reducing 30-day readmission rates, reducing Hospital Acquired Conditions and meeting select core measures for MIPS, MU, HMSA and SOW)
- Quality Improvement
    - ❖ Reduction of falls in MS and LTC at both KVMH and SMMH
    - ❖ Reduction of documentation errors in PT, MS, ICU and ED
- Reduced AMA rates by 5%
- Improved HCAHP scores across the board

The Kauai Region's journey to excellence is well on its way. The pandemic has only strengthened our resolve to strive to be a high performing organization focused on delivery of the highest quality of care to our community. For the people of Kauai County, choosing the state hospital system for care should never be a compromise nor a sacrifice because access to premier care is not available.

OAHU REGION 2020 LEGISLATIVE REPORT

OAHU REGION

The Hawaii Health Systems Corporation ("HHSC") Oahu Region provides essential services to our community's most vulnerable populations through its operation of two long-term care facilities, **Maluhia** and **Leahi Hospital**, located respectively in lower Alewa Heights and Kaimuki. Maluhia and Leahi provide in-patient skilled nursing and intermediate care services to the elderly, disabled and otherwise incapacitated population – most of whom are covered under Medicare and Medicaid programs. Maluhia and Leahi also provide access to much needed Adult Day Health Centers (two of only four remaining on Oahu) and both facilities partner with Hawaii Meals on Wheels to provide nearly 320 hot meals per week for disabled elders on Oahu, which enables them to sustain their independence at home and in the community. Additionally, Maluhia provides Medical services through its Geriatric Outpatient Physician's Clinic. For many of our clinic patients, nursing home residents and day health participants – especially those receiving Medicaid benefits due to a lack of personal assets (approximately 80% of our inpatients), the Oahu Region's facilities are often the only options for quality post-acute and community-based health care services.

Leahi Hospital

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

Long-Term Care Inpatient Services:

- Operating 122 Dual Certified Skilled Nursing and Intermediate Care Beds

Support:

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

Outpatient Services:

- Adult Day Health Center (temporarily closed due to pandemic on March 23, 2020)

- Collaboration with Meals on Wheels to provide 100 meals per week (Monday through Friday) to residents in the Kaimuki / Kapahulu area (since April 2020, provide 30 meals per week due to COVID-19 pandemic).

Patient Census and Other Services:

	Long Term Care	TB
Admissions	116	0
Patient Days	38,104	0

Adult Day Health:

Participant Days	5,792
Baths Provided	615

Meals on Wheels:

Meals Provided	4,838

Volunteer Services:

Number of Active Volunteers:	85
Number of Total Volunteer Hours:	3,369
Volunteer Auxiliary Contributions:	$9,000

Maluhia
Maluhia, located in lower Alewa Heights in Honolulu, Hawaii, is licensed to operate 158 skilled nursing and intermediate care facility beds and employs approximately 165 employees. Maluhia was established in 1923, and continues to evolve in order to meet the changing needs of the community. Maluhia provides the following services:

Long-Term Care Inpatient Services:
- Operating 120 Dual Certified Skilled Nursing and Intermediate Care Beds

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

Outpatient Services:
- Primary Care Geriatric Outpatient Physician Clinic
- Adult Day Health Center
- Collaboration with Meals on Wheels to provide nearly 225 meals per week (Monday through Friday) to residents in Kalihi/Liliha areas (since April 2020, provide 30 per week due to COVID-19 pandemic).

Patient Census and Other Services

Long Term Care:	
Admissions	85
Patient Days	37,800
Adult Day Health:	
Participant Days	9,948
Baths Provided	1,444
Outpatient Clinic:	
Clinic Visits	1,219
Meals on Wheels:	
Meals Provided	11,694

Volunteer Services:	
Number of Active Volunteers:	47
Number of Total Volunteer Hours:	5,777
Volunteer Auxiliary Contributions: approx.	$4,338

COVID-19

Over the past six (6) months, the impact of the COVID-19 virus on society, the economy and businesses has been significant and, as it does for many others, COVID-19 continues to pose several new and difficult challenges for our facilities. The many issues brought by this pandemic primarily center around resident safety, employee safety, the financial performance and stability of the facilities, and a multitude of operational difficulties such as staffing and supply shortages.

From a financial standpoint, this pandemic has adversely affected our facilities' revenues and expenditures in several areas. For example, under rules and regulations issued by the Centers for Disease Control and Prevention (CDC) and Centers for Medicare and Medicaid Services (CMS) related to COVID-19 prevention, our facilities have been required to maintain a designated unit to temporarily quarantine new admissions, re-admissions, and all other residents who may have had a possible exposure to COVID-19. While this safety measure aids in reducing the risks of infection to our general resident population, it also resulted in a significant decrease in the available bed space at our facilities because the number of residents assigned to the designated "quarantine" unit has been much less than the overall capacity of the unit. This decrease led to contraction of our daily resident census which, in turn, has decreased our revenue.

Similarly, CMS and other health agencies have issued numerous rules restricting the number and method by which people may visit or utilize long-term care facilities. In light of such rules, the only feasible option for compliance and to protect our long-term care residents from COVID-19 infection was to temporarily close the Adult Day Health Centers at both Maluhia and Leahi. While we have been able to repurpose the Adult Day Health employees to fill staffing gaps in our long-term care operations, the revenues from the Adult Day Health programs have ceased.

In terms of patient care, the pandemic has also affected the way we serve our residents, families, and visitors. During periods of high positivity rates, both facilities are required to impose a "no visitors rule" to minimize the risks of spreading infection to our residents and staff. This absence of contact with our residents from their loved ones had a discernibly negative impact on our residents' emotional and psychosocial well-being. In addition to the actual toll the isolation took on our residents, we also had to address the concern of their family members who had difficulty understanding why they are restricted from seeing their parents and loved ones. To date, we have sent several memorandums and fielded countless calls to family members in an effort to help them understand our actions and to assure them of our residents' safety.

From an operational standpoint, we have complied with additional regulatory guidelines and permitted some of our non-clinical staff to work at home to minimize the risks of community exposure to our residents. In addition, to protect our residents and staff from infection, the facility has undertaken massive efforts to secure and maintain a sufficient supply of Personal Protective Equipment (PPE), such as gowns, eye protection/face shields, gloves, and masks; many items which are in short supply due to global demand. Staff training and monitoring on infection prevention procedures are regularly conducted, as well as routine cleaning and disinfection of equipment and areas throughout the facilities.

A particularly difficult challenge that the facilities are facing is obtaining and utilizing COVID-19 test kits. These are very expensive to procure and are not readily available. Additionally, when we conduct these tests, our employees must spend valuable time away from their respective units. Under CMS regulations, we, along with all other long-term care facilities, are required to conduct testing of all our employees based upon the current community positivity rates. Depending on the rate, testing may be required from as often as twice per week to once per month. To date, Leahi and Maluhia have performed nearly 1,000 in-facility COVID-19 antigen tests and 2,000 polymerase chain reaction (PCR) tests. Given the price of each test, the financial obligations for compliance are tremendous.

Securing adequate staffing is another operational challenge that our facilities must overcome on a daily basis during this pandemic. Due to the isolation requirements from CMS and the Hawaii Department of Health (DOH), employees who are exposed to a COVID-19 positive, were possibly exposed to a COVID-19 positive, or have COVID -19 signs and symptoms must be tested for COVID-19 and have to quarantine at home for many days based upon the CMS and the DOH guidelines. While there have been few actual positive cases among our staff, there were still many who had to quarantine as a precaution. This resulted in a shortage in our staffing levels and led to increased stress for the staff who continue to care for our residents. To alleviate some of the strain, we have repurposed employees from other departments to assist and approved necessary overtime for qualified employees.

To facilitate thorough and appropriate responses to the foregoing and other COVID-19 issues, the Oahu Region created a regional COVID-19 leadership team that meets regularly to discuss implementation of the guidance and regulatory requirements set forth by the DOH, CDC and CMS. Through this leadership team, we have been able to develop a litany of safety measures including, but not limited to, routine surveillance of the region's residents encompassing regular measurement of vital signs and oxygen saturation levels; pre-shift screening procedures for all employees, establishment of COVID-19 nursing units and protocols that will be activated in the event of a positive COVID-19 resident; and training modules for clinical and other staff.

Thus far, the collective efforts of the leadership team and our staff have yielded some important successes:

- Most significant success, to date, both facilities have no residents with COVID-19 infection
- Most families now understand the infection prevention implemented rules, including the restriction on visitation, and are very appreciative of our efforts to protect their loved ones
- Our staff have been very cooperative and learned to work more effectively as a team to prevent the spread of COVID-19
- The facilities have been able to secure important federal funding (including support from the CARES Act) to support operations and procure necessary PPE
- We have developed new working relationships and fostered existing ones with many local healthcare organizations.

Strategic Planning

The Oahu Regional Board of Directors and Management previously completed a Strategic Plan that was submitted to the Legislature in December 2019. Briefly stated, the Strategic Plan focused on the growing needs of our aging population and the anticipation that, in the next 5-10 years, it is projected that an additional 1,100 long-term care beds will be necessary for our aging population. The Strategic Plan also focused on the escalating and immediate demand for behavioral health housing and services for the growing population with mental health and substance use disorders. In an effort to address the foregoing needs, the Oahu Region began working in tandem with the DOH to develop and propose legislation to incorporate its facilities into the DOH.

Given the sudden and unexpected onset of the COVID-19 pandemic, many of the Oahu Region's priorities – including its transition into the DOH – had to be quickly shifted for the protection of our vulnerable residents. As described above, much of the Oahu Region's efforts this year have been dedicated to addressing the serious challenges created by COVID-19. Consequently, while we continue to work with the DOH on a future transition, we have not been able to advance this endeavor as much as we had originally anticipated. Despite this delay, however, the Oahu Region and DOH Adult Mental Health Division (AMHD) have still been able to make progress in other ways to address the local mental health needs of our community.

Specifically, through a partnership with DOH AMHD, Care Hawaii, and the Oahu Region, we were able to establish and continue to successfully operate a Group Home on the Leahi campus. Originally opening as a proof of concept pilot for a small handful of individuals in December 2019, the Palekana Residential Program now provides more than twenty (20) adults with serious mental illness and co-occurring substance disorders a warm, welcoming and safe environment where personnel are supportive, encouraging, and professional. Referrals into Palekana are received and approved by the AMHD from the Hawaii State Hospital (HSH) and community based mental health providers. We are currently increasing capacity and anticipate admitting up to eight (8) more residents by the end of the fiscal year.

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

Nursing

Leahi Hospital and Maluhia provide long term and post-acute care to the frail, aged and disabled population generally with dementia and other chronic conditions. The overall census at Leahi Hospital and Maluhia remains above 86% with the complexity of the health conditions of residents continuing to be greater than in previous years, with many residents being afflicted with multiple chronic conditions with mental/behavioral, physical, and functional impairments. The challenges of COVID-19 continue to impact the ability to safely accept admissions and protect the safety of all residents and staff.

The Oahu Region facilities have successfully passed the annual re-licensure and COVID-19 Infection Control focus surveys and achieved a CMS 5-star and 4-star rating for Maluhia and Leahi Hospital, respectively.

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

Quality Assurance Performance Improvement

National Nursing Home COVID-19 Safety Program

With the ever-changing guidelines and restrictions surrounding COVID-19, several initiatives have been aimed to help nursing homes address the challenges of COVID-19. Leahi Hospital and Maluhia have enrolled to participate in the National Nursing Home

COVID-19 Safety Program, a 1-year program, initiated by the Project ECHO (Extension for Community Healthcare Outcomes) Institute.

The Project ECHO Institute is a national network of ECHO programs across the U.S. that provides training, technical assistance and mentorship to healthcare providers. Applying high-quality, best-practice healthcare will protect patients, staff and visitors from the deadly COVID-19 infection and spread. In collaboration with the Agency for Healthcare Research and Quality (AHRQ) and experts in quality improvement (QI) at the Institute for Healthcare Improvement (IHI), they have been funded Federal HHS monies through the CARES Act to work towards the following goals:

- Preventing COVID-19 from entering nursing homes via staff, visitors, and patients.
- Should the virus enter the nursing home, prevent greater spread among patients, staff, and visitors.
- Providing best-practice care and treatment for patients who test positive for COVID-19.
- Protecting staff from infection and ensuring best-practice safety measures, to help staff build confidence in their work, feel safe from infection, and support staff retention.
- Ensuring that patients who are dying from COVID-19 can safely receive visitors.

Locally Sourced and Scratch Cooked Food – Oahu Region and Beyond Green Partners

Oahu Region partnered with Beyond Green Partners (BGP), a consulting firm and together, committed to developing a healthy, prosperous food system that promotes scratch-cooked foods, local food sourcing and minimizing waste. The vision of the program focused on improving the well-being, mental health and comfort of the residents, Day Health participants and the Meals on Wheels recipients. Other program benefits included culinary techniques training to the food service employees and better utilizing kitchen space to manage on-time and quality food production, resulting in decreased food cost per meal.

To accomplish the vision, Maluhia and Leahi Hospital conducted tasting events for the residents and participants to evaluate and enjoy. Soon after, BGP and the food service departments developed new menus to meet the residents' desired preferences. Eating healthy, buying local and minimizing waste benefit to our residents and the community. Maluhia and Leahi Hospital will continue to promote scratch-cooked foods and seek new local food sources to support Hawaii's economy. Recently, the Oahu Region was able to secure a grant from the Ulupono Initiative to purchase much needed kitchen supplies that will be utilized towards this end.

Personnel

Full Time Equivalent ("FTE") figures are as follows:
FY 20- 438.65
FY 19- 428.28
FY 18 – 413.30

Financial Picture
Approximately 80% of the Oahu Region's residents receive benefits through Hawaii's Med-Quest Medicaid program. The Oahu Region's revenues and cash flow are dependent on the reimbursement rates and timeliness of payments provided by the Medicaid programs, despite being inadequate to cover our actual inflationary shortfalls.

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

Another issue impacting the Oahu Region's ability to continue serving its community is that, in recent years, the Legislature has not appropriated the General Funds necessary to completely fund the collective bargaining payroll increases that were negotiated and agreed to by the State. Special funded agencies like HHSC are required to fund a significant portion of payroll and the entire fringe benefit increases through its special fund.

As described more fully above, the COVID-19 pandemic has led the Oahu Region to experience a significant reduction in operating revenue due to a decrease in available bed space and temporary closure of our Adult Day Health Programs. The pandemic has also caused an increase in expenditures due to additional expenses for required COVID-19 testing and purchase of supplementary personal protective equipment (PPE). PPE costs are currently five to ten times greater than pre-pandemic prices. Between March and June 2020, the negative impact on operating revenues and additional expenditures to purchase PPE was approximately $1M and $200K, respectively.

Fortunately, to defray some of the financial loss, the Oahu Region received aid through the COVID-19 Aid, Relief and Economic Security ("CARES") Act stimulus and Leahi received a Payroll Protection Plan loan. Nevertheless, as a consequence of continuing COVID-19 prevention efforts and treatment of potential COVID-19 infections, the Oahu Region's operating revenues and expenditures will continue to be negatively affected and we will require much needed assistance to cover the shortfall.

Risk Management
Improving the residents' quality of life and providing individualized care are areas that we focus on every day. An annual staff education fair is conducted to provide current information on a variety of topics including; infection control, protected health information, IT security, resident rights, and patient safety. Throughout the year, our staff also attended education and training sessions provided by the Healthcare Association of Hawaii, American Health Care Association, and Mountain Pacific Quality Health. Since the COVID-19 public health emergency was declared, the staff regularly receive updates on best practices for resident care and safety in nursing homes. In addition, we immediately implemented tele-health services to ensure that there was no disruption in care between the physicians and the residents. We update our protocols to incorporate new regulations to keep the residents and staff safe from the devastating effects of COVID-19.

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 2020
Michelle Kato, President
Jane Schramko, Vice-President
Jerilyn Yamashiro, Secretary
Laurie Narahara, Director
Sean Sanada, Director
Sean Simmons, Director
Neal Yanagihara, Director

Total Private Donations:	$10,140
Total Fundraising:	N/A
Total Federal/State/Private Grants	1,295
Total:	$11,435

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