HAWAII HEALTH SYSTEMS
CORPORATION
Quality Healthcare For All

DEPT. COMM. NO. 255

December 31, 2025

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

The Honorable Nadine K. Nakamura,
Speaker and Members of the
House of Representatives
State Capitol, Room 431
Honolulu, HI 96813

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

For your information, I am transmitting a copy of the Hawaii Health Systems Corporation's annual audit and report for Fiscal Year 2025.

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

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

Sincerely,

Edward Chu
President and Chief Executive Officer
Hawaii Health Systems Corporation

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

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

REPORT TO THE THIRTY-THIRD HAWAIʻI STATE LEGISLATURE FOR FISCAL YEAR 2025

January 2026

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www.hhsc.org

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East Hawai‘i
West Hawai‘i
Kaua‘i
O‘ahu

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

PCEO-25-015

Report to the Legislature
Hawaii Health Systems Corporation Annual Audit and Report for FY2025;

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 FY2026 and a list of capital improvement projects planned for implementation in FY2026; 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 Benioff Medical Center, Yukio Okutsu State Veterans Home, Honoka'a Hospital and Skilled Nursing, and Ka'u Hospital (East Hawaii Region); Kona Community Hospital and Kohala Hospital (West Hawaii Region); Leahi Hospital, Maluhia, and Daniel K. Akaka State Veterans Home (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 dba Roselani Place – Maui; Ali'i Health Center – West Hawaii, and Kahuku Medical Center – Oahu. HHSC also owns and operates several physician clinics and outpatient pharmacies 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.

For the fiscal year ended June 30, 2025, HHSC experienced an increase in operating revenues despite ongoing challenges in the healthcare industry, such as regulatory pressures, rising labor costs, and increasing inflation.

In fiscal year 2025, HHSC's facilities continued to experience increasing patient volumes over previous years. HHSC's acute admissions for fiscal year 2025 increased nearly 4% from fiscal year 2024, and long-term care admissions for fiscal year 2025 increased almost 11% from fiscal year 2024. HHSC's emergency department visits for fiscal year 2025 increased nearly 1% from fiscal year 2024, and HHSC's long-term care patient days for fiscal year 2025 increased 3% from fiscal year 2024.

These increasing patient volumes demonstrated how critical HHSC's facilities are for access to healthcare in the State of Hawaii, especially on the neighbor islands. In fiscal year 2025, HHSC's acute discharges were 14,466, which accounts for nearly 13% of all acute care discharges in the State of Hawaii. In fiscal year 2024, HHSC's emergency department visits were 91,900, representing approximately 19% 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 nearly 73% of all acute care discharges and 80% of all emergency department visits. For residents of the County of Kauai, HHSC's facilities cared for nearly 22% of all acute care discharges and 42% of all emergency department visits.

HHSC continues to see recruitment success through its continued commitment to its in-house workforce development programs (e.g. surgical technologist programs, nurse residency programs, specialized nursing certificate programs, certified nurse assistant program, the Hawaii Island Family Residency Program at Hilo Benioff Medical Center) and collaborations with the Healthcare Association of Hawaii and the Good Jobs Hawaii Program. Despite these efforts, HHSC continues to face significant clinical staffing shortages, requiring the supplementation of its staff with contracted nursing and other clinical personnel. This is due to the high cost of living, the scarcity of affordable and available housing, and the limited capacity of Hawaii's colleges and universities to accept and graduate nursing students and clinical technicians. In fiscal year 2025, HHSC spent nearly $36 million in contracted nursing and other clinical personnel as compared to $14.4 million in fiscal year 2021. With the implementation of workforce programs and initiatives, HHSC's contract labor costs decreased by 16% compared to the previous fiscal year.

In addition to staffing shortage challenges and the high cost of contract labor, HHSC continues to face increasing operating losses due to excessive salaries and benefits expenses compared to the private healthcare industry. HHSC was forced to absorb collective bargaining raises of varying percentages due to agreements between the State of Hawaii and public sector unions, retroactive to July 1, 2021, and expiring on June 30, 2025. These raises have cost HHSC a cumulative total of over $90 million, based on assessed fringe benefit rates, over the four-year period of the agreements. Further, the collective bargaining agreements negotiated by the State of Hawaii were designed for employees in administrative offices, supporting a static business environment, rather than the dynamic working environment found in the hospitals operated by HHSC. As a result, the work rules and pay schedules dictated by these collective bargaining agreements make it difficult for HHSC to operate its facilities efficiently and cost-effectively.

The State assessed HHSC a fringe benefit rate of 59.77% for fiscal year 2025. Although the fringe benefit rate is less than the previous fiscal year, it remains higher than the rates typically paid by private hospitals across the nation, which range between 25-

30%. The impact on HHSC of the difference between its fiscal year 2025 fringe benefit rate and the private hospital fringe rate of 30% is approximately $90 million in additional annual expenses. Additionally, HHSC's salaries and benefits expense as a percentage of net patient service revenue was 70% for fiscal year 2025, compared to the Standard & Poor's Global Ratings U.S. Not-for-Profit Acute Health Care 2024 Medians of 57%.

During the year, HHSC focused on several strategic priorities and initiatives:

- Improving Third-Party Payor Reimbursement Rates:
  Utilizing the resources of a consulting firm and published payment rates available as a result of federal price transparency legislation, HHSC continued negotiation of contracts for its commercial lines of business that will bring HHSC's reimbursement rates for healthcare services up to par with those of the private hospitals in the State of Hawaii. The increases in reimbursement rates have contributed to HHSC's revenue growth in fiscal year 2025 and will establish a higher base reimbursement level for future contract negotiations.

- Maximizing Federal Funding Opportunities:
  HHSC worked with the State of Hawaii MedQUEST Division to establish a public hospital uncompensated care pool which provides federal funds to partially subsidize HHSC's losses from providing care to Medicaid, MedQUEST, and uninsured patients. HHSC received nearly $70 million in funds in fiscal year 2025 from this program.

- Engaging in Philanthropic Activities:
  HHSC facilities and their associated foundations have continued to generate private funding through philanthropy. In fiscal year 2025, the East Hawaii Region received a pledge of $25 million to build an outpatient health center in Kea'au to improve access to medical services in the underserved Puna District. The Kauai Region recently received nearly $11 million from the Helmsley Charitable Trust to help expand and develop its facility's magnetic resonance imaging suite and expand simulation healthcare training.

- Regional Enhancement of Services:
  HHSC is making significant investments in upgrading medical equipment, expanding patient care capacity, and modernizing hospital facilities. The East Hawaii Region has started construction for a medical office building, intensive care unit expansion, and other building renovations. The Kauai Region has begun design work and construction for its emergency room renovations, inpatient psych/behavioral facility, major upgrades of imaging equipment, and a sizeable master campus plan. In March 2025, the Oahu Region opened the Daniel Kahikina Akaka State Veterans Home, a 120-bed facility that offers long-term nursing home care, rehabilitation therapies, hospice care, geriatric mental health services, dementia and Alzheimer's care, respite care, and adult day health services for veterans, along with their spouses and Gold Star Parents.

- System Product Standardization:
  As medical supply costs continue to rise, HHSC committed to a supply standardization program that is designed to minimize cost increases and result in cost savings. HHSC has already realized nearly $1 million in annual savings through pricing and rebates on medical/surgical commodities and clinical preference supplies that HHSC facilities purchase.

By continuing to improve efficiency and with the general fund appropriations from the State of Hawaii, HHSC can continue to improve healthcare access for the unique island communities that it serves.

HHSC will need to maintain its focus on increasing revenues and managing operating expenses in the face of rising labor costs and inflation. There will be continued focus and emphasis on artificial intelligence (AI) and cybersecurity. Additionally, the severity and constantly changing actions of the federal administration and Congress are likely to have a negative impact on HHSC and its communities.

Artificial Intelligence is increasingly transforming healthcare, particularly within hospital systems, by improving clinical outcomes, enhancing operational efficiencies, and helping to address challenges like rising costs, workforce shortages, and patient demand. Integrating AI into hospital systems offers a wide range of benefits, but it also presents unique challenges in terms of implementation, ethics, and regulatory compliance. AI offers the opportunity to improve patient outcomes, improve cost savings, increase efficiency and productivity, and enhance patient experience. Challenges and considerations of AI include data privacy and security, bias and ethical concerns, regulatory and compliance issues, and integration with existing systems. HHSC is committed to mitigating these risks through careful planning, establishment of policies and procedures, implementation of robust security protocols, regular audits, ongoing employee training, and ongoing evaluation of its impact.

The healthcare sector is particularly vulnerable to cybersecurity risk and the stakes for patient care and safety are particularly high. Healthcare facilities are attractive targets for cyber criminals because of their technological dependence, sensitive data, and unique vulnerability to disruptions. HHSC is heavily focused on cybersecurity risk mitigation including assessments, implementation of detection and monitoring software, and employee training.

Since government payors such as Medicare and Medicaid make up nearly 73% of HHSC's payor mix, HHSC's financial performance is highly sensitive to changes in government reimbursement rates. H.R.1, otherwise known as the One Big Beautiful Bill Act (OBBBA), has significant potential impacts on HHSC facilities.

The uncompensated care pool that generates a substantial amount of revenue for HHSC facilities is funded by state-directed payments. Section 71116 limits state-directed payments to 100% of the Medicare payment rate, which could reduce and, at a minimum, could effectively cap the amounts that HHSC receives under the program. With HHSC's state-directed payments projected to increase to $83 million by fiscal year 2027 under the current program, the difference of $13 million annually would need to be made up through State of Hawaii general fund appropriations at a time when State funds are anticipated to be drastically reduced from the overall impacts of this bill and other federal administration actions. HHSC will need to work with the State of Hawaii MedQUEST Program and their actuarial experts to determine whether the current amounts HHSC receives under state-directed payments would increase or decrease when compared to the Medicare payment rate.

There are other provisions of the OBBBA that bring great concern impacting Medicaid eligibility. Section 71112 limits the timeframe for retroactive Medicaid eligibility to 30 days prior to the application date for Medicaid expansion enrollees and 60 days prior to the application date for traditional Medicaid enrollees, as opposed to the current 90-day period. This limitation would provide a financial hardship to healthcare facilities accepting patients that have not been previously enrolled in and eligible for Medicaid. Eligibility determination for Medicaid takes more than 30 days so, this would mean that healthcare facilities would risk non-payment when accepting a Medicaid-pending patient. This would have a large impact on long-term care facilities, where those facilities often accept Medicaid-pending patients with the expectation that they will be able to receive retroactive reimbursement to cover the period while eligibility is being determined. For HHSC, every day of a delay in eligibility over the 30-day limit would cost HHSC approximately $370 per patient; for a 30-day delay beyond the limit, it would cost HHSC $11,100 per patient. Sections 71107 and 71119 would increase Medicaid redetermination and verification requirements, causing delays in Medicaid enrollment and result in some Medicaid enrollees falling out of eligibility if they miss the redetermination or verification deadlines. The State of Hawaii MedQUEST program already has significant issues hiring and retaining sufficient Medicaid eligibility workers to comply with the current redetermination and verification frequency. The impact of these provisions would be to increase the cost of operating the MedQUEST program and increasing the amount of uncompensated care that HHSC's facilities provide.

Any actions that would limit access to care would have a huge impact on HHSC. For acute inpatient and outpatient services, if patients cannot be enrolled in Medicaid, they will probably not seek care from physicians or clinics (who may turn them down because they don't have health insurance), but instead go to the hospital emergency rooms for care because they know emergency rooms cannot turn them away. This will result in overcrowded emergency rooms and restrict access to care without any viable alternatives, particularly in Hawaii's rural communities. On Hawaii Island, Hilo Benioff Medical Center's emergency room is routinely over 100% capacity, and Kona Community Hospital's emergency room is routinely at 90-100% capacity. For those patients that will be admitted to inpatient beds in the hospital, the average acute Medicaid payment per patient day is $828 compared to the average acute self-pay payment per patient day of $141, which represents an 83% decrease in reimbursement. Once these acute inpatients are ready for discharge, it would be very difficult to find a long-term care facility to accept a self-pay patient that does not have the financial ability to pay. These patients would then be forced to remain in a hospital acute bed as a "wait-list" patient, since they would no longer clinically qualify for an acute inpatient stay but are waiting in an acute bed for a place for them to be discharged to an appropriate care setting. For such "wait-list" patients, Medicaid and other third-party insurers do not provide any payment since the patient is not in the appropriate care setting. For each wait-list patient, HHSC loses on average between $2,000 and $3,000 per wait-list patient per day.

For the long-term care patients, the impacts are just as daunting. At HHSC's long-term care facilities, approximately 90% are Medicaid patients. As mentioned above, the average Medicaid reimbursement at HHSC's long-term care facilities is approximately $370 per patient per day, as compared to zero reimbursement for self-pay patients. Many of HHSC's long-term care patients are not pre-qualified for Medicaid, so if the State is not able to provide coverage for new Medicaid recipients, these patients will have an extremely difficult time finding the care that they need. In order for HHSC to be able to

provide the care for these self-pay patients, it would need a significant increase in its general fund appropriations from the State of Hawaii to pay for the cost of their care.

According to the American Hospital Association, over a 10-year period through 2034, Hawaii Medicaid coverage would decrease by almost 25,000 residents, and the rural hospital Medicaid impact would be a loss of $507 million in Medicaid reimbursements over that same period. Reductions on that scale would certainly hamper the ability of HHSC's facilities and several non-profit healthcare facilities to continue providing services to residents of Hawaii's rural areas. A report provided by the Healthcare Association of Hawaii estimated that 47,748 Medicaid beneficiaries and members of the federal health insurance exchange would be impacted by either loss of Medicaid coverage due to the provisions of this bill or loss of subsidies for the federal health insurance exchange. While the majority of those affected reside on Oahu, over 19,000 residents of the counties of Kauai, Maui, and Hawaii would be impacted at a disproportionally higher level, as 2.8% of Oahu's population would be impacted by the loss of coverage as compared to 3.8-4.7% of the population of the other counties.

On November 12, 2025, the federal government shutdown ended with important healthcare issues under discussion. The legislation extended key healthcare policies impacting HHSC facilities through January 30, 2026 including the Medicare Low Volume Adjustment program and Medicare Telehealth waivers.

With the impacts to Medicare and Medicaid coverage and reimbursement and future potential impacts on rising costs, HHSC faces the issue of increased need for State General Fund appropriations. HHSC is continually analyzing ways to better meet the challenges of delivering vital healthcare to the communities it serves. In this effort, HHSC consistently evaluates its current operations to identify opportunities for improving efficiency and effectiveness across the system, ensuring the provision of accessible, high quality services that address the healthcare needs of Hawaii's unique island communities.

HHSC annually has a detailed independent financial audit conducted for the entire system. Additionally, HHSC has a myriad of internal reporting/performance measures that are utilized by the board of directors and management to insure compliance, quality, and financial efficiency in all system work. We have continued to focus on improving our financial management and accounting systems throughout the year. HHSC has received a "clean" unqualified consolidated audit for every fiscal year from FY 2000 through FY 2025.

The following information is attached in accordance with section 323F-22, HRS: (1) HHSC Consolidated Audited Financial Statement for FY 2025, (2) projected revenues for each facility for FY2026, (3) proposed capital improvement projects during FY2026; and (4) 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 the past few years, 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). Twenty-five years ago, there were three foundations supporting HHSC facilities of which only two were active. Today, there are nine separate foundations, in addition to multiple hospital auxiliaries supporting one or more HHSC hospitals.

Respectfully submitted,

Edward N. Chu
President and Chief Executive Officer

Joyce M. Tamori
Vice President and Chief Financial Officer

Attachments:

1. HHSC Consolidated Audited Financial Statements FY 2025
2. Projected FY2026 Revenues
3. CIP Expenditures FY2026
4. Regional Board Reports, FY2025

Attachment A

HHSC Consolidated Audited Financial Statements, FY2025

Hawaii Health Systems Corporation

Financial Report
with Supplementary Information
June 30, 2025

Hawaii Health Systems Corporation

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Independent Auditor's Report

To the Board of Directors
Hawaii Health Systems Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hawaii Health Systems Corporation (the "Corporation"), a component unit of the State of Hawaii, as of and for the year ended June 30, 2025 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of Hawaii Health Systems Corporation as of June 30, 2025 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Kahuku Medical Center, a blended component unit, which represents 2 percent of total assets, (21) percent of net deficit, and 3 percent of revenue as of June 30, 2025. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Kahuku Medical Center, is based solely on the report of the other auditors.

Basis for Opinion

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

Emphasis of Matters

As described in Note 1, the financial statements present only Hawaii Health Systems Corporation (a component unit of the State of Hawaii) and do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2025 or the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

As discussed in Note 2 to the financial statements, as of July 1, 2024, the Corporation adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 101, *Compensated Absences.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

To the Board of Directors
Hawaii Health Systems Corporation

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 12, 2025 on our consideration of Hawaii Health Systems Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hawaii Health Systems Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hawaii Health Systems Corporation's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 12, 2025

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, 2025 and 2024. Please read it in conjunction with the Corporation's financial statements, which begin on page 12.

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

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

The Corporation adopted GASB 101, *Compensated Absences,* as of July 1, 2024. As a result of the adoption, July 1, 2024 net position decreased by $43,729,233.

The Statement of Cash Flows

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

The Corporation's Net Position

The Corporation's net position is the difference between its assets and deferred outflows and liabilities and deferred inflows, reported in the statement of net position on pages 12 and 13. The Corporation's net position increased by $193,843,889 and $154,292,132 in 2025 and 2024, respectively. The increase in net position in 2024 is prior to the GASB 101 adoption impact, which resulted in a decrease of $43,729,233 to the 2024 net position upon the adoption of the Standard in the financial statements.

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

Summarized financial information of Hawaii Health Systems Corporation's statement of net position as of June 30, 2025 and 2024 (prior to adoption of GASB 101) is as follows:

	2025	2024
Assets		
Current assets	$ 524,205,158	$ 517,486,846
Capital assets - Net	491,391,122	369,389,562
Other assets	197,045,682	154,251,599
Total assets	1,212,641,962	1,041,128,007
Deferred Outflows of Resources	146,071,956	131,671,437
Total assets and deferred outflows of resources	1,358,713,918	1,172,799,444
Liabilities		
Current liabilities	172,305,536	176,602,769
Other postemployment liability	383,848,405	456,319,648
Due to the State of Hawaii	19,008,243	19,008,243
Pension liability	631,150,378	598,853,271
Other liabilities	112,251,593	81,849,806
Total liabilities	1,318,564,155	1,332,633,737
Deferred Inflows of Resources	112,770,591	106,630,424
Total liabilities and deferred inflows of resources	1,431,334,746	1,439,264,161
Net Position (Deficit)		
Net investment in capital assets	451,524,002	327,333,206
Restricted	54,646,948	52,437,255
Unrestricted	(578,791,778)	(646,235,178)
Total net position (deficit)	$ **(72,620,828)**	$ **(266,464,717)**

At June 30, 2025 and 2024, Hawaii Health Systems Corporation's current assets approximated 43 and 50 percent, respectively, of total assets. Capital assets increased by approximately $122 million in 2025 primarily due to a capital assets transfer related to Daniel Kahikina Akaka State Veterans Home from the State of Hawaii Department of Defense. This facility was constructed by the State of Hawaii Department of Defense and then transferred to Hawaii Health Systems Corporation in 2025.

At June 30, 2025 and 2024, Hawaii Health Systems Corporation's current liabilities approximated 13 percent of total liabilities. Current liabilities decreased by approximately $4 million in 2025 primarily due to the decrease in accounts payable and accrued expenses.

At June 30, 2025, the Corporation recorded an additional liability of $39 million related to the adoption of GASB 101, *Compensated Absences,* for the accrual of all compensated absences amounts earned that are more likely than not to be paid out. At July 1, 2024, the Corporation recorded an additional liability of $44 million related to the adoption of this standard.

At June 30, 2025 and 2024, 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 $452 million and $327 million, respectively. Total net position (deficit) was approximately $(73) million in 2025 and $(266) million in 2024 prior to restatement for the adoption of GASB 101.

Capital Assets

At June 30, 2025 and 2024, Hawaii Health Systems Corporation's capital assets, net of accumulated depreciation, comprised approximately 41 and 35 percent, respectively, of its total assets. These assets consist mainly of land, hospital buildings, and equipment that are used in Hawaii Health Systems Corporation's operations. The increase in the net capital assets is due to additional capital expenditures across the regions.

A summary of Hawaii Health Systems Corporation's capital assets as of June 30, 2025 and 2024 is as follows:

	2025	2024
Land and land improvements	$ 17,868,619	$ 13,266,279
Building and improvements	753,264,234	654,018,845
Equipment	237,098,711	280,464,092
Leased assets	35,929,867	32,390,771
Construction in progress	80,291,798	45,077,540
Total cost	1,124,453,229	1,025,217,527
Less accumulated depreciation and amortization	(633,062,107)	(655,827,965)
Capital assets - Net	$ **491,391,122**	$ **369,389,562**

Long-term Debt

At June 30, 2025 and 2024, Hawaii Health Systems Corporation had long-term debt totaling approximately $33 million and $35 million, respectively. The decrease of $2 million in 2025 was due to payments made on previously existing debt without significant new debt being taken on. More detailed information about Hawaii Health Systems Corporation's long-term debt is presented in the notes to the financial statements.

Operating Results and Changes in Net Position

Summarized financial information of Hawaii Health Systems Corporation's statement of revenue, expenses, and changes in net position for the years ended June 30, 2025 and 2024 is as follows:

	2025	2024
Operating Revenue	$ 788,465,206	$ 707,532,662
Operating Expenses		
Salaries and wages	385,923,774	368,613,381
Employee benefits	152,326,511	131,533,982
Purchased services and professional fees	166,366,556	166,443,168
Medical supplies and drugs	96,179,376	79,882,224
Depreciation and amortization	48,118,798	47,418,255
Insurance	11,483,762	9,716,336
Other	86,370,269	69,457,934
Total operating expenses	946,769,046	873,065,280
Operating Loss	(158,303,840)	(165,532,618)
Nonoperating Revenue		
General appropriations from the State of Hawaii	185,690,803	182,185,305
Collective bargaining appropriations from the State of Hawaii	40,602,260	
Restricted contributions	3,963,736	49,543,777
Other nonoperating revenue - Net	17,597,759	14,408,755
Unrestricted contributions	1,151,145	404,822
Total nonoperating income	249,005,703	246,542,659
Excess of Revenue Over Expenses before Capital Contributions	90,701,863	81,010,041
Capital Contributions	146,871,259	73,282,091
Increase in Net Position - End of year	$ **237,573,122**	$ **154,292,132**

Operating Losses

For the years ended June 30, 2025 and 2024, Hawaii Health Systems Corporation's operating expenses exceeded its operating revenue by $158.3 million and $165.5 million, respectively. General appropriations from the State of Hawaii totaled $185.7 million and $182.2 million in 2025 and 2024, respectively. In addition, appropriations from the State of Hawaii for capital contributions totaled $146.9 million and $73.3 million in 2025 and 2024, respectively. The 2025 capital contributions include approximately $95 million related to State of Hawaii Department of Defense transfers for the Daniel Kahikina Akaka State Veterans Home facility. These items, along with the other nonoperating revenue, contributed to an increase in net position of $237.6 million in 2025 and an increase of $154.3 million in 2024. In 2025, the Corporation also recognized $40.6 million related to contributions from the State of Hawaii for temporary hazard pay payments.

Operating expenses for the fiscal years ended June 30, 2025 and 2024 totaled $946.8 million and $873.1 million, respectively.

Operating revenue for the fiscal years ended June 30, 2025 and 2024 increased by approximately 11.4 percent and 11.1 percent, respectively, year over year.

During 2024, the East Hawaii Region Foundation ("EHRF") received a $50 million pledge to be paid in five annual installments. During 2025, two payments of approximately $10 million each were received and are included as assets limited as to use. The contribution is required to be placed in an interest-bearing account. The contribution is restricted as to use for various projects specified in the donor agreement. The pledged amount is required to be used to fund specific projects, as laid out in the donor agreement. The remaining pledge amount to be received subsequent to 2026 is included as a long-term restricted pledge receivable, recorded at present value, on the statement of net position. During 2025, EHRF received an additional $25 million pledge to assist with the construction of a new outpatient health center within the region. This pledge has not been recorded on the financial statements at June 30, 2025. This treatment is appropriate under GASB Statement No. 33, *Accounting and Financial Repo,ting for Nonexchange Transactions* (GASB 33), as not all eligibility requirements have been met.

Systemwide Outlook

For the fiscal year ended June 30, 2025, HHSC experienced an increase in operating revenues despite ongoing challenges in the healthcare industry, such as regulatory pressures, rising labor costs, and increasing inflation.

In fiscal year 2025, HHSC's facilities continued to experience increasing patient volumes over previous years. HHSC's acute admissions for fiscal year 2025 increased by nearly 4 percent from fiscal year 2024, and long-term care admissions for fiscal year 2025 increased by almost 11 percent from fiscal year 2024. HHSC's emergency department visits for fiscal year 2025 increased by nearly 1 percent from fiscal year 2024, and HHSC's long-term care patient days for fiscal year 2025 increased by 3 percent from fiscal year 2024.

These increasing patient volumes demonstrated how critical HHSC's facilities are for access to healthcare in the State of Hawaii, especially on the neighbor islands. In fiscal year 2025, HHSC's acute discharges were 14,466, which accounts for nearly 13 percent of all acute care discharges in the State of Hawaii. In fiscal year 2024, HHSC's emergency department visits were 91,900, representing approximately 19 percent of all emergency department visits statewide. The impact of HHSC's facilities on the neighbor islands is even more impressive. For residents of the County of Hawaii, HHSC's facilities cared for nearly 73 percent of all acute care discharges and 80 percent of all emergency department visits. For residents of the County of Kauai, HHSC's facilities cared for nearly 22 percent of all acute care discharges and 42 percent of all emergency department visits.

HHSC continues to see recruitment success through its continued commitment to its in-house workforce development programs (e.g., surgical technologist programs, nurse residency programs, specialized nursing certificate programs, certified nurse assistant program, and the Hawaii Island Family Residency Program at Hilo Benioff Medical Center), collaborations with the Healthcare Association of Hawaii, and the Good Jobs Hawaii Program. Despite these efforts, HHSC continues to face significant clinical staffing shortages, requiring the supplementation of its staff with contracted nursing and other clinical personnel. This is due to the high cost of living, the scarcity of affordable and available housing, and the limited capacity of Hawaii's colleges and universities to accept and graduate nursing students and clinical technicians. In fiscal year 2025, HHSC spent nearly $36 million in contracted nursing and other clinical personnel compared to $14.4 million in fiscal year 2021. With the implementation of workforce programs and initiatives, HHSC's contract labor costs decreased by 16 percent compared to the previous fiscal year.

In addition to staffing shortage challenges and the high cost of contract labor, HHSC continues to face increasing operating losses due to excessive salaries and benefits expenses compared to the private healthcare industry. HHSC was forced to absorb collective bargaining raises of varying percentages due to agreements between the State of Hawaii and public sector unions, retroactive to July 1, 2021 and expiring on June 30, 2025. These raises have cost HHSC a cumulative total of over $90 million, based on assessed fringe benefit rates, over the four-year period of the agreements. Further, the collective bargaining agreements negotiated by the State of Hawaii were designed for employees in administrative offices, supporting a static business environment, rather than the dynamic working environment found in the hospitals operated by HHSC. As a result, the work rules and pay schedules dictated by these collective bargaining agreements make it difficult for HHSC to operate its facilities efficiently and cost-effectively.

The State assessed HHSC a fringe benefit rate of 59.77 percent for fiscal year 2025. Although the fringe benefit rate is less than the previous fiscal year, it remains higher than the rates typically paid by private hospitals across the nation, which range between 25 and 30 percent. The impact on HHSC of the difference between its fiscal year 2025 fringe benefit rate and the private hospital fringe rate of 30 percent is approximately $90 million in additional annual expenses. Additionally, HHSC's salaries and benefits expense as a percentage of net patient service revenue was 70 percent for fiscal year 2025, compared to the Standard & Poor's Global Ratings U.S. Not-for-Profit Acute Health Care 2024 Medians of 57 percent.

During the year, HHSC focused on several strategic priorities and initiatives:

Improving Third-Party Payor Reimbursement Rates

Utilizing the resources of a consulting firm and published payment rates available as a result of federal price transparency legislation, HHSC continued negotiation of contracts for its commercial lines of business that will bring HHSC's reimbursement rates for healthcare services up to par with those of the private hospitals in the State of Hawaii. The increases in reimbursement rates have contributed to HHSC's revenue growth in fiscal year 2025 and will establish a higher base reimbursement level for future contract negotiations.

Maximizing Federal Funding Opportunities

HHSC worked with the State of Hawaii MedQUEST Division to establish a public hospital uncompensated care pool, which provides federal funds to partially subsidize HHSC's losses from providing care to Medicaid, MedQUEST, and uninsured patients. HHSC received nearly $70 million in funds in fiscal year 2025 from this program.

Engaging in Philanthropic Activities

HHSC facilities and their associated foundations have continued to generate private funding through philanthropy. In fiscal year 2025, the East Hawaii Region received a pledge of $25 million to build an outpatient health center in Kea'au to improve access to medical services in the underserved Puna District. The Kauai Region recently received nearly $11 million from the Helmsley Charitable Trust to help expand and develop its facility's magnetic resonance imaging suite and expand simulation healthcare training.

Regional Enhancement of Service

HHSC is making significant investments in upgrading medical equipment, expanding patient care capacity, and modernizing hospital facilities. The East Hawaii Region has started construction for a medical office building, intensive care unit expansion, and other building renovations. The Kauai Region has begun design work and construction for its emergency room renovations, inpatient psych/behavioral facility, major upgrades of imaging equipment, and a sizeable master campus plan. In March 2025, the Oahu Region opened the Daniel Kahikina Akaka State Veterans Home, a 120-bed facility that offers long-term nursing home care, rehabilitation therapies, hospice care, geriatric mental health services, dementia and Alzheimer's care, respite care, and adult day health services for veterans, along with their spouses and Gold Star Parents.

System Product Standardization

As medical supply costs continue to rise, HHSC committed to a supply standardization program that is designed to minimize cost increases and result in cost savings. HHSC has already realized nearly $1 million in annual savings through pricing and rebates on medical/surgical commodities and clinical preference supplies that HHSC facilities purchase.

By continuing to improve efficiency and with the general fund appropriations from the State of Hawaii, HHSC can continue to improve healthcare access for the unique island communities that it serves.

Future Outlook

HHSC will need to maintain its focus on increasing revenues and managing operating expenses in the face of rising labor costs and inflation. There will be continued focus and emphasis on artificial intelligence (AI) and cybersecurity. Additionally, the severity and constantly changing actions of the federal administration and Congress are likely to have a negative impact on HHSC and its communities.

Artificial Intelligence is increasingly transforming healthcare, particularly within hospital systems, by improving clinical outcomes; enhancing operational efficiencies; and helping to address challenges like rising costs, workforce shortages, and patient demand. Integrating AI into hospital systems offers a wide range of benefits, but it also presents unique challenges in terms of implementation, ethics, and regulatory compliance. AI offers the opportunity to improve patient outcomes, improve cost savings, increase efficiency and productivity, and enhance patient experience. Challenges and considerations of AI include data privacy and security, bias and ethical concerns, regulatory and compliance issues, and integration with existing systems. HHSC is committed to mitigating these risks through careful planning, establishment of policies and procedures, implementation of robust security protocols, regular audits, ongoing employee training, and ongoing evaluation of its impact.

The healthcare sector is particularly vulnerable to cybersecurity risk and the stakes for patient care and safety are particularly high. Healthcare facilities are attractive targets for cyber criminals because of their technological dependence, sensitive data, and unique vulnerability to disruptions. HHSC is heavily focused on cybersecurity risk mitigation including assessments, implementation of detection and monitoring software, and employee training.

Since government payors such as Medicare and Medicaid make up nearly 73 percent of HHSC's payor mix, HHSC's financial performance is highly sensitive to changes in government reimbursement rates. H.R.1, otherwise known as the One Big Beautiful Bill Act (OBBBA), has significant potential impacts on HHSC facilities.

The uncompensated care pool that generates a substantial amount of revenue for HHSC facilities is funded by state-directed payments. Section 71116 limits state-directed payments to 100 percent of the Medicare payment rate, which could reduce and, at a minimum, could effectively cap the amounts that HHSC receives under the program. With HHSC's state-directed payments projected to increase to $83 million by fiscal year 2027 under the current program, the difference of $13 million annually would need to be made up through State of Hawaii general fund appropriations at a time when State funds are anticipated to be drastically reduced from the overall impacts of this bill and other federal administration actions. HHSC will need to work with the State of Hawaii MedQUEST Program and its actuarial experts to determine whether the current amounts HHSC receives under state-directed payments would increase or decrease when compared to the Medicare payment rate.

There are other provisions of the OBBBA that bring great concern impacting Medicaid eligibility. Section 71112 limits the timeframe for retroactive Medicaid eligibility to 30 days prior to the application date for Medicaid expansion enrollees and 60 days prior to the application date for traditional Medicaid enrollees, as opposed to the current 90-day period. This limitation would provide a financial hardship to healthcare facilities accepting patients who have not been previously enrolled in and eligible for Medicaid. Eligibility determination for Medicaid takes more than 30 days, which means that healthcare facilities would risk non-payment when accepting a Medicaid-pending patient. This would have a large impact on long-term care facilities, where those facilities often accept Medicaid-pending patients with the expectation that they will be able to receive retroactive reimbursement to cover the period while eligibility is being determined. For HHSC, every day of a delay in eligibility over the 30-day limit would cost HHSC approximately $370 per patient; for a 30-day delay beyond the limit, it would cost HHSC $11,100 per patient. Sections 71107 and 71119, which would increase Medicaid redetermination and verification requirements, causing delays in Medicaid enrollment and result in some Medicaid enrollees falling out of eligibility if they miss the redetermination or verification deadlines. The State of Hawaii MedQUEST program already has significant issues hiring and retaining sufficient Medicaid eligibility workers to comply with the current redetermination and verification frequency. The impact of these provisions would be to increase the cost of operating the MedQUEST program and increasing the amount of uncompensated care that HHSC's facilities provide.

Any actions that would limit access to care would have a huge impact on HHSC. For acute inpatient and outpatient services, if patients cannot be enrolled in Medicaid, they will probably not seek care from physicians or clinics (who may turn them down because they do not have health insurance) but will instead go to the hospital emergency rooms for care because they know emergency rooms cannot turn them away. This will result in overcrowded emergency rooms and restrict access to care without any viable alternatives, particularly in Hawaii's rural communities. On Hawaii Island, Hilo Benioff Medical Center's emergency room is routinely over 100 percent capacity and Kona Community Hospital's emergency room is routinely at 90-100 percent capacity. For those patients who will be admitted to inpatient beds in the hospital, the average acute Medicaid payment per patient day is $828 compared to the average acute self-pay payment per patient day of $141, which represents an 83 percent decrease in reimbursement. Once these acute inpatients are ready for discharge, it would be very difficult to find a long-term care facility to accept a self-pay patient who does not have the financial ability to pay. These patients would then be forced to remain in a hospital acute bed as a "wait-list" patient, since they would no longer clinically qualify for an acute inpatient stay but are waiting in an acute bed for a place for them to be discharged to an appropriate care setting. For such "wait-list" patients, Medicaid and other third-party insurers do not provide any payment since the patient is not in the appropriate care setting. For each wait-list patient, HHSC loses on average between $2,000 and $3,000 per wait-list patient per day.

For the long-term care patients, the impacts are just as daunting. At HHSC's long-term care facilities, approximately 90 percent are Medicaid patients. As mentioned above, the average Medicaid reimbursement at HHSC's long-term care facilities is approximately $370 per patient per day, as compared to zero reimbursement for self-pay patients. Many of HHSC's long-term care patients are not pre-qualified for Medicaid, so if the State is not able to provide coverage for new Medicaid recipients, these patients will have an extremely difficult time finding the care that they need. In order for HHSC to be able to provide the care for these self-pay patients, it would need a significant increase in its general fund appropriations from the State of Hawaii to pay for the cost of their care.

According to the American Hospital Association, over a 10-year period through 2034, Hawaii Medicaid coverage would decrease by almost 25,000 residents and the rural hospital Medicaid impact would be a loss of $507,000,000 in Medicaid reimbursements over that same period. Reductions on that scale would certainly hamper the ability of HHSC's facilities and several non-profit healthcare facilities to continue providing services to residents of Hawaii's rural areas. A report provided by the Healthcare Association of Hawaii estimated that 47,748 Medicaid beneficiaries and members of the federal health insurance exchange would be impacted by either loss of Medicaid coverage due to the provisions of this bill or loss of subsidies for the federal health insurance exchange. While the majority of those affected reside on Oahu, over 19,000 residents of the counties of Kauai, Maui, and Hawaii would be impacted at a disproportionally higher level, as 2.8 percent of Oahu's population would be impacted by the loss of coverage as compared to 3.8-4.7 percent of the population of the other counties.

On November 12, 2025, the federal government shutdown ended with important healthcare issues under discussion. The legislation extended key healthcare policies impacting HHSC facilities through January 30, 2026, including the Medicare Low Volume Adjustment (LVA) program and Medicare Telehealth waivers.

With the impacts to Medicare and Medicaid coverage and reimbursement and future potential impacts on rising costs, HHSC faces the issue of increased need for State General Fund appropriations. HHSC is continually analyzing ways to better meet the challenges of delivering vital healthcare to the communities it serves. In this effort, HHSC consistently evaluates its current operations to identify opportunities for improving efficiency and effectiveness across the system, ensuring the provision of accessible, high quality services that address the healthcare needs of Hawaii's unique island communities.

Contacting the Corporation's Financial Management

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

Hawaii Health Systems Corporation

Statement of Net Position

June 30, 2025

Assets and Deferred Outflows of Resources

Current Assets	
Cash and cash equivalents (Note 2)	$ 171,565,560
Cash and cash equivalents - State of Hawaii (Note 2)	20,096,112
Patient accounts receivable - Less allowance for doubtful accounts of $48,702,369 and contractual allowance of $173,657,498 (Notes 2 and 3)	103,379,386
Due from the State of Hawaii (Note 6)	118,980,778
Assets limited as to use (Note 2)	43,044,484
Supplies and other current assets (Note 2)	25,169,805
Investments (Note 4)	24,401,153
Estimated third-party payor settlements (Note 2)	16,839,193
Lease receivable (Note 11)	728,687
Total current assets	524,205,158
Assets Limited as to Use - Net of current portion (Note 2)	109,624,780
Investments - Net of current portion (Note 4)	14,978,236
Subscriptions (Note 5)	22,627,141
Lease Receivable - Net of current portion (Note 11)	18,249,989
Capital Assets - Net (Notes 2 and 5)	491,391,122
Prepaid Subscription Costs	14,159,507
Restricted Pledge Receivable (Note 1)	17,406,029
Total assets	1,212,641,962
Deferred Outflows of Resources	
Pension (Notes 2 and 8)	79,985,175
Postemployment benefits other than pensions (Notes 2 and 9)	66,086,781
Total deferred outflows of resources	146,071,956
Total assets and deferred outflows of resources	**$1,358,713,918**

See notes to financial statements.

Statement of Net Position (Continued)

June 30, 2025

Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)

Current Liabilities	
Accounts payable and accrued expenses	$ 108,305,284
Compensated absences (Notes 2 and 7)	40,565,471
Long-term debt (Note 10)	10,620,518
Lease obligations (Notes 2, 10 and 11)	4,938,132
Subscription obligations (Notes 2, 10 and 12)	2,924,734
Accrued workers' compensation (Note 13)	2,795,000
Other current liabilities	2,156,397
Total current liabilities	172,305,536
Long-term Debt - Net of current portion (Note 10)	22,247,941
Subscriptions - Net of current portion (Notes 2, 10 and 12)	9,795,622
Lease Obligation - Net of current portion (Notes 2, 10 and 11)	12,977,440
Other Liabilities	
Pension liability (Notes 2 and 8)	631,150,378
Other postemployment liability (Notes 2 and 9)	383,848,405
Compensated absences - Less current portion (Notes 2 and 7)	53,871,641
Due to the State of Hawaii (Note 6)	19,008,243
Accrued workers' compensation - Less current portion (Note 13)	13,094,000
Patients' safekeeping deposits	202,143
Other liabilities	62,806
Total liabilities	1,318,564,155
Deferred Inflows of Resources	
Postemployment benefits other than pensions (Notes 2 and 9)	85,811,403
Leases (Notes 2 and 11)	18,148,759
Pension (Notes 2 and 8)	8,810,429
Total deferred inflows of resources	112,770,591
Total liabilities and deferred inflows of resources	1,431,334,746
Net Position (Deficit)	
Unrestricted	(578,791,778)
Restricted by donor (Note 1)	49,443,302
Net investment in capital assets	451,524,002
Restricted for lender covenants and other (Note 2)	5,203,646
Total net position (deficit)	(72,620,828)
Total liabilities, deferred inflows of resources, and net position (deficit)	**$1,358,713,918**

See notes to financial statements.

Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2025

Operating Revenue	
Net patient service revenue (net of provision for doubtful accounts of $31,238,607, provision for contractuals of $931,648,025, and charity care adjustments of $5,917,837) (Note 2)	$ 695,169,908
Uncompensated care revenue	69,645,699
Other operating revenue	23,649,599
Total operating revenue	788,465,206
Operating Expenses	
Salaries	385,923,774
Employee benefits	152,326,511
Purchased services	140,664,214
Medical supplies and drugs	96,179,376
Depreciation and amortization	48,118,798
Professional fees	25,702,342
Other supplies	25,549,725
Repairs and maintenance	22,696,631
Utilities	15,552,892
Insurance	11,483,762
Rent and lease	6,605,593
Other	15,965,428
Total operating expenses	946,769,046
Operating Loss	(158,303,840)
Nonoperating Income (Expense)	
General appropriations from the State of Hawaii (Note 2)	185,690,803
Collective bargaining appropriations from the State of Hawaii (Note 2)	40,602,260
Interest and dividend income	13,029,229
Restricted contributions (Note 2)	3,963,736
Interest expense	(2,618,540)
Unrestricted contributions (Note 2)	1,151,145
Other nonoperating revenue - Net	7,187,070
Total nonoperating income	249,005,703
Excess of Revenue Over Expenses before Capital Contributions	90,701,863
Capital Contributions (Note 1)	146,871,259
Increase in Net Position	237,573,122
Net Position (Deficit) - Beginning of year, as previously reported	(266,464,717)
Cumulative Adjustments to Beginning Net Position (Deficit) (Note 2)	(43,729,233)
Net Position (Deficit) - Beginning of year, as adjusted	(310,193,950)
Net Position (Deficit) - End of year	$ **(72,620,828)**

See notes to financial statements.

Hawaii Health Systems Corporation

Statement of Cash Flows

Year Ended June 30, 2025

Cash Flows from Operating Activities	
Cash received from government, patients, and third-party payors	$ 772,283,162
Cash payments to employees for services	(572,444,716)
Cash payments to suppliers for services and goods	(403,788,066)
Other receipts from operations	23,649,599
Net cash used in operating activities	(180,300,021)
Cash Flows from Noncapital Financing Activities	
Appropriations from the State of Hawaii	214,769,779
Unrestricted contributions	206,305
Other nonoperating revenue - Net	7,187,070
Net cash provided by noncapital financing activities	222,163,154
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(25,981,259)
Interest paid	(2,618,540)
Repayments on long-term debt	(2,902,419)
Repayments on lease and subscription obligations	(12,431,453)
Payments received on pledge receivable	20,000,000
Restricted contributions	3,963,736
Proceeds from long-term debt	1,000,000
Net cash used in capital and related financing activities	(18,969,935)
Cash Flows from Investing Activities	
Interest and dividend income	13,029,229
Purchase of short-term investments and assets limited as to use	(78,531,113)
Net cash used in investing activities	(65,501,884)
Net Decrease in Cash and Cash Equivalents	(42,608,686)
Cash and Cash Equivalents - Beginning of year	234,270,358
Cash and Cash Equivalents - End of year	$ **191,661,672**
Statement of Net Position Classification of Cash and Cash Equivalents	
Cash and cash equivalents	$ 171,565,560
Cash and cash equivalents - State of Hawaii	20,096,112
Total cash and cash equivalents	$ **191,661,672**

See notes to financial statements.

Statement of Cash Flows (Continued)

Year Ended June 30, 2025

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

Cash Flows from Operating Activities	
Operating loss	$ (158,303,840)
Adjustments to reconcile operating loss to net cash from operating activities:	
Provision for doubtful accounts	31,238,607
Depreciation and amortization	48,118,798
Loss on disposal of capital assets	(144,109)
Changes in assets and liabilities:	
Patient accounts receivable	(23,337,436)
Supplies and other assets	(17,860,122)
Accounts payable, accrued expenses, and other liabilities	(21,736,192)
Accrued workers' compensation liability	3,380,000
Other post employment benefit liability	(72,471,243)
Pension liability	32,297,107
Deferred outflows and inflows	(8,260,352)
Estimated third-party payor settlements	(877,412)
Compensated absences	7,212,377
Lease receivable	443,796
Net cash used in operating activities	$ **(180,300,021)**
Noncash Financing and Investing Activities	
Capital assets contributed by the State of Hawaii and others	$ 130,840,228
Change in due from the State of Hawaii	(27,554,315)
Assets acquired via lease and subscription	7,853,008

Note 1 - Organization

Structure

Hawaii Health Systems Corporation (the "Corporation" or "HHSC") is a public body corporate and politic and an instrumentality and agency of the State of Hawaii (the "State"). Hawaii Health Systems Corporation is managed by a chief executive officer under the control of a 15-member board of directors.

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

East Hawaii Region

- Hilo Benioff Medical Center, formerly known as Hilo Medical Center
- Honoka'a Hospital and Skilled Nursing, formerly known as Hale Ho'ola Hamakua
- Ka'u Hospital

West Hawaii Region

- Kona Community Hospital
- Kohala Hospital

Kauai Region

- Kauai Veterans Memorial Hospital
- Samuel Mahelona Memorial Hospital

Oahu Region

- Leahi Hospital
- Maluhia
- Daniel Kahikina Akaka State Veterans Home

Kahuku Medical Center

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

Maui Region (or HHSC - Maui)

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

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

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

Negotiations between Hawaii Health Systems Corporation and the State relating to the transfer of assets and assumption of liabilities pursuant to Act 262 had not been finalized as of June 30, 2025. 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.

Note 1 - Organization (Continued)

The following entities are being presented as part of Hawaii Health Systems Corporation: Hawaii Health Systems Foundation ("HHSF"); Ali'i Community Care, Inc. ("Ali'i"); Ali'i Health Center ("AHC"); East Hawaii Health Pharmacy ("EHHP"); East Hawaii Medical Group ("EHMG"); East Hawaii Region Foundation ("EHRF"); Kauai Region Medical Group ("KRMG"); Kauai Region Pharmacy - West ("KRPW"); Kauai Region Recovery Services ("KRRS"); Yukio Okutsu State Veterans Home ("YOSVH"); and Daniel Kahikina Akaka State Veterans Home ("DKASVH").

The purpose of HHSF is to raise funds and to obtain gifts and grants on behalf of Hawaii Health Systems Corporation. The purpose of Ali'i is to own, manage, and operate assisted living and other health care facilities in the State.

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

EHRF, which was formed in 2024, exists to oversee and maintain donor-restricted contributions made to East Hawaii Region. During 2024, the Region received a $50 million pledge to be paid in five annual installments. During 2025, two payments of approximately $10 million each were received and are included as assets limited as to use. The contribution is required to be placed in an interest-bearing account. The contribution is restricted as to use for various projects specified in donor agreement. The remaining pledge amount to be received subsequent to 2026 is included as a long-term restricted pledge receivable, recorded at present value, on the statement of net position. During 2025, the Region received an additional $25 million pledge to assist with the construction of a new outpatient health center within the region. This pledge has not been recorded on the Region's financial statements at June 30, 2025. This treatment is appropriate under GASB Statement No. 33, *Accounting and Financial Repo,ting for Nonexchange Transactions* (GASB 33), as not all eligibility requirements under GASB 33 have been met.

In June 2007, the State Legislature passed Act 290, S.B. 1792. This act, which became effective on July 1, 2007, required the establishment of a 7- to 15-member regional system board of directors for each of the five regions of the Hawaii Health Systems Corporation system. Each regional board was given custodial control and responsibility for management of the facilities and other assets in their respective regions. This act also restructured the 13-member Hawaii Health Systems Corporation board of directors to 15 members, composed of 10 members appointed by the governor from nominees submitted by legislative leadership, 2 at-large members at the governor's discretion, 2 physician members selected by the Hawaii Health Systems Corporation board, and the state director of health.

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

In 2009, the Legislature passed Act 182, S.B. 1673, effective July 1, 2009, which allowed the individual facilities or regions of Hawaii Health Systems Corporation to transition into a new legal entity in any form recognized under the laws of the State of Hawaii, including, but not limited to, a nonprofit corporation, a for-profit corporation, a municipal facility, a public benefit corporation, or a combination of the above. The act also amended the requirement for maintenance of services to outline a process that must be followed in order for a facility to substantially reduce or eliminate a direct patient care service. Furthermore, the act reconstituted the Hawaii Health Systems Corporation board of directors to a 12-member board of directors, which includes the 5 regional chief executive officers; 1 representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards; 2 members appointed by the Maui regional board; and the

director of the Department of Health as an ex officio nonvoting member.

Note 1 - Organization (Continued)

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

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

Maui Region

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

Following the State of Hawaii Legislature passing Act 103, the Maui Region entered into a transfer agreement with Kaiser Permanente ("Kaiser"). As of July 1, 2017, operations of HHSC - Maui's facilities were transferred to Kaiser. HHSC - Maui continues to own all capital assets that are now leased to Kaiser as part of a lease agreement. As of the transfer date, the main economic function of the region is related to lease activity, and there are 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 State of Hawaii Department of Health, to pay for the cost of acquiring the assets of Kahuku Hospital and to operate the facility. On March 14, 2008, the asset purchase was completed for a purchase price of approximately $2,652,000 in cash, including transaction costs of $197,000 in cash, and the facility is now operating as Kahuku Medical Center. The purchase price was allocated to assets based on their respective estimated fair values at the acquisition date.

Oahu Region

In June 2021, the Legislature passed S.B. 628 S.D.2 H.D.2 C.D.1, effective July 6, 2021, which initiated the transition of the region into the State of Hawaii Department of Health and required the transfer to be completed no later than December 31, 2022. During fiscal year 2022, H.B. 1579 H.D.2 was passed by the Legislature, which extended the deadline to complete the transition to December 31, 2025. In fiscal year 2025, S.B. 1441 H.D.2 was passed by the Legislature, which repealed the requirement to transfer the Oahu Region from HHSC to the State of Hawaii Department of Health.

In July 2022, the Legislature passed H.B. 1893, which requires the region to take ownership of the DKASVH upon completion. The facility is being funded by the Department of Defense and the State. As of June 30, 2025, construction of DKASVH was completed and the property was transferred to the region to operate.

Note 1 - Organization (Continued)

Liquidity

During the year ended June 30, 2025, Hawaii Health Systems Corporation incurred losses from operations of approximately $158 million and had negative cash flows from operations of approximately $180 million. Management believes maintaining the current levels of service provided by Hawaii Health Systems Corporation will require continued funding by the State of Hawaii.

Note 2 - Significant Accounting Policies

Basis of Accounting

Hawaii Health Systems Corporation prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board.

Use of Estimates

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

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 of Hawaii Director of Finance is responsible for the safekeeping of all moneys paid into the State Treasury. Hawaii Health Systems Corporation's portion of the State Treasury at June 30, 2025 is indicated in the accompanying statement of net position as cash and cash equivalents - State of Hawaii. The Hawaii Revised Statutes authorize the Director of Finance to invest in obligations of, or guaranteed by, the U.S. government; obligations of the State; federally insured savings and checking accounts; time certificates of deposit; and repurchase agreements with federally insured financial institutions. Cash and deposits with financial institutions are collateralized in accordance with State statutes. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

Hawaii Health Systems Corporation has cash and certificates of deposit in financial institutions that are in excess of available depository insurance coverage. The amount of uninsured and uncollateralized deposits for cash and cash equivalents totaled approximately $263,874,000 at June 30, 2025. 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.

Note 2 - Significant Accounting Policies (Continued)

Supplies

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

Capital Assets

Capital assets assumed from the State at inception are recorded at cost less accumulated depreciation. Other capital assets are recorded at cost or acquisition value at the date of donation. Capital assets are defined by the Corporation as assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year. Donated buildings, equipment, and land are recognized as revenue when all eligibility requirements have been met, generally at the date of donation. Buildings, equipment, and improvements are depreciated by the straight-line method using these asset lives:

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

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

Leases

Lessee

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

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

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

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

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

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

Note 2 - Significant Accounting Policies (Continued)

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

Lessor

The Corporation is a lessor for various Maui Region assets, and serving as the lessor is the Maui Region's sole operating purpose. As a result, rental income is recorded as other operating revenue. The Corporation recognizes leases receivable and deferred inflows of resources in the financial statements. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease receivable.

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

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

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

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

Subscriptions

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

At the commencement of the subscription-based information technology arrangement ("SBITA"), the Corporation initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

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

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

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

Note 2 - Significant Accounting Policies (Continued)

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

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

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

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

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

Assets Limited as to Use

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

At June 30, 2025, assets limited as to use consisted of restricted cash and liquid assets of $152,669,264.

Grant Revenue

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

Deferred Outflows/Inflows of Resources

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

Note 2 - Significant Accounting Policies (Continued)

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

Compensated Absences

Hawaii Health Systems Corporation records liabilities related to compensated absences, in accordance with GASB Statement No. 101, *Compensated Absences,* for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. A liability is recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off of otherwise paid in cash or settled through noncash means. The Corporation records expense as it is earned.

Postemployment Benefits

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

Pension

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

Net Position

Net position is classified in four 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 by donor net position at June 30, 2025 was composed of pledge amounts earned that were restricted for use on specific projects. 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 for lender covenants and other at June 30, 2025 was composed of $203,646 restricted for capital purchases and $5,000,000 restricted by lender covenants. Unrestricted net position is the remaining net assets that do not meet the definition of net investment in capital assets or restricted.

Operating Revenue and Expenses

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

Net Patient Service Revenue

Net patient service revenue is recorded on an accrual basis in the period in which the related services are provided at established rates, less contractual adjustments and provision for doubtful accounts. Hawaii Health Systems Corporation, as a safety net provider, provides charity care to certain patients; the specific cost of such care for the year ended June 30, 2025 was approximately $5,920,000.

Note 2 - Significant Accounting Policies (Continued)

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 2025 financial statements.

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

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

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

- Medicaid - Inpatient acute services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined rate per day and per discharge, with a cost settlement for capital costs. Medicaid long-term care services are reimbursed based on a price-based case-mix reimbursement system. The case-mix reimbursement system uses the resource utilization groups classification system calculated from the minimum data set assessment. The case-mix reimbursement payment method takes into account a patient's clinical condition and the resources needed to provide care for the patient. Medicaid outpatient services are reimbursed based on a fee schedule using current procedure terminology ("CPT") codes established for the State.

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

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

Note 2 - Significant Accounting Policies (Continued)

- Sole Community Hospital - Hawaii Health Systems Corporation has two facilities (Hilo Benioff 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.
- 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.

State Appropriations

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

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

In 2025, the Corporation received approximately, $40.6 million from the State of Hawaii in appropriations related to temporary hazard pay payments to certain employees under collective bargaining contracts.

Bond Interest

Hawaii Health Systems Corporation is allocated an amount for interest paid by the State of Hawaii for general obligation bonds whose proceeds were used for hospital construction. A corresponding contribution from the State is also allocated to Hawaii Health Systems Corporation. The bonds are obligations for the State, to be paid by the State's General Fund, and are not reported as liabilities of Hawaii Health Systems Corporation. For the year ended June 30, 2025, interest expense totaled approximately $9,300,000.

Note 2 - Significant Accounting Policies (Continued)

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; cybersecurity; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The facilities are self-insured for workers' compensation and disability claims and judgments, as discussed in Note 13.

Adoption of New Accounting Pronouncements

During the current year, the Corporation adopted GASB Statement No. 101, *Compensated Absences*. As a result, the liability for compensated absences in the statement of net position of the Corporation has been calculated to comply with this new pronouncement. The beginning of year net position has been restated in order to adopt GASB Statement No. 101. The effects of the adoption of the new accounting pronouncement are shown in the table below:

	June 30, 2024, as Previously Reported	GASB 101 Adoption	June 30, 2024, as Restated
Current assets	$ 517,486,846	$	$ 517,486,846
Noncurrent assets	523,641,161		523,641,161
Deferred outflows of resources	131,671,437		131,671,437
Total assets and deferred outflows of resources	$1,172,799,444	$	$1,172,799,444
Current liabilities	$ 176,602,769	$ 16,115,345	$ 192,718,114
Long-term liabilities	1,156,030,968	27,613,888	1,183,644,856
Deferred inflows of resources	106,630,424		106,630,424
Total liabilities and deferred inflows of resources	$1,439,264,161	$ 43,729,233	$ 1,482,993,394
Total net position (deficit)	$ (266,464,717)	$ (43,729,233)	$ (310,193,950)

Within current liabilities and long-term liabilities, the GASB 101 impact in reflected within the current portion of compensated absences and compensated absences - less current portion line items, respectively.

During the current year, the Corporation adopted GASB Statement No. 102, *Ceftain Risk Disclosures.* The corporation adopted the provisions of this statement during the year ended June 30, 2025 and concluded that no material concentrations or constraints existed.

Upcoming Accounting Pronouncements

In April 2024, the Governmental Accounting Standards Board issued Statement No. 103, *Financial Repo,ting Model Improvements,* which establishes new accounting and financial reporting requirements or modifies existing requirements related to the following: management's discussion and analysis; unusual or infrequent items; presentation of the proprietary fund statement of revenue, expenses, and changes in fund net position; information about major component units in basic financial statements; budgetary comparison information; and financial trends information in the statistical section. The provisions of this statement are effective for the Corporation's financial statements for the year ending June 30, 2026. The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted.

Note 2 - Significant Accounting Policies (Continued)

In September 2024, the Governmental Accounting Standards Board issued Statement No. 104, *Disclosure of Certain Capital Assets,* which requires certain types of capital assets, such as lease assets, intangible right-to-use assets, subscription assets, and other intangible assets, to be disclosed separately by major class of underlying asset in the capital assets note. The statement also requires additional disclosures for capital assets held for sale. The provisions of this statement are effective for the Corporation's financial statements for the year ending June 30, 2026. The Corporation is currently evaluating the impact this standard will have on the financial statements when adopted.

Note 3 - Accounts Receivable

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

Medicare	41.00 %
Medicaid	23.00
HMSA	7.00
Other third-party payors	15.00
Patient and other	14.00
Total	100.00 %

Note 4 - Fair Value Measurements

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

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

Hawaii Health Systems Corporation has the following recurring fair value measurements as of June 30, 2025:

- U.S. Treasury securities of $31,134,125 are valued using quoted market prices (Level 2 inputs).
- U.S. government agencies of $6,736,205 are valued using a matrix pricing model (Level 2 inputs).
- Municipal obligations of $1,369,690 (Level 2 inputs)
- Money market funds of $139,369 are valued using a matrix pricing model (Level 2 inputs).

The fair values of U.S. Treasury obligations, U.S. government agencies, municipal obligations, and money market funds at June 30, 2025 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.

Note 4 - Fair Value Measurements (Continued)

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

Custodial Credit Risk of Investments

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, Hawaii Health Systems Corporation's investment policy generally limits maturities on investments to no more than five years from the date of investment. All of Hawaii Health Systems Corporation's investments at June 30, 2025 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, 2025, Hawaii Health Systems Corporation held investments in U.S. Treasury securities and U.S. government agencies.

Concentration of Credit Risk

Hawaii Health Systems Corporation's investment policy provides guidelines for portfolio diversification by placing limits on the amount that may be invested in any one issuer, types of investment instruments, and position limits per issue of an investment instrument. There were no investments except for the certificates of deposit that individually exceed 5 percent of Hawaii Health Systems Corporation's total investments at June 30, 2025.

Note 5 - Capital Assets and Subscriptions

Capital asset and subscription activity of the Corporation's governmental activities for the year ended June 30, 2025 was as follows:

	Balance July 1, 2024	Additions	Retirements	Transfers	Balance June 30, 2025
Assets not subject to depreciation and amortization:					
Land and land improvements	$ 13,266,279	$ 4,472,341	$	$ 129,999	$ 17,868,619
Construction in progress	45,077,540	51,534,929		(16,320,671)	80,291,798
Subtotal	58,343,819	56,007,270		(16,190,672)	98,160,417
Assets subject to depreciation:					
Buildings and improvements	654,018,845	90,887,959	(1,165,194)	9,522,624	753,264,234
Equipment	280,464,092	11,072,318	(61,222,613)	6,784,914	237,098,711
Leased assets - Buildings and improvements	10,474,742	4,030,215	(349,201)	528,117	14,683,873
Leased assets - Equipment	21,916,029	1,056,751	(1,081,803)	(644,983)	21,245,994
Subscription assets	40,622,126	1,619,982	(6,482,862)		35,759,246
Subtotal	1,007,495,834	108,667,225	(70,301,673)	16,190,672	1,062,052,058
Less accumulated depreciation:					
Buildings and improvements	416,868,864	25,754,029	(1,975,711)		440,647,182
Equipment	223,902,229	10,675,822	(60,067,826)		174,510,225
Leased assets - Buildings and improvements	2,783,153	1,329,319	(309,159)		3,803,313
Leased assets - Equipment	12,273,719	3,342,919	(1,515,251)		14,101,387
Subscription assets	12,693,231	7,016,709	(6,577,835)		13,132,105
Subtotal	668,521,196	48,118,798	(70,445,782)		646,194,212
Capital assets and subscriptions - Net	$ 397,318,457	$ 116,555,697	$ 144,109	$	$ 514,018,263

The State Department of Accounting and General Services and others transferred capital assets, including construction in progress, aggregating $119,316,944 to Hawaii Health Systems Corporation during the year ended June 30, 2025. Approximately $95,000,000 of the transferred capital assets related to the DKASVH facility, which was constructed by the State of Hawaii Department of Defense and transferred to the Corporation in 2025.

Note 6 - State of Hawaii Advances and Receivable

The amount due to the State of $19,008,243 at June 30, 2025 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, 2025, $118,980,778 was due from the State for allotments made to Hawaii Health Systems Corporation before June 30, 2025.

Note 7 - Compensated Absences

Among the Corporation's short-term and long-term liabilities is accrued compensated absences related to accrued sick leave and accrued vacation time.

Note 7 - Compensated Absences (Continued)

Activity for the year ended June 30, 2025 was as follows:

	Beginning Balance (Restated as Noted in Note 2)	Net Change	Ending Balance	Current Portion	Noncurrent Portion
Compensated absences	$ 87,224,735	$ 7,212,377	$ 94,437,112	$ 40,565,471	$ 53,871,641

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 ("ERS") 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 located on ERS' website: https://ers.ehawaii.gov/resources/financials.

Benefits Provided

The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Eligible employees who were in service and members of the existing contributory plan on June 30, 1984 were given an option to remain in the existing plan or join the noncontributory plan effective January 1, 1985. All new eligible employees hired after June 30, 1984 automatically become members of the noncontributory plan. Both plans provide death and disability benefits and cost of living increases. Benefits are established by State statute. In the contributory plan, employees may elect normal retirement at age 55 with 5 years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2 percent of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching 5 years of service; retirement benefits are actuarially reduced for early retirement. Covered contributory plan employees are required by State statute to contribute between 7.8 and 9.8 percent of their salary to the plan; Hawaii Health Systems Corporation is required by State statute to contribute the remaining amounts necessary to pay contributory plan benefits when due. In the noncontributory plan, employees may elect normal retirement age at age 62 with 10 years of credited service or at age 55 with 30 years of credited service or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25 percent of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching 10 years of service; retirement benefits are actuarially reduced for early retirement. Hawaii Health Systems Corporation is required by State statute to contribute all amounts necessary to pay noncontributory plan benefits when due.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, Session Laws of Hawaii of 2004. Participants prior to July 1, 2006 could choose to participate in this hybrid plan or remain in the existing plans. New employees hired from July 1, 2006 are required to join the hybrid plan. Participants will contribute between 6 and 8 percent of their salary to this plan. Furthermore, members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or at age 55 with 30 years of credited service. Members will receive a multiplier of between 1.75 and 2 percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan.

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

Contributions

Contributions are established by Hawaii Revised Statutes ("HRS") Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2025 was 24 percent. Contributions to the pension plan from the Corporation were approximately $61 million for the fiscal year ended June 30, 2025.

The employer is required to make all contributions for members in the ERS. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8 percent of their salary. For contributory plan employees hired after July 1, 2012, general employees are required to contribute 9.8 percent of their salary. Hybrid plan members hired prior to July 1, 2012 are required to contribute 6.0 percent of their salary. Hybrid plan members hired after June 30, 2012 are required to contribute 8.0 percent of their salary.

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2025, the Corporation reported a liability of approximately $631 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Corporation's proportion of the net pension liability was based on the Corporation's actuarially required contribution for the year ended June 30, 2024 relative to all other contributing employers. At June 30, 2025, the Corporation's proportion was 4.5 percent.

For the year ended June 30, 2025, the Corporation recognized pension expense of approximately $66,195,000. At June 30, 2025, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 17,921,213	$ (4,434,708)
Net difference between projected and actual earnings on plan investments		(17,167)
Changes in assumptions	(6,231,097)	(3,608,459)
Changes in proportion	6,825,292	(750,095)
Employer contributions to the plan subsequent to the measurement date	61,469,767	
Total	$ 79,985,175	$ (8,810,429)

The $61,469,767 reported at June 30, 2025 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, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2026	$ (1,959,736)
2027	6,496,094
2028	3,648,195
2029	1,520,426
2030	

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

Actuarial Assumptions

The total pension liability in the June 30, 2024 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

There were no changes to ad hoc postemployment benefits, including cost of living adjustments, in the June 30, 2024 valuation.

In the June 30, 2024 valuation, the postretirement mortality rates are based on the 2022 Public Retirees of Hawaii mortality tables with full generational projections in future years, respectively. Preretirement mortality rates are based on multiples of the Pub-2010 Mortality Table based on the occupation of the member.

The actuarial assumptions used in the June 30, 2024 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2021. 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, 2024 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, 2024 was determined using a top-down approach of the client-constrained simulation-based optimization model (a statistical technique known as resampling with a replacement that directly keys in on specific plan-level risk factors, as stipulated by the ERS' board of trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage.

The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table for June 30, 2024:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad growth	70 %	7%
Diversifying strategies	30	4

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

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, 2025 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	$ 843,020,572	$ 631,150,378	$ 455,658,136

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 https://ers.ehawaii.gov/resources/financials. 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 ("EUTF"), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues a publicly available annual financial report that is available to the public at https://eutf.hawaii.gov/reports/. The report may also be obtained by writing to the EUTF at 201 Merchant Street, Suite 1700, Honolulu, HI 96813.

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.

Note 9 - Other Postemployment Benefit Plan (Continued)

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 $60,739,931 for the fiscal year ended June 30, 2025. 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, 2025, the Corporation reported a net OPEB liability of approximately $384 million. The net OPEB liability was measured as of July 1, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. At June 30, 2025, the Corporation's proportion was 10.06 percent, which was consistent with its proportion measurement at June 30, 2024.

There were no changes between the measurement date, July 1, 2024, and the reporting date, June 30, 2025, that are expected to have a significant effect on the net OPEB liability.

For the years ended June 30, 2025, the Corporation recognized OPEB expense of approximately $8,276,151. At June 30, 2025, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between expected and actual experience	$	$ (85,532,550)
Difference between projected and actual earnings on OPES plan investments	2,900,631	6,073,748
Changes in assumptions	2,446,219	(6,352,601)
Contributions subsequent to the measurement date	60,739,931	
Total	$ 66,086,781	$ (85,811,403)

The $60,739,931 reported at June 30, 2025 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 year ending June 30, 2026. 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
2026	$ (28,492,380)
2027	(17,898,391)
2028	(18,051,672)
2029	(8,575,926)
2030	(7,446,184)
Total	$ (80,464,553)

Note 9 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability in the July 1, 2024 actuarial valuation was determined using the following actuarial assumptions adopted by the board of trustees of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii on January 9, 2023 based on the experience study covering the five-year period ended June 30, 2022:

Inflation	2.50 percent
Salary increases	3.75 percent to 6.75 percent including inflation
Discount rate	7.00 percent
Health care cost trend rates:	
Preferred Provider Organization*	Initial rate of 6.20 percent, declining to a rate of 4.25 percent after 20 years
HMO**	Initial rate of 6.20 percent, declining to a rate of 4.25 percent after 20 years
Part B and base monthly contribution	Initial rate of 5.00 percent, declining to a rate of 4.25 percent after 20 years
Dental	4.00 percent
Vision	2.50 percent
Life insurance	0.00 percent

*Blended rates for medical and prescription drugs.

**Includes prescription drug assumptions.

Change in Actuarial Assumptions

The changes in actuarial assumption between 2024 and 2023 are as follows: PPO and HMO cost trend rates decreased by 0.10 percent.

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments at June 30, 2024 and 2023 was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

	Target Allocation	Long-term Expected Real Rate of Return
Asset class:		
Private equity	15.00 %	10.10 %
U.S. microcap	3.00	8.30
Global equity	30.00	6.00
Real assets	12.00	5.00
Private credit	10.00	7.80
Reinsurance	5.50	5.10
Treasury inflation-protected securities	2.50	2.10
Long treasurys	5.00	2.60
Alternative risk premia	5.00	3.80
Trend following	10.00	2.40
Tail risk/long volatility	2.00	(1.30)

Note 9 - Other Postemployment Benefit Plan (Continued)

Discount Rate

The discount rate used to measure the net OPEB liability at June 30, 2025 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 3.97 percent, (based on the daily rate closest to but no later than the measurement date of the Fidelity 20-year Municipal GO AA Index). Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

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

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

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

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

	1 Percentage Point Decrease (6.00%)	Discount Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net OPEB liability	$ **494,890,079**	$ **383,848,405**	$ **294,551,561**

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**	$ 289,907,755	$ 383,848,405	$ 503,483,758

Note 10 - Long-term Debt

Long-term debt activity for the year ended June 30, 2025 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Long-term debt	$ 15,239,358	$	$ (505,896)	$ 14,733,462	$ 8,126,464
Direct borrowings and direct placements - Notes payable	19,531,520	1,000,000	(2,396,523)	18,134,997	2,494,054
Leases	18,063,535	5,559,727	(5,707,690)	17,915,572	4,938,132
Subscription obligations	17,150,838	2,293,281	(6,723,763)	12,720,356	2,924,734

The long-term debt obligations are summarized as follows:

Rose/ani Place

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

Maui Bonds

In 2012, MMMC issued general obligation bonds. These bonds were executed in two parts: Series 2012A and Series 2012B. The Series 2012A bonds were issued to refinance MMMC's existing $8 million loan, which had been held with the Bank of Montreal. Total borrowing under the first agreement was $8,100,000. These bonds carry an interest rate of 4.05 percent. The Series 2012A bonds are secured by a loan note guarantee issued by the United States Department of Agriculture (USDA) through its Rural Development division. The Series 2012B bonds provided initial funding for the purpose of construction of a physician clinic adjacent to the hospital, partial funding for a building renovation, and equipment associated with imaging services. Borrowing costs under the second agreement totaled $901,000. These bonds carried a variable interest rate that started at 5 percent until September 1, 2017, at which point the rate shall reset on each September 1, occurring every five years thereafter at a rate equal to 3.75 percent over the prevailing five-year FHLB Bulled Rate (Seattle). In the event that such rate is no longer available or practicable, a similar index mutually agreed upon by the issuer and holders of the bonds will be used. The effective interest rate on the Series 2012B bonds as of June 30, 2025 was 7.38 percent. The Series 2012B bonds are unsecured. The bonds are payable in annual installments ranging from $196,000 to $978,000. In connection with the Series 2012A and Series 2012B bond issuance, MMMC is subject to certain financial covenants. As of June 30, 2025, 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, 2025 and 2024. In connection with the Revenue Bond Number 3, **MMMC** is subject to certain financial covenants. As of June 30, 2025, MMMC was not in compliance with those covenants. A waiver was not obtained for the covenant violations for the years ended June 30, 2025 and, as a result, Revenue Bond Number 3 is shown as current in the financial statements.

Note 10 - Long-term Debt (Continued)

East Hawaii Region

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

In 2022, the Region amended the HRTP Loan with ASB. The amended HRTP Loan allows for additional borrowings of up to $8.5 million to be used for construction of additional facilities for the Region. Of the total $8.5 million to available for distribution, $7,571,323 was outstanding at June 30, 2025. The additional borrowings mature in 2034 and are due in monthly installments of $80,673. The agreement bears interest at a fixed rate of 2.79 percent.

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

Management has indicated they have remained in compliance with all covenants during 2025.

Kauai Region

On August 1, 2024, HHSC-Kauai entered into a secured promissory note with Kauai Island Utility Cooperative in the original principal amount of $1,000,000. The note bears interest at a fixed rate of 1 percent and is payable in monthly installments of $8,760, which fully amortize the loan over 120 months. Payments commenced in September 2024, and the note matures in August 2034.

The promissory note is secured by a collateral account owned by Kauai Region, which had a balance of $1,010,126 at June 30, 2025 and is included within assets limited as to use on the statement of net position.

Note 10 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

The table below indicates the future scheduled principal and interest payments as of June 30, 2025. 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, 2025:

Years Ending	Long-term Debt		Direct Borrowings and Direct Placements - Notes Payable	
June 30	Principal	Interest	Principal	Interest
2026	$ 525,709	$ 566,441	$ 2,494,054	$ 553,773
2027	545,871	545,541	2,583,124	464,689
2028	567,707	517,188	2,675,550	372,262
2029	590,267	486,929	2,556,966	276,709
2030	612,551	464,095	1,522,986	211,655
2031-2035	3,447,955	1,945,311	6,302,317	374,190
2036-2040	4,182,512	1,221,267		
2041-2045	4,260,890	336,467		
Total	$ 14,733,462	$ 6,083,239	$ 18,134,997	$ 2,253,278

Significant Terms

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

Note 11 - Leases

The Corporation leases certain assets from various third parties. The assets leased include equipment and buildings. Payments are generally fixed monthly. During the year ended June 30, 2025, the Corporation recognized insignificant outflows as a result of variable payments that were properly excluded from the initial measurement of the lease liability.

Lease asset activity of the Corporation is included in Note 5. Additionally, the Corporation is party to a ground lease related to the land on which the facility was built. The lease payments are calculated based on a percentage of net cash flow for DKASVH. As such, these are considered variable lease payments and no lease asset or liability is recorded. Lease payments will begin in 2026 and will be expensed as incurred.

Note 11 - Leases (Continued)

Future principal and interest payment requirements related to the Corporation's lease liability at June 30, 2025 are as follows:

Years Ending	Principal	Interest	Total
2026	$ 4,938,132	$ 626,144	$ 5,564,276
2027	4,317,766	428,710	4,746,476
2028	2,924,810	262,613	3,187,423
2029	1,787,521	158,545	1,946,066
2030	966,453	104,302	1,070,755
2031-2035	511,981	394,154	906,135
2036-2040	432,906	334,729	767,635
2041-2045	499,514	268,121	767,635
2046-2050	576,711	190,924	767,635
2051-2055	665,628	102,007	767,635
2056-2060	294,150	12,904	307,054
Total	$ 17,915,572	$ 2,883,153	$ 20,798,725

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

As of June 30, 2025, the Corporation has recognized $18,148,759 of deferred inflows related to the Corporation's leasing arrangements.

Future principal and interest payment requirements related to the Corporation's lease receivable at June 30, 2025 are as follows:

Years Ending	Principal	Interest	Total
2026	$ 728,687	$ 550,399	$ 1,279,086
2027	984,987	520,326	1,505,313
2028	853,103	492,920	1,346,023
2029	782,131	464,626	1,246,757
2030	779,632	440,886	1,220,518
2031-2035	3,730,244	1,874,568	5,604,812
2036-2040	4,237,768	1,307,023	5,544,791
2041-2045	4,810,736	653,574	5,464,310
2046-2050	2,071,388	62,547	2,133,935
Total	$ 18,978,676	$ 6,366,869	$ 25,345,545

Note 12 - Subscriptions

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

Subscription asset activity of the Corporation is included in Note 5. At June 30, 2025, the Corporation recorded prepaid subscription costs of $14.2 million related to payments in the initial implementation stage.

Note 12 - Subscriptions (Continued)

Future principal and interest payment requirements related to the Corporation's subscription liability at June 30, 2025 are as follows:

Years Ending	Principal	Interest	Total
2026	$ 2,924,734	$ 479,867	$ 3,404,601
2027	1,274,871	376,313	1,651,184
2028	884,405	322,741	1,207,146
2029	659,696	289,392	949,088
2030	666,294	262,835	929,129
2031-2035	3,785,203	894,026	4,679,229
2036-2040	2,525,153	144,794	2,669,947
Total	$ 12,720,356	$ 2,769,968	$ 15,490,324

Note 13 - Commitments and Contingencies

Professional Liability

Hawaii Health Systems Corporation maintains professional and general liability insurance with a private insurance carrier with a $1 million limit per claim and a $5 million aggregate. Hawaii Health Systems Corporation has also purchased additional excess insurance with a $34 million per claim and aggregate limit. Hawaii Health Systems Corporation's general counsel advises that, in the unlikely event any judgments rendered against Hawaii Health Systems Corporation exceed Hawaii Health Systems Corporation's professional liability coverage, such amounts would likely be paid from an appropriation from the State's General Fund. Settled claims have not exceeded the coverage provided by the insurance carrier in any of the past three fiscal years. The Corporation has accrued approximately $3,410,000 as of June 30, 2025 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 $15,889,000 and $12,509,000 for unpaid claims as of June 30, 2025 and 2024, respectively.

	2025	2024
Estimated liability - Beginning of year	$ 12,509,000	$ 11,848,000
Estimated claims incurred - Including changes in estimates	5,912,000	3,092,000
Claim payments	(2,532,000)	(2,431,000)
Estimated liability - End of year	$ 15,889,000	$ 12,509,000

Ceded Lands

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

Note 13 - Commitments and Contingencies (Continued)

During the 2006 legislative session, the State of Hawaii Legislature enacted Act 178, which provided interim measures to ensure that a certain amount of proceeds was made available to OHA from the prorated portion of the public land trust for the betterment of the conditions of native Hawaiians. The Act required State agencies collecting receipts from the use of lands within the public land trust to 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 State of Hawaii Director of Finance is to reconcile the actual amounts transferred to OHA with the required amount of $3.8 million and adjust each specific agency's payments accordingly.

For the year ended June 30, 2025, there were no payments made to OHA.

Paycheck Protection Program (PPP)

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

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

Litigation

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

Required Supplementary Information

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

Years Ended June 30

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Corporation's proportion of the net pension liability	4.5 %	4.3 %	4.3 %	4.2 %	4.1 %	4.1 %	4.1 %	4.1 %	6.9 %	7.1 %
Corporation's proportionate share of the net pension liability	$ 631,150,378	$ 598,853,271	$ 555,205,199	$ 509,459,725	$ 627,817,806	$ 576,687,523	$ 542,374,488	$ 530,455,687	$ 916,111,059	$ 623,325,233
Corporation's covered payroll	$ 254,700,393	$ 237,933,182	$ 217,913,914	$ 213,773,542	$ 202,294,694	$ 197,655,015	$ 191,534,713	$ 172,037,521	$ 282,780,136	$ 288,121,862
Corporation's proportionate share of the net pension liability as a percentage of its covered payroll	247.8 %	251.7 %	254.8 %	238.3 %	310.3 %	291.8 %	283.2 %	308.3 %	324.0 %	216.3 %
Plan fiduciary net position as a percentage of total pension liability	62.6 %	61.9 %	62.8 %	64.3 %	53.2 %	54.9 %	55.5 %	54.8 %	51.3 %	62.4 %

See note to pension required supplementary information schedules.

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

Years Ended June 30

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	$ 66,830,400	$ 61,992,000	$ 55,317,600	$ 50,978,100	$ 51,346,400	$ 45,328,800	$ 38,354,000	$ 33,088,000	$ 50,418,500	$ 51,584,604
Contributions in relation to the contractually required contribution	66,830,400	61,992,000	55,317,600	50,978,100	51,346,400	45,328,800	38,354,000	33,088,000	50,418,500	51,584,604
Contribution Excess	$	$	$	$	$	$	$	$	$	$
Corporation's Covered Payroll	$ 278,752,986	$ 254,700,393	$ 237,933,182	$ 217,913,914	$ 213,773,542	$ 202,294,694	$ 197,655,015	$ 191,534,713	$ 172,037,521	$ 282,760,136
Contributions as a Percentage of Covered Payroll	24.0 %	24.3 %	23.2 %	23.4 %	24.0 %	22.4 %	19.4 %	17.3 %	29.3 %	18.2 %

See note to pension required supplementary information schedules.

Note to Pension Required Supplementary Information Schedules

June 30, 2025

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, 2025 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

Hawaii Health Systems Corporation

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

Last Eight Fiscal Years

Years Ended June 30

	2025	2024	2023	2022	2021	2020	2019	2018
Corporation's proportion of the net OPEB liability	10.05942 %	9.79564 %	9.64849 %	9.07478 %	7.87263 %	7.85112 %	7.85132 %	7.85603 %
Corporation's proportionate share of the net OPEB liability	$ 383,848,405	$ 456,319,648	$ 459,810,487	$ 491,488,746	$ 513,049,791	$ 547,829,574	$ 547,178,995	$ 541,845,124
Corporation's covered payroll	$ 254,700,393	$ 237,933,182	$ 217,913,914	$ 213,773,542	$ 202,294,694	$ 197,656,054	$ 191,546,061	$ 172,037,521
Corporation's proportionate share of the net OPEB liability as a percentage of its covered payroll	150.71 %	191.78 %	211.01 %	229.91 %	253.62 %	270.81 %	276.83 %	282.88 %
Plan fiduciary net position as a percentage of total OPEB liability	49.51 %	40.94 %	37.65 %	34.26 %	21.78 %	17.24 %	12.10 %	8.63 %

See note to OPES required supplementary information schedules.

Last Eight Fiscal Years

Years Ended June 30

	2025	2024	2023	2022	2021	2020	2019	2018
Contractually required contribution	$ 60,739,931	$ 53,576,379	$ 24,300,692	$ 35,678,307	$ 15,249,898	$ 49,002,433	$ 43,988,025	$ 43,306,409
Contributions in relation to the contractually required contribution	60,739,931	53,576,379	24,300,692	21,701,762	22,326,446	46,929,719	45,645,221	38,382,284
Contribution (Deficiency) Excess	$ -	$ -	$ -	$ **(13,976,545)**	$ **7,076,548**	$ **(2,072,714)**	$ **1,657,196**	$ **(4,924,125)**
Corporation's Covered Payroll	$ 278,752,986	$ 254,700,393	$ 237,933,182	$ 217,913,914	$ 213,773,542	$ 202,294,694	$ 197,656,054	$ 191,546,061
Contributions as a Percentage of Covered Payroll	21.79 %	21.04 %	10.21 %	9.96 %	10.44 %	23.20 %	23.09 %	20.04 %

See note to OPES required supplementary information schedules.

Note to OPEB Required Supplementary Information Schedules

June 30, 2025

Actuarial valuation information relative to the determination of contributions:

Valuation date	The actuarially determined contribution for fiscal year ending June 30, 2025 was developed in the July 1, 2022 valuation.
Methods and assumptions:	
Actuarial cost method	Individual 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	20.0 as of fiscal year ending June 30, 2025
Asset valuation method	4-year smoothed market
Payroll growth	2.50 percent
Salary increase	3.75 percent to 6.75 percent including inflation
Demographic assumptions	Based on the 2022 Hawaii ERS Actuarial Experience Study, as conducted June 30, 2021 for the Hawaii Employee's Retirement System (ERS)
Mortality	System-specific mortality tables utilizing ultimate scale MP2021 to project generational mortality improvement
Participation rates	98 percent health care participation assumption for retirees that receive 100 percent of the Base Monthly Contribution (BMC). Healthcare participation rates of 25 percent, 65 percent, and 90 percent for retirees that receive O percent, 50 percent, or 75 percent of the base monthly calculation, respectively. 100 percent for Life Insurance and 98 percent for Medicare Part B
Health care cost trend rates:	
PPO*	Initial rate of 6.40 percent, declining to a rate of 4.25 percent after 22 years
HMO*	Initial rate of 6.40 percent, declining to a rate of 4.25 percent after 22 years
Part B	Initial rate of 5.00 percent, declining to a rate of 4.25 percent after 22 years
Dental	4.00 percent
Vision	2.50 percent
Life insurance	0.00 percent

*Includes prescription drug assumptions.

Supplementary Information

Hawaii Health Systems Corporation

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

	June 30, 2025
Cash and Cash Equivalents - State of Hawaii	
Special funds:	
S-25-303-H	$ 700,679
S-25-350-H	8,304,438
S-25-351-H	753,262
T-04-918-H	1,273
S-25-352-H	1,355,208
T-04-921-H	6,679
S-23-350-H	3,193
S-22-352-H	4,113
S-25-365-H	764,411
S-25-312-H	1,223,576
S-25-359-H	1,775,518
S-23-359-H	5,544
S-23-373-H	1,211,466
S-25-353-H	429,353
S-25-354-H	3,557,399
Total per State	20,096,112
Assets Limited as to Use - Patient Funds	
Appropriation symbol T-04-923-H	4,129
Appropriation symbol T-04-919-H	1,044
Appropriation symbol T-25-911-H	22,912
Appropriation symbol T-20-909-H	6,501
Appropriation symbol T-20-925-H	70,701
Total per State	105,287
Reconciling Items	
Patients' safekeeping deposits held by financial institutions	46,679,128
Restricted assets held by financial institutions	105,884,849
Total per HHSC	$ **172,765,376**

Hawaii Health Systems Corporation

Statement of Net Position of Facilities

June 30, 2025

	Hilo Benioff Medical Center	Honoka'a Hospital and Skilled Nursing	Ka'u Hospital	Yukio Okutsu State Veterans Home-Hilo	Kana Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Akaka State Veterans Home - Oahu	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities
Assets and Deferred Outflows of Resources															
Current Assets															
Cash and cash equivalents	$ 44,627,254	$ 15,614	$ 8,466	$ 5,769,583	$ 6,902,184	$ 8,323,722	$ 13,382,825	$ 1,012,724	$ 341,659	$ 9,864,871	$ 13,845,749	$ 4,012,542	$ 18,437,852	$ 20,319,354	$ 146,864,399
Cash and cash equivalents - State of Hawaii	8,307,631	754,535	1,366,000		3,557,399	429,353				1,223,576	764,411		1,781,062	1,211,466	19,395,433
Patient accounts receivable - Less allowances for doubtful accounts	51,478,263	813,869	2,280,059	2,167,617	20,103,452	2,628,849				1,881,674	1,840,291	668,122	7,865,003	6,430,018	98,157,217
Due from the State of Hawaii	39,026,997	876,875	11,514,551		27,555,618	4,168,230				7,475,677	3,896,890	34,984	4,819,693	16,363,926	115,733,441
Assets limited as to use	42,874,919														42,874,919
Supplies and other current assets	10,286,115	260,213	551,585	78,441	7,575,992	674,408	48,135	14		302,436	197,920	239,782	1,415,447	836,161	22,466,649
Investments	24,105,779												295,374		24,401,153
Due from affiliates - Net	7,207,653	53,033,247	1,436,458	114,939	4,840,764		2,926,950	155,620		2,623,187	6,217,055		11,378,243		89,934,116
Estimated third-party payor settlements	2,631,177	2,285,113	582,354		1,160,873	883,109				647,896	405,711		1,791,290	6,396,602	16,784,125
Lease receivable					122,599		486,178						119,910		728,687
Total current assets	230,545,788	58,039,466	17,739,473	8,130,580	71,818,881	17,107,671	16,844,088	1,168,358	341,659	24,019,317	27,168,027	4,955,430	47,903,874	51,557,527	577,340,139
Assets Limited as to Use - Net of current portion	54,221,184	26,670	18,649		5,318,411		1,392,008			12,617,657	2,099,850		1,024,167	26,996	76,745,592
Investments - Net of current portion													14,978,236		14,978,236
Subscriptions	1,481,521		25,479		10,463,531	9,178,181				53,896	57,247				21,259,855
Lease Receivable - Net of current portion					578,864		17,370,687						167,452		18,117,003
Capital Assets - Net	116,583,519	14,091,926	13,782,537	16,219,565	45,218,756	7,374,535	66,925,374	8,864,800	3,680,779	17,603,962	14,477,350	96,650,097	26,057,807	20,972,104	468,503,111
Prepaid Subscription Costs	14,159,507														14,159,507
Restricted Pledge Receivable															
Total assets	416,991,519	72,158,062	31,566,138	24,350,145	133,398,443	33,660,387	102,532,157	10,033,158	4,022,438	54,294,832	43,802,474	101,605,527	90,131,536	72,556,627	1,191,103,443
Deferred Outflows of Resources															
Pension	33,511,222	2,742,736	5,948,433		14,136,970	1,717,745				4,112,986	2,949,788		7,166,780	4,803,724	77,090,384
Postemployment benefits other than pensions	27,567,329	2,317,035	4,472,972		11,746,526	1,576,371				3,531,887	2,566,036		5,902,695	3,982,821	63,663,672
Total assets and deferred outflows of resources	$ 478,070,070	$ 77,217,833	$ 41,987,543	$ 24,350,145	$ 159,281,939	$ 36,954,503	$ 102,532,157	$ 10,033,158	$ 4,022,438	$ 61,939,705	$ 49,318,298	$ 101,605,527	$ 103,201,011	$ 81,343,172	$ 1,331,857,499

Hawaii Health Systems Corporation

Statement of Net Position of Facilities (Continued)

June 30, 2025

	Hawaii Health Systems Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Ali'i Community Care, Inc.	Ali'i Health Center	East Hawaii Region Foundation	East Hawaii Medical Group	East Hawaii Health Pharmacy	Kauai Region Medical Group	Kauai Region Pharmacy-West	Kauai Region Recovery Services	Kahuku Medical Center	Eliminations	HHSC Consolidated
Assets and Deferred Outflows of Resources															
Current Assets															
Cash and cash equivalents	$ 13,272,836	$	$ 160,137,235	$ 37,785	$ 2,369,478	$ 615,016	$ 1,180,734	$ 270,679	$ 1,090,693	$ 3,277,295	$ 390,438	$ 107,427	$ 1,588,780	$ 500,000	$ 171,565,560
Cash and cash equivalents - State of Hawaii	700,679		20,096,112												20,096,112
Patient accounts receivable - Less allowances for doubtful accounts			98,157,217		49,433	1,931,833			665,617		65,079		3,552,627	**(1,042,420)**	103,379,386
Due from the State of Hawaii			115,733,441										3,247,337		118,980,778
Assets limited as to use			42,874,919										169,565		43,044,484
Supplies and other current assets	841,643		23,308,292		162,017	501,514			984,825	2,000	187,041	93	606,306	(582,283)	25,169,805
Investments			24,401,153												24,401,153
Due from affiliates - Net		(91,041,859)	(1,107,743)					1,459,262						(351,519)	
Estimated third-party payor settlements			16,784,125										55,068		16,839,193
Lease receivable			728,687												728,687
Total current assets	**14,815,158**	(91,041,859)	501,113,438	37,785	2,580,928	3,048,363	1,180,734	1,729,941	2,741,135	3,279,295	642,558	107,520	9,219,683	(1,476,222)	524,205,158
Assets Limited as to Use - Net of current portion	871,504		77,617,096				32,007,684								109,624,780
Investments - Net of current portion			14,978,236												14,978,236
Subscriptions	1,367,286		22,627,141												22,627,141
Lease Receivable - Net of current portion			18,117,003										132,986		18,249,989
Capital Assets - Net	**4,514,889**		473,018,000		5,051,094	2,192,076			18,384		63,010		11,048,558		491,391,122
Prepaid Subscription Costs			14,159,507												14,159,507
Restricted Pledge Receivable							17,406,029								17,406,029
Total assets	21,568,837	(91,041,859)	1,121,630,421	37,785	7,632,022	5,240,439	50,594,447	1,729,941	2,759,519	3,279,295	705,568	107,520	20,401,227	(1,476,222)	1,212,641,962
Deferred Outflows of Resources															
Pension	2,894,791		79,985,175												79,985,175
Postemployment benefits other than pensions	2,423,109		66,086,781												66,086,781
Total assets and deferred outflows of resources	$ **26,886,737**	$ **(91,041,859)**	$ **1,267,702,377**	$ **37,785**	$ **7,632,022**	$ **5,240,439**	$ **50,594,447**	$ **1,729,941**	$ **2,759,519**	$ **3,279,295**	$ **705,568**	$ **107,520**	$ **20,401,227**	$ **(1,476,222)**	$ **1,358,713,918**

Statement of Net Position of Facilities (Continued)

June 30, 2025

	Hilo Benioff Medical Center	Honoka'a Hospital and Skilled Nursing	Ka'u Hospital	Yukio Okutsu State Veterans Home-Hilo	Kana Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Akaka State Veterans Home - Oahu	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)															
Current Liabilities															
Accounts payable and accrued expenses	$ 46,032,630	$ 3,244,406	$ 6,828,888	$ 1,041,192	$ 20,143,575	$ 1,381,650	$ 162,085	$ 981	$ 330	$ 3,786,934	$ 2,940,300	$ 482,601	$ 6,966,029	$ 4,977,890	$ 97,989,491
Compensated absences	15,180,220	1,049,340	2,404,571	287,004	7,107,627	909,909				2,339,538	1,585,831	49,869	3,243,554	1,896,655	36,054,118
Long-term debt	1,256,940						8,126,464						96,362		9,479,766
Lease obligations	1,475,299	4,567	868,477		296,239	2,963	321,810			21,455	23,776		1,421,759	315,779	4,752,124
Subscription obligations	1,025,978		28,200		487,311	285,710				57,968	62,701				1,947,868
Accrued workers' compensation	933,000	278,000	25,000		459,000	181,000	10,000	27,000		283,000	459,000		51,000	89,000	2,795,000
Due to affiliates - Net	45,631,938		8,031,019		139,679	4,295,890			3,184,623		269,779	8,593,051	110,628	6,551,305	76,807,912
Other current liabilities:															
Unearned revenue - CARES Act Provider Relief Fund and other pandemic grants															
Other current liabilities	5,032		10,171		151,069	11,781						24,417	565,034	198,587	966,091
Total current liabilities	111,541,037	4,576,313	18,196,326	1,328,196	28,784,500	7,068,903	8,620,359	27,981	3,184,953	6,488,895	5,341,387	9,149,938	12,454,366	14,029,216	230,792,370
Long-term Debt - Net of current portion	11,317,074						6,606,998						816,076		18,740,148
Subscriptions - Net of current portion	314,227				4,748,796	4,185,473									9,248,496
Lease Obligation - Net of current portion	2,980,906	7,677	3,101,345		677,836	4,987	248,275			36,062	39,965		2,047,679	430,737	9,575,469
Other Liabilities															
Pension liability	256,506,451	22,678,263	17,507,823		108,928,763	13,164,087				45,784,452	37,438,731		74,041,682	29,444,955	605,495,207
Other postemployment liability	160,117,880	13,457,913	25,980,134		68,226,735	9,155,949				20,514,070	14,904,169		34,284,322	23,133,204	369,774,376
Compensated absences - Less current portion	20,505,890	1,375,619	3,060,202		6,321,506	1,289,975				3,567,088	3,403,215		5,354,970	3,238,279	48,116,744
Due to the State of Hawaii		506,153			7,605,205	528,149				6,416,791	491,450		1,043,345	2,417,150	19,008,243
Accrued workers' compensation - Less current portion	5,112,000	598,000	827,000		2,292,000	512,000	633,000	226,000	13,000	645,000	227,000		982,000	653,000	12,720,000
Patients' safekeeping deposits	8,600	26,670	18,649							96,028	13,647		17,109	21,440	202,143
Other liabilities	324	1,500			10,746										12,570
Total liabilities	568,404,389	43,228,108	68,691,479	1,328,196	227,596,087	35,909,523	16,108,632	253,981	3,197,953	83,548,386	61,859,564	9,149,938	131,041,549	73,367,981	1,323,685,766
Deferred Inflows of Resources															
Postemployment benefits other than pensions	35,795,224	3,008,590	5,808,000		15,252,459	2,046,862				4,586,032	3,331,909		7,664,447	5,171,553	82,665,076
Leases	9,502	1			653,652		17,125,070						276,382		18,064,607
Pension	3,691,286	302,115	655,224		1,557,199	189,211				453,049	324,922		789,427	529,133	8,491,566
Total deferred inflows of resources	39,496,012	3,310,706	6,463,224		17,463,310	2,236,073	17,125,070			5,039,081	3,656,831		8,730,256	5,700,686	109,221,249
Total liabilities and deferred inflows of resources	607,900,401	46,538,814	75,154,703	1,328,196	245,059,397	38,145,596	33,233,702	253,981	3,197,953	88,587,467	65,516,395	9,149,938	139,771,805	79,068,667	1,432,907,015
Net Position (Deficit)															
Unrestricted	(234,524,947)	16,599,337	(42,977,154)	6,802,384	(135,249,563)	(13,264,676)	17,676,628	914,377	(2,856,294)	(44,190,135)	(30,630,787)	(4,194,508)	(59,258,286)	(17,959,194)	(543,112,818)
Restricted by donor															
Net investment in capital assets	99,694,616	14,079,682	9,809,994	16,219,565	49,472,105	12,073,583	51,621,827	8,864,800	3,680,779	17,542,373	14,408,155	96,650,097	22,686,057	20,225,588	437,029,221
Restricted for lender covenants and other	5,000,000										24,535		1,435	8,111	5,034,081
Total net position (deficit)	(129,830,331)	30,679,019	(33,167,160)	23,021,949	(85,777,458)	(1,191,093)	69,298,455	9,779,177	824,485	(26,647,762)	(16,198,097)	92,455,589	(36,570,794)	2,274,505	(101,049,516)
To[illegible] ofresources	$ 478,070,070	$ 77,217,833	$ 41,987,543	$ 24,350,145	$ 159,281,939	$ 36,954,503	$ 102,532,157	$ 10,033,158	$ 4,022,438	$ 61,939,705	$ 49,318,298	$ 101,605,527	$ 103,201,011	$ 81,343,172	$ 1,331,857,499

Hawaii Health Systems Corporation

Statement of Net Position of Facilities (Continued)

June 30, 2025

	Hawaii Health Systems Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Ali'i Community Care, Inc.	Ali'i Health Center	East Hawaii Region Foundation	East Hawaii Medical Group	East Hawaii Health Pharmacy	Kauai Region Medical Group	Kauai Region Pharmacy-West	Kauai Region Recovery Services	Kahuku Medical Center	Eliminations	HHSC Consolidated
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)															
Current Liabilities															
Accounts payable and accrued expenses	$ 2,134,832	$	$ 100,124,323	$ 21	$ 351,458	$ 3,493,261	$	$ 50,000	$ 1,482,938	$ 373,191	$ 13,082	$ 6,971	$ 2,962,728	$ (552,689)	$ 108,305,284
Compensated absences	1,834,971		37,889,089			728,772		1,012,262		65,864	17,370	5,479	846,635		40,565,471
Long-term debt			9,479,766		1,140,752										10,620,518
Lease obligations	60,980		4,813,104		61,372								63,656		4,938,132
Subscription obligations	785,190		2,733,058										191,676		2,924,734
Accrued workers' compensation			2,795,000												2,795,000
Due to affiliates - Net	4,574,167	(91,041,859)	(9,659,780)			280,888			4,509,634	2,395,867	2,352,150	121,241	341,250	(341,250)	
Other current liabilities:															
Unearned revenue - CARES Act Provider Relief Fund and other pandemic grants						582,283								(582,283)	
Other current liabilities	409,116		1,375,207		704,164						55	76,971			2,156,397
Total current liabilities	9,799,256	(91,041,859)	149,549,767	21	2,257,746	5,085,204		1,062,262	5,992,572	2,834,922	2,382,657	210,662	4,405,945	(1,476,222)	172,305,536
Long-term Debt - Net of current portion			18,740,148		3,507,793										22,247,941
Subscriptions - Net of current portion	197,787		9,446,283										349,339		9,795,622
Lease Obligation - Net of current portion	138,053		9,713,522		3,107,600								156,318		12,977,440
Other Liabilities															
Pension liability	25,655,171		631,150,378												631,150,378
Other postemployment liability	14,074,029		383,848,405												383,848,405
Compensated absences - Less current portion	3,829,160		51,945,904			551,522		1,046,472		327,743					53,871,641
Due to the State of Hawaii			19,008,243												19,008,243
Accrued workers' compensation - Less current portion	374,000		13,094,000												13,094,000
Patients' safekeeping deposits			202,143												202,143
Other liabilities			12,570			50,236									62,806
Total liabilities	54,067,456	(91,041,859)	1,286,711,363	21	8,873,139	5,686,962		2,108,734	5,992,572	3,162,665	2,382,657	210,662	4,911,602	(1,476,222)	1,318,564,155
Deferred Inflows of Resources															
Postemployment benefits other than pensions	3,146,327		85,811,403												85,811,403
Leases			18,064,607										84,152		18,148,759
Pension	318,863		8,810,429												8,810,429
Total deferred inflows of resources	3,465,190		112,686,439										84,152		112,770,591
Total liabilities and deferred inflows of resources	57,532,646	(91,041,859)	1,399,397,802	21	8,873,139	5,686,962		2,108,734	5,992,572	3,162,665	2,382,657	210,662	4,995,754	(1,476,222)	1,431,334,746
Net Position (Deficit)															
Unrestricted	(35,346,074)		(578,458,892)	37,764	1,525,306	(2,638,599)	1,151,145	(378,793)	(3,251,437)	116,630	(1,740,099)	(103,142)	4,948,339		(578,791,778)
Restricted by donor							49,443,302								49,443,302
Net investment in capital assets	4,700,165		441,729,386		(2,766,423)	2,192,076			18,384		63,010		10,287,569		451,524,002
Restricted for lender covenants and other			5,034,081										169,565		5,203,646
Total net position (deficit)	(30,645,909)		(131,695,425)	37,764	(1,241,117)	(446,523)	50,594,447	(378,793)	(3,233,053)	116,630	(1,677,089)	(103,142)	15,405,473		(72,620,828)
To[illegible] resources	$ 26,886,737	$ (91,041,859)	$ 1,267,702,377	$ 37,785	$ 7,632,022	$ 5,240,439	$ 50,594,447	$ 1,729,941	$ 2,759,519	$ 3,279,295	$ 705,568	$ 107,520	$ 20,401,227	$ (1,476,222)	$ 1,358,713,918

Hawaii Health Systems Corporation

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

Year Ended June 30, 2025

	Hilo Benioff Medical Center	Honoka'a Hospital and Skilled Nursing	Ka'u Hospital	Yukio Okutsu State Veterans Home-Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia	Akaka State Veterans Home - Oahu	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Facilities
Operating Revenue															
Net patient service revenue	$ 288,296,606	$ 27,012,687	$ 49,972,227	$ 14,221,542	$ 118,404,263	$ 15,331,255	$	$	$	$ 17,435,428	$ 15,207,419	$ 652,987	$ 52,141,159	$ 46,429,757	$ 645,105,330
Uncompensated care revenue	29,791,017	516,732	2,851,623	1,133,956	15,621,612	5,622,513				6,646,818	4,285,118		2,365,957	810,353	69,645,699
Other revenue	9,524,809	149,060	1,064,240	119,331	1,045,311	114,811	1,258,856			866,086	238,317	500	2,397,782	301,610	17,080,713
Total operating revenue	327,612,432	27,678,479	53,888,090	15,474,829	135,071,186	21,068,579	1,258,856			24,948,332	19,730,854	653,487	56,904,898	47,541,720	731,831,742
Operating Expenses															
Salaries	126,840,291	11,615,506	20,656,025	6,908,917	52,041,043	7,579,555				15,164,152	12,801,444	1,312,137	24,942,366	19,912,497	299,773,933
Employee benefits	62,143,932	5,393,095	14,210,475	2,041,223	21,624,831	2,573,775	267,462	147,143	6,000	6,240,407	3,215,971	195,095	10,676,177	7,871,041	136,606,627
Purchased services	55,968,345	2,763,450	4,739,090	3,705,790	43,464,651	4,411,227	542,581	109,741	10,032	1,459,712	879,122	527,662	13,563,935	16,269,235	148,414,573
Medical supplies and drugs	52,656,017	678,959	3,222,768	1,085,589	18,344,455	384,234				407,382	537,597		3,058,574	1,571,987	81,947,562
Depreciation and amortization	12,027,907	1,144,551	1,693,255	748,324	6,728,857	1,186,834	6,801,201	1,225,301	298,721	1,517,737	1,130,705	1,174,425	3,690,984	2,042,682	41,411,484
Professional fees	30,477,804	1,788,184	19,485,871	36,570	697,656	129,609				61,135	67,629	120,869	2,474,161	1,514,348	56,853,836
Other supplies	12,958,963	1,057,121	1,148,175		2,367,979	633,777				1,210,558	885,099		1,294,827	1,112,624	22,669,123
Repairs and maintenance	10,558,657	604,852	717,941	159,818	5,883,318	1,717,888				641,030	301,899	274,666	714,444	255,474	21,829,987
Utilities	5,192,541	779,351	808,527	615,131	2,180,572	315,364				1,126,098	739,481		968,484	963,270	13,688,819
Insurance	4,559,957	244,105	508,081	111,282	1,286,491	118,709				216,104	177,206		616,464	599,186	8,437,585
Rent and lease	1,864,376	119,076	422,998	31,627	1,276,965	160,322				37,895	9,225		194,666	898,752	5,015,902
Other	4,260,822	350,860	1,132,943	46,098	(479,398)	3,427,887	6,690	13,585	4,109	131,330	95,712	1,492,572	1,443,808	702,114	12,629,132
Total operating expenses	379,509,612	26,539,110	68,746,149	15,490,369	155,417,420	22,639,181	7,617,934	1,495,770	318,862	28,213,540	20,841,090	5,097,426	63,638,890	53,713,210	849,278,563
Operating (Loss) Income	(51,897,180)	1,139,369	(14,858,059)	(15,540)	(20,346,234)	(1,570,602)	(6,359,078)	(1,495,770)	(318,862)	(3,265,208)	(1,110,236)	(4,443,939)	(6,733,992)	(6,171,490)	(117,446,821)
Nonoperating Income (Expense)															
General appropriations from the State of Hawaii	75,023,000	6,465,000	6,330,000		40,179,000	1,416,000				12,153,000	11,219,000		13,610,000	8,746,000	175,141,000
Collective bargaining appropriations from the State of Hawaii	16,683,474	1,696,875	2,617,470		6,764,934	955,565				2,765,395	2,059,170		3,928,281	2,336,096	39,807,260
Interest and dividend income	6,096,060	4,060	5,402	10,646	311,102	73,245	1,039,150			730,930	629,299	66,126	2,667,769	4,568	11,638,357
Restricted contributions	571,612	60,627	49,098		1,194,151	27,791							383,896		2,287,175
Interest expense	(814,795)	(1,027)	(104,900)		(260,514)	(182,992)	(609,435)			(6,318)	(7,148)		(167,464)	(28,913)	(2,183,506)
Unrestricted contributions Corporate allocation to affiliates	(3,165,000)	(214,000)	(549,000)		(1,323,000)	(163,000)	(2,293,782)			(240,000)	(186,000)		(545,000)	(445,000)	(9,123,782)
Other nonoperating revenue (expense) - Net	4,835,309	268,572	1,883	(903)	(13,176,993)	69,116	1,526			15			(6,041)	861,437	(7,146,079)
Total nonoperating income (expense)	99,229,660	8,280,107	8,349,953	9,743	33,688,680	2,195,725	(1,862,541)			15,403,022	13,714,321	66,126	19,871,441	11,474,188	210,420,425
Excess of Revenue Over (Under) Expenses before Capital Contributions and Transfers	47,332,480	9,419,476	(6,508,106)	(5,797)	13,342,446	625,123	(8,221,619)	(1,495,770)	(318,862)	12,137,814	12,604,085	(4,377,813)	13,137,449	5,302,698	92,973,604
Capital Contributions (Lapsed Funds)	(88,830)		8,945,000		25,379,183	3,048,000				1,607,763	1,575,335	95,482,732	1,290,595	7,245,621	144,485,399
Transfer (to) from Affiliate	(275,129)	(41,966)	(52,208)		(120,157)	(15,742)				(44,749)	(38,117)		(53,868)	(36,466)	(678,402)
Increase (Decrease) in Net Position	46,968,521	9,377,510	2,384,686	(5,797)	38,601,472	3,657,381	(8,221,619)	(1,495,770)	(318,862)	13,700,828	14,141,303	91,104,919	14,374,176	12,511,853	236,780,601
Net Position (Deficit) - Beginning of year, as previously reported	(159,227,733)	22,376,375	(33,323,178)	23,067,966	(117,859,233)	(3,730,358)	77,520,074	11,274,947	1,143,347	(37,971,038)	(27,682,019)	1,350,670	(46,700,408)	(8,050,374)	(297,810,962)
Cumulative Adjustments to Beginning Net Position (Deficit)						(1,118,116)				(2,377,552)	(2,657,381)		(4,244,562)	(2,186,974)	(40,019,155)
Net Position (Deficit) - Beginning of year, as adjusted	(17,571,119)	(1,074,866)	(2,228,668)	(40,220)	(6,519,697)	(4,848,474)	77,520,074	11,274,947	1,143,347	(40,348,590)	(30,339,400)	1,350,670	(50,944,970)	(10,237,348)	(337,830,117)
	(176,798,852)	21,301,509	(35,551,846)	23,027,746	(124,378,930)										
Net Position (Deficit) - End of year	**$ (129,830,331)**	**$ 30,679,019**	**$ (33,167,160)**	**$ 23,021,949**	**$ (85,777,458)**	**$ (1,191,093)**	**$ 69,298,455**	**$ 9,779,177**	**$ 824,485**	**$ (26,647,762)**	**$ (16,198,097)**	**$ 92,455,589**	**$ (36,570,794)**	**$ 2,274,505**	**$ (101,049,516)**

Hawaii Health Systems Corporation

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

Year Ended June 30, 2025

	Hawaii Health Systems Corporation	Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Ali'i Community Care, Inc.	Ali'i Health Center	East Hawaii Region Foundation	East Hawaii Medical Group	East Hawaii Health Pharmacy	Kauai Region Medical Group	Kauai Region Pharmacy-West	Kauai Region Recovery Services	Kahuku Medical Center	Eliminations	HHSC Consolidated
Operating Revenue															
Net patient service revenue	$	$	$ 645,105,330	$	$	$ 14,827,909	$	$	$ 10,316,596	$	$ 1,295,135	$	$ 23,624,938	$	$ 695,169,908
Uncompensated care revenue			69,645,699												69,645,699
Other revenue			17,080,713		6,903,673	903,553		37,858,836	225,647	11,597,124	650,000	39,804	1,296,676	(52,906,427)	23,649,599
Total operating revenue			731,831,742		6,903,673	15,731,462		37,858,836	10,542,243	11,597,124	1,945,135	39,804	24,921,614	(52,906,427)	788,465,206
Operating Expenses															
Salaries	9,672,610		309,446,543			21,103,996		31,509,826	773,869	7,543,163	465,250	133,607	14,947,520		385,923,774
Employee benefrts	4,873,329		141,479,956			20,849		5,747,268	193,763	1,025,909	99,399	37,129	3,722,238		152,326,511
Purchased services			148,414,573		64,329	1,486,169			1,107,465	1,982,163	236,445	62,395	2,358,266	(15,047,591)	140,664,214
Medical supplies and drugs			81,947,562			2,116,380			9,758,605		179		2,356,650		96,179,376
Depreciation and amortization	3,591,341		45,002,825		909,091	364,547			7,925		21,495		1,812,915		48,118,798
Professional fees	266,066		57,119,902		4,185,922	696,689		113,386	140,848	24,251	8,372	19,582	1,252,226	(37,858,836)	25,702,342
Other supplies	452,639		23,121,762		663,603	56,626			21,233	660	1,455,172		230,669		25,549,725
Repairs and maintenance	(2,337,855)		19,492,132		109,948	2,651,598			6		33,056		409,891		22,696,631
Utilities	228,303		13,917,122		540,958	418,824			1,455	307			674,226		15,552,892
Insurance	913,904		9,351,489	542	201,236	680,606		625,207		398,847	1,097	176	224,562		11,483,762
Rent and lease	(136,915)		4,878,987		201,546	1,335,779			54,333		1,067		133,881		6,605,593
Other	667,737		13,296,869	185	311,210	615,209			201,138	82,194	8,763	27,459	1,422,401		15,965,428
Total operating expenses	18,191,159		867,469,722	727	7,187,843	31,547,272		37,995,687	12,260,640	11,057,494	2,330,295	280,348	29,545,445	(52,906,427)	946,769,046
Operating (Loss) Income	(18,191,159)		(135,637,980)	(727)	(284,170)	(15,815,810)		(136,851)	(1,718,397)	539,630	(385,160)	(240,544)	(4,623,831)		(158,303,840)
Nonoperating Income (Expense)															
General appropriations from the State of Hawaii	8,517,303		183,658,303										2,032,500		185,690,803
Collective bargaining appropriations from the State of Hawaii	795,000		40,602,260												40,602,260
Interest and dividend income	1,355,891		12,994,248		24,309						10,672				13,029,229
Restricted contributions			2,287,175			42,332	1,515,466						118,763		3,963,736
Interest expense	(64,892)		(2,248,398)		(315,000)								(55,142)		(2,618,540)
Unrestricted contributions							1,151,145								1,151,145
Corporate allocation to affiliates	9,123,782														
Other nonoperating revenue (expense) - Net	64,027		(7,082,052)			13,429,358	641,268				12	198,484			7,187,070
Total nonoperating income (expense)	19,791,111		230,211,536		(290,691)	13,471,690	3,307,879				10,684	198,484	2,096,121		249,005,703
Excess of Revenue Over (Under) Expenses before Capital Contributions and Transfers	1,599,952		94,573,556	(727)	(574,861)	(2,344,120)	3,307,879	(136,851)	(1,718,397)	539,630	(374,476)	(42,060)	(2,527,710)		90,701,863
Capital Contributions (Lapsed Funds)			144,485,399										2,385,860		146,871,259
Transfer (to) from Affiliate	(1,386,586)		(2,064,988)		1,386,408								678,580		
Increase (Decrease) in Net Position	213,366		236,993,967	(727)	811,547	(2,344,120)	3,307,879	(136,851)	(1,718,397)	539,630	(374,476)	(42,060)	536,730		237,573,122
Net Position (Deficit) - Beginning of year, as previously reported	(27,599,275)		(325,410,237)	**38,491**	(2,052,664)	2,081,220	47,286,568	(50,000)	(1,514,656)	(355,798)	(1,295,925)	(60,459)	14,868,743		(266,464,717)
Cumulative Adjustments to Beginning Net Position (Deficit)	(3,260,000)		(43,279,155)			(183,623)		(191,942)		(67,202)	(6,688)	(623)			(43,729,233)
Net Position (Deficit) - Beginning of year, as adjusted	(30,859,275)		(368,689,392)	38,491	(2,052,664)	1,897,597	47,286,568	(241,942)	(1,514,656)	(423,000)	(1,302,613)	(61,082)	14,868,743		(310,193,950)
Net Position (Deficit) - End of year	**$ (30,645,909)**	$	**$ (131,695,425)**	**$ 37,764**	**$ (1,241,117)**	**$ (446,523)**	**$ 50,594,447**	**$ (378,793)**	**$ (3,233,053)**	**$ 116,630**	$ (1,677,089)	$ (103,142)	$ 15,405,473	$	$ (72,620,828)

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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 *(Government Auditing Standards),* the financial statements of Hawaii Health Systems Corporation (the "Corporation" or "HHSC") as of and for the year ended June 30, 2025 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 12, 2025. Our report includes a reference to other auditors who audited the financial statements of Kahuku Medical Center, as described in our report on Hawaii Health Systems Corporation's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings as Finding 2025-003 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as Findings 2025-001, 2025-002, and 2025-004 to be significant deficiencies.

Report on Compliance and Other Matters

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

PRAXITY
Empowering Business Globally

To Management and Board of Directors
Hawaii Health Systems Corporation

The Corporation's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Corporation's responses to the findings identified in our audit and described in the accompanying schedule of findings. The Corporation's responses were not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

Purpose of this Report

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

Plante & Moran, PLLC

December 12, 2025

Financial Statement Audit Findings

Reference Number	Finding
2025-001	**Finding Type** - Significant deficiency, Ali'i Community Care **Criteria** - Audit adjustments should be posted to rollforward net position. **Condition** - Entries from previous fiscal years were not posted, causing a difference between net position in the general ledger and the prior year audited financial statements. **Context** - Entries related to leases identified by the auditor in the previous years were not posted by management, and, as a result, net position did not roll forward in fiscal year 2025. **Cause** - Management did not have processes or controls in place to track entries identified during the audit and post them properly in the general ledger. **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 $39,253 was posted to increase purchase expense within other expense on the statement of revenue, expenses, and changes in net position to correct this misstatement in fiscal year 2025. **Recommendation** - We recommend management at Roselani Place perform formal review of audit entries provided and post to their general ledger system. **Views of Responsible Officials and Planned Corrective Actions** - The Roselani Place accountant will review audit adjustments to ensure that the entries are appropriately posted to ensure the general ledger system agrees to the audited financial statements.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2025-002	**Finding Type** - Significant deficiency, West Hawaii Region **Criteria** - Management should have controls in place to identify all transactions and balances between intercompany accounts to ensure accurate reporting and elimination. **Condition** - Based on review of intercompany transactions and balances at June 30, 2025, on-call revenue recorded for Ali'i Health Center was incorrect due to amounts over invoiced to Kana Community Hospital for the period from July 2024 through December 2024. **Context** - Intercompany transactions and balances required adjustments for 2025. Approximately $582,000 was adjusted to decrease on-call revenue recorded on Ali'i Health Center and to increase unearned revenue at June 30, 2025. The on-call revenue and unearned revenue for Ali'i Health Center have been eliminated in the consolidated financial statements. **Cause** - Lack of sufficient review of Ali'i Health Center's activity and intercompany balances at June 30, 2025 **Effect** - As a result of this issue, revenue before eliminations on the consolidated financial statements were misstated on Ali'i Health Center. **Recommendation** - We recommend additional controls be put in place to review all intercompany activity with Ali'i Health Center to ensure transactions during the year are properly identified and eliminated within the consolidated financial statements. **Views of Responsible Officials and Planned Corrective Actions** - Management concurs with the issue and will be implementing further review controls of intercompany transactions and balances.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2025-003	**Finding Type** - Material weakness, Kauai Region **Criteria** - Management should have controls in place related to oversight of models used to estimate net accounts receivable and cost report settlements at year end. **Condition** - Based on hindsight analysis of prior accounts receivable balances, the methodology utilized in the accounts receivable estimation process was not adequately monitored to determine whether adjustments to the modeling approach were required to estimate accounts receivable balances at June 30, 2025. In addition, cost report settlements receivable required an adjustment to reduce the expected balance by $2 million. **Context** - Net accounts receivable and cost report settlements receivable balances required adjustments at year end. When the model calculations were updated, adjustments to decrease net patient service revenue by approximately $3,900,000 were required. **Cause** - Lack of sufficient review and analysis of models utilized within the accounts receivable and cost report settlement estimation process **Effect** - As a result of the issue, accounts receivable, cost report settlements receivable, and revenue balances on the financial statements were misstated and adjustments were recorded. **Recommendation** - We recommend adequate controls be put in place to ensure sufficient review of the accounts receivable balances, including processes to perform hindsight analysis of prior estimates utilized. **Views of Responsible Officials and Planned Corrective Actions** - Management has implemented a new review process for the estimation at year end. Additionally, a process for performing hindsight analysis of prior period accounts receivable has also been put in place.

Financial Statement Audit Findings (Continued)

Reference Number	Finding
2025-004	**Finding Type** - Significant deficiency, Hawaii Health Systems Corporation **Criteria** - Management should have controls in place to review and reconcile account balances on a timely basis throughout the year and at year end. **Condition** - Based on review of the lease and subscription asset and liability schedules and review of the compensated absences calculation, the methodology to calculate and adjust these balances was not appropriately monitored to ensure that the resulting ending balances were appropriate at June 30, 2025. **Context** - The lease and subscription asset and liability schedules required additional review and reconciliation by management, resulting in an adjustment of approximately $1,000,000 and $5,500,000 to lease assets and liabilities, respectively; $875,000 to lease receivable; and $1,700,000 to subscriptions. Additionally, the compensated absences calculation required additional analysis to determine if the incorrect information originally utilized in the calculation would have a significant impact on the recorded balances. The approximate impact to the compensated absence calculation was a $1,300,000 increase in the liability, as this amount is immaterial it was not deemed necessary to record. **Cause** - Lack of sufficient review and analysis of the reports and calculations utilized within the lease and subscription reconciliation process and in the compensated absences reconciliation process **Effect** - As a result of the issue, lease and subscription asset and liability balances on the financial statements were misstated and adjustments were recorded, the compensated absence balance was understated, but an adjustment was not deemed necessary due to the dollar amount involved. **Recommendation** - We recommend adequate controls be put in place to ensure sufficient review of the account balances. **Views of Responsible Officials and Planned Corrective Actions** - In 2025, management implemented the use of a third-party software system to maintain the records for all leases and subscription arrangements and to compute the fair value of all lease and subscription assets and liabilities on a system-wide basis. All leases and subscription arrangements were manually inputted into the third-party software system, analyzed, and then reconciled by HHSC. Management has implemented an updated process to identify lease and subscription arrangements during the year to ensure that balances at year end are reconciled on a timely basis. GASB 101, *Compensated Absences,* was adopted by HHSC in 2025. Management complied with the method proposed by the State of Hawaii, Department of Accounting and General Services, which called for HHSC to select 600 employees based on years of service, and providing detailed records of sick leave hours taken in each of the past five years, employee pay rates, amount of hours earned, and the balances of sick leave hours. Due to the significant volume of data required and the manual nature of the records, there were human errors made in inputting the data provided to compute the GASB 101 liability. The extrapolation of the human errors found resulted in an estimated misstatement that was immaterial. Management will implement a process for review of all data used to compute the GASB 101 liability.

Attachment B

Projected Revenues, FY 2026

HAWAII HEALTH SYSTEMS CORPORATION
PROJECTED REVENUES FOR FISCAL YEAR 2026
AMOUNTS IN $'000'S
NOTE: Amounts represent estimated cash collections, not accrual basis revenues

Hilo	336,935
Hamakua	23,814
Ka'u	61,487
Kona	137,560
Kohala	20,899
KVMH	60,489
SMMH	51,768
Leahi	23,595
Maluhia	20,890
TOTAL	**737,437**

Attachment C

CIP Expenditures, FY 2026

DEPARTMENT: Health - Hawaii Health Systems Corporation
FY 26 CIP EXPENDITURE PLAN

Act/Yr	Item No.	Project Title and Brief Project Description	Apprn
164/23	E-14	Lump Sum Hawaii Health Systems Corporation, Oahu Region - Leahi Hospital, Exhaust Fan Replacement	129,584
164/23	E-3	Lump Sum, Hawaii Health Systems Corporation - East Hawaii - Operating Room Renovations and Electrical Upgrade	4,459,168
164/23	E-3	Lump Sum, Hawaii Health Systems Corporation - West Hawaii, Various Renovation of Hospital Projects	976,301
230/24	E-2	Lump Sum, Kahuku Medical Center, Electronic Health Records, Phase II	1,500,000
230/24	E-2	Lump Sum, Kahuku Medical Center, Dental Expansion	450,000
230/24	E-2	Lump Sum, Kahuku Medical Center, Laboratory Renovations	237,500
230/24	E-2	Lump Sum, Kahuku Medical Center, Clinics to Emergency Generator	412,500
230/24	E-3	Lump Sum, Hawaii Health Systems Corporation - East Hawaii, Operating Room Renovations	7,549,074
230/24	E-3	Lump Sum, Hawaii Health Systems Corporation - West Hawaii, Various Renovation of Hospital Projects	1,375,419
230/24	E-3	Lump Sum, Hawaii Health Systems Corporation - Kauai, SMMH, CAH Renovation, Phase II	2,428,300
230/24	E-14	Lump Sum, Oahu Region, Leahi Hospital, Replace Exhaust Fan on Young Bldg Roof	284,654
230/24	E-14	Lump Sum, Oahu Region, Leahi Hospital, Replace emergency staircase	1,000,000
230/24	E-14	Lump Sum, Oahu Region, Leahi Hospital, Replace Admin windows	500,000
230/24	E-14	Lump Sum, Oahu Region, Maluhia Replace 3 Mauka nurse call	476,593

230/24	E-10	Samuel Mahelona, New Psychiatric Unit	7,500,000
230/24	E-11	Samuel Mahelona, Emergency Dept Expansion	3,000,000
230/24	E-12	Kauai Veterans Memoriol Hosp, Operating Room Renovation	3,000,000
230/24	E-12.1	Kauai Veterans Memorial Hosp, Rehab Renovation	1,183,000
230/24	E-14	Lump Sum, Oahu Region, Replace Wet/Dry Standpipes	500,000
250/25	E-6	Lump Sum, HHSC Corporation, Hawaii - Hilo Benioff, Parking Improvements	1,002,194
250/25	E-6	Lump Sum, HHSC Corporation, Hawaii - Hilo Benioff, Ground Floor Lab Relocation	1,000,000
250/25	E-6	Lump Sum, HHSC Corporation, Hawaii - Hilo Benioff, Electrical Switchboard	945,000
250/25	E-6	Lump Sum, HHSC Corporation, Hawaii - Kau Hospital, Renovations	305,000
250/25	E-6	Lump Sum, HHSC Corporation, Hawaii - West Hawaii, Various Renovation of Hospital Projects	2,247,806
250/25	E-7	Lump Sum, HHSC Corporation, Kauai, SMMH Clinic Renovation Project Ph. II	5,075,971
250/25	E-7	Lump Sum, HHSC Corporation, Kauai, SMMH New Psych Building Ph. II	7,500,000
250/25	E-7	Lump Sum, HHSC Corporation, Kauai, KVMH ER Renovation Ph. IV	2,424,029
250/25	E-7	Lump Sum, HHSC Coporation, KVMH EHR Longitudinal Record for Kauai County	5,000,000
250/25	E-11	Lump Sum, HHSC, Oahu Region, Oahu, Maluhia Replace Fire Doors	700,000
250/25	E-11	Lump Sum, HHSC, Oahu Region, Oahu, Leahi Hospital, Replace 900 KVA generator	1,650,000
250/25	E-11	Lump Sum, HHSC, Oahu Region, Oahu, Maluhia Phase 2 of AC Upgrade for 2nd and 3rd Floors	3,250,000
250/25	E-9	WHR - Kona Community Hospital, ER	1,339,000
250/25	E-4	Ho'ola Lahui Hawaii, Kauai	1,500,000
250/25	E-8	Samuel Mahelona Mem Hospital, Improvement, Kauai	500,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - OCHIN/ Epic, Phase 2	1,500,000

250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Rehabilitation Remodel	600,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Patient Room Renovation, Phase 2	500,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Lobby Renovation	425,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Nurse Station Renovation, Phase 2	450,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Facility Plumbing Upgrades	330,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Facility Electrical Upgrades	540,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Fire/Life Safety Upgrades	150,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Mechanical Pumps Replacement	125,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Facility Reroofing	725,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Business Office Renovation	185,500
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Facility Signage Replacement	62,500
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Rothwell Wing Renovations	125,000
250/25	E-3	Lump Sum, Kahuku Medical Center, Oahu - Dietary Renovations	82,000

Attachment D

Regional Board Reports, FY 2025

EAST HAWAII REGION 2025 LEGISLATIVE REPORT

Hilo Benioff Medical Center

The East Hawaii Region, comprised of Hilo Benioff Medical Center, Honoka'a Hospital and Skilled Nursing, Ka'u Hospital, Yukio Okutsu State Veterans Home, and the East Hawaii Health Clinics, is the largest region within the Hawai'i Health Systems Corporation. With more than 2,000 employees, it is also Hawai'i Island's largest employer.

Founded in 1897 as a 10-bed government hospital, Hilo Benioff Medical Center has since grown into a modern 166-bed acute care facility with long-term care and behavioral health services, along with 32 temporary licensed beds. The current campus, built in 1984 on 20.5 acres, is adjacent to the 95-bed Yukio Okutsu State Veterans Home and the original historic Hilo Hospital site.

Services

Hilo Benioff Medical Center provides a full continuum of healthcare services, including:

- 24-Hour CAP-Accredited Pathology Laboratory & Blood Bank
- 24-Hour Physician-Staffed Emergency Care
- Acute Inpatient Dialysis
- Adult Psychiatric Services
- Bronchoscopy
- Comprehensive Cardiac Care: Diagnostic & Interventional Cardiology, Echocardiography, Stress Testing, Pacemakers, Telemetry, Cardiac Rehab, Sports Cardiology
- EEG & Endoscopy
- Food & Nutrition Services and Counseling
- Gastroenterology
- Hospitalist Services
- Full Imaging: X-ray, CT, MRI, Angiography/Cardiac Catheterization, Interventional Radiology, Nuclear Medicine, Ultrasound
- Inpatient & Outpatient Rehabilitation (PT/OT/ST, Cardiac Rehab)
- Critical & Progressive Care
- Obstetrics/Gynecology, Labor & Delivery, Post-Partum Care, Childbirth/Breastfeeding/Car Seat Classes
- Outpatient Specialty Clinics: Behavioral Health, Cardiology, Dermatology, Neurology, Plastic Surgery, Primary Care, Psychiatry, Oncology, Orthopedics, ENT, General Surgery, Vascular Surgery, Urology
- Inpatient Pediatrics
- Inpatient & Retail Pharmacy
- Respiratory Therapy
- Skilled Nursing & Long-Term Care
- Social Services & Case Management
- Surgical Services including Robotic Surgery
- Subspecialty Surgery: Gynecologic Robotics, Orthopedics, Ophthalmology, ENT, Urology
- Telemedicine
- Wound & Ostomy Care

Patient Census

- **Admissions:** 11,066
- **Emergency Department Visits:** 51,234
- **Births:** 972
- **East Hawaii Health Clinic Visits:** 135,584

Community-Based Foundation Support

TOTAL GRANTS	**$**	**756,584.77**
TOTAL FUNDRAISING	**$**	**165,333.25**
TOTAL PRIVATE DONATIONS	**$**	**110,854.02**
TOTAL	**$**	**1,032,772.04**

Honoka'a Hospital and Skilled Nursing

Originally established in 1951,Honoka'a Hospital and Skilled Nursing (Honoka'a)has long served the communities of Hāmākua, North Hawai'i, and South Kohala. A modern 50-bed facility opened in 1995 to focus on long-term care, and in 1997 the hospital was renamed to reflect its mission as a "Haven of Wellness."

Honoka'a became a Critical Access Hospital (CAH) in 2005, enabling enhanced emergency and ancillary services. In 2010, the Maile Wing expanded the facility to 77 beds. The hospital continues to earn recognition for quality, maintaining its 5-star CMS rating for long-term care in 2025.

Services

- 11 Acute/SNF Swing Beds
- 66 Long-Term Care Beds (ICF/SNF)
- 24/7 Emergency Room (30-minute on-call response)
- Inpatient & Outpatient Rehabilitation (PT/OT/ST)
- Inpatient Social Services
- Laboratory & X-Ray Services (Inpatient & Outpatient)
- Dietary/Food Services
- Auxiliary & Community Volunteer Support

Patient Census

- **Admissions:** 242
- **ER Visits:** 1,742

Ka'u Hospital & Rural Health Clinic

Ka'u Hospital, established in 1971 in Pāhala, serves one of the most rural regions in Hawai'i, with no other hospital within a 55-mile radius. The hospital includes 21 swing beds and a 24/7 Emergency Department. It received Critical Access Hospital designation in 2001 and expanded its services in 2003 with a Medicare-certified Rural Health Clinic.

The Kaʻu community plays a vital role in supporting the hospital through volunteerism and fundraising. Major modernization and expansion efforts are currently underway, funded by the Legislature with strong support from Senator Dru Kanuha and Representative Jeanne Kapela. The project involves transforming unused space under the hospital to expand operational capacity.

Services

- 24-Hour Emergency Services
- Acute Care
- Intermediate & Skilled Nursing Care
- Inpatient & Outpatient Rehabilitation
- Radiology & Laboratory Services
- Family Practice Rural Health Clinic

Patient Census

- **Admissions:** 41
- **ER Visits:** 3,289
- **Clinic Visits:** 7,180

Community-Based Foundation Support
Total Fundraising $4,506

East Hawaii Region Foundations

Hilo Benioff Medical Center Foundation

A 501(c)(3) nonprofit established in 1995, the Hilo Benioff Medical Center Foundation supports regional healthcare through fundraising, volunteerism, and community education.

President: Rodney Powell
Administrator: Lisa Rantz
Website: www.hbmcfoundation.org
Contact: 1190 Waianuenue Ave., Box 629, Hilo, HI 96720 • 808-932-3636

Kaʻu Hospital Charitable Foundation

This nonprofit supports Kaʻu Hospital and the Rural Health Clinic by funding improvements to facilities, equipment, and staff training.
Vice President/Director: Wayne Kawachi
Website: www.kauhospitalcharity.org
Contact: P.O. Box 773, Pāhala, HI 96777 • info@kauhospitalcharity.org

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East Hawaii Region Accomplishments

Our Vision

"To create a health care system that provides patient-centered, culturally competent, cost-effective care with exceptional outcomes and superior patient satisfaction, through leadership and partnership with community healthcare organizations and providers."

People

Physician & Provider Recruitment

The East Hawaii Region welcomed **85 new physicians and advanced practice providers** across specialties including family medicine, anesthesia, cardiology, emergency medicine, hematology/oncology, internal medicine, interventional radiology, neurological surgery, pathology, psychiatry, psychiatry, hospital medicine, and wound care.

The Hawai'i Island Family Medicine Residency Program welcomed six new residents (Class of 2028) and graduated six residents in 2025.

Workforce Development

Paid training programs remain a key strategy for addressing workforce shortages. Over the past year, the Region trained:

- Nurse Aides: 41
- Certified Nurse Aides: 35
- Medical Assistants: 11
- Registered Nurses: 27

Growth

Transition to Epic Health Records

In November 2024, the Region began implementation of the Epic electronic health record system, replacing MEDITECH after more than a decade. This significant modernization will enhance care coordination across Hawai'i Island and with statewide health systems.

Hilo Benioff Medical Center Expansion

The $100 million expansion, funded through a $50 million legislative appropriation matched by Marc and Lynne Benioff, is now halfway complete. Progress is visible with the new 19-bed Intensive Care Unit on the second floor and 36 additional hospital beds on the third floor. Construction is expected to be completed by late 2026, with a grand opening in early 2027. Plans for the funding also includes a new family birthing center that will begin construction in February 2026.

East Hawaii Health Clinics Growth

The East Hawaii Health Clinics received $25 million in legislative matching funds, combined with $25 million from Marc and Lynne Benioff, to build the new **Kea'au Benioff Health Center**, a major hub serving the rapidly growing Puna and Ka'u Districts and providing behavioral health services islandwide. The Center will include primary care, urgent care, specialty care,

imaging, and pharmacy services. A 20-acre parcel off Highway 11 has been secured, with completion planned for 2028.

In Hilo, construction of the 20,000 sq. ft. medical office building at 1285 Waianuenue Avenue continues. The building will house specialty clinics and is scheduled for completion in late 2025.

Finance

Hilo Benioff Medical Center

Total Operating Revenue for FY2025 was $327.4M compared to a budget of $292.1M, a 12% favorable variance. FY2025 Total Operating Expense was $389.5M versus a budget of $406.5M, a 4% favorable variance. Operating Income (Loss) for FY2025 was ($62.1M) compared to a budget of ($114.5M). After Corporate Overhead and other appropriations, the Net Income was $33.1M for FY2025 versus a budgeted Net Loss of $(11.7M).

Honoka`a Hospital and Skilled Nursing

Total Operating Revenue for FY2025 was $27.6M compared to a budget of $21.2M, a 30% favorable variance. FY2025 Total Operating Expense was $26.9M versus a budget of $30.7M, an 13% favorable variance. Operating Income for FY2025 was $0.7M compared to a budgeted Loss of ($9.5M). After Corporate Overhead and other appropriations, the Net Income was $8.1M for FY2025 versus a budgeted Net Loss of ($1.6M).

Ka'u Hospital

Total Operating Revenue for FY2025 was $53.9M compared to a budget of $50.8M, a 6% favorable variance. FY2025 Total Operating Expense was $67.1M versus a budget of $76.1M, a 12% favorable variance. Operating Income (Loss) for FY2025 was ($13.2M) compared to a budget of ($25.3M). After Corporate Overhead and other appropriations, the Net Income was $3.3M for FY2025 versus a budgeted Net Loss of ($16.9M).

Yukio Okutsu State Veterans Home

Total Operating Revenue for FY2025 was $15.4M compared to a budget of $16.2M, a 5% unfavorable variance. FY2025 Total Operating Expense was $15.5M versus a budget of $15.9M, a 3% favorable variance. Operating Income (Loss) for FY2025 was ($0.1M) compared to a budget of $0.3M. The Net Income (Loss) was ($0.1M) for FY2025 versus a budget of $0.3M.

Additional Highlights

The East Hawaii Region of HHSC has a robust YouTube channel. For additional highlights of our services and developments, scan the QR code below.

WEST HAWAII REGION 2025 LEGISLATIVE REPORT

WEST HAWAII REGION

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

Mission, Vision and Values

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

Mission:

- To provide a healing environment for all the people of Hawaii.

Vision:

- To deliver quality, accessible care for all people that leads to optimal health.

Values:

- Respect, Inclusion, Compassion, Excellence

Kona Community Hospital

Founded in 1914, Kona Community Hospital (KCH) was originally established by an Act of the Territory of Hawai'i to "provide a hospital in each of the Districts of North and South Kona." The first facility was located about two miles south of the current site in Kealakekua. In 1939, the hospital became part of the County of Hawai'i and relocated to a new 50-bed building staffed by four physicians. KCH moved once more in 1974, just 100 yards up Haukapila Street to its present 11-acre campus. The hospital's name was officially changed to Kona Community Hospital in 1994 through HB 3406, Act 011 (SLH).

Today, KCH is a full-service acute care hospital, a vital safety-net provider, and a certified Level III Trauma Center serving the entire West Hawai'i region. Accredited by The Joint Commission, the hospital operates 94 beds spanning acute care, intensive care, obstetrics, and psychiatric services—continuing its long-standing commitment to caring for the Kona community.

As one of West Hawaii's largest employers, the staff at KCH includes 564 highly skilled employees. Due to ongoing staffing shortages in Hawaii County, KCH contracts Agency Staff to fill critical positions in nursing, imaging, and pharmacy. As of the fiscal year end, KCH employed 92 Agency Staff.

KCH has 386 credentialed and privileged medical staff, 73 of whom are active, including numerous telemedicine providers.

- 24-hour Emergency Room
- Level III Trauma Center
- Inpatient & Outpatient Surgery
- Acute Inpatient Care: Obstetrics/Gynecology, Medical/Surgical, Intensive Care, Behavioral Health
- Hospitalist Services
- Outpatient Nursing Services (Infusion and Chemotherapy)
- Rehabilitation Services (PT, OT, Speech Therapy)
- Respiratory Therapy – Inpatient and Outpatient
- Pharmacy
- Laboratory and Pathology Services

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

HOSPITAL STATISTICS	2023	2024	2025
Admissions	2949	3320	3371
Births	439	421	415
Emergency Visits	22,998	24,151	24,334
Surgeries	2541	2539	2586
Trauma Patients	520	546	430
Waitlist Patient Days	XXX	8396	8284
Average Daily Census	74	66	67

Kohala Hospital

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

On July 1, 2020, Kohala successfully converted to a 25-bed Critical Access Hospital (CAH). The hospital employs 67 full-time and part-time employees. As of the fiscal year end, KH employed 9 Agency Staff to fill critical positions.

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

HOSPITAL STATISTICS	2023	2024	2025
Admissions	100	97	90
Patient Days	7286	6104	5781
Emergency Visits	1709	1706	1716

PEOPLE

Kona Community Hospital supported employee engagement throughout the year with a variety of activities designed to recognize staff, strengthen connection, and give back to the community. Highlights include:

• **Town Hall meetings** to share updates and promote open dialogue
• **Employee of the Month** celebrations recognizing outstanding team member.
• **DAISY Award Program**, honoring one nurse each quarter for extraordinary, compassionate care
• **Annual DAISY Nurse Leader Award** recognizing exceptional leadership
• **National Nurses Week and National Hospital Week** celebrations to show appreciation for all staff

The **Employee Engagement Committee** also led several community-focused giving initiatives, including:

- A Back-to-School Supply Drive supporting Hoʻokena Elementary
- A food drive in partnership with The Food Basket
- Participation in the Salvation Army's Angel Giving Tree
- A beach cleanup at Old Airport Beach Park
- Participation in the Kona Christmas Parade

In addition, the **Workplace Violence Committee** hosted quarterly *Coffee with a Cop* events, providing employees an opportunity to engage with local community police officers and strengthen safety partnerships.

QUALITY

KCH programs to improve patient safety and outcomes:

- Focus on patient experience. Adopted "Every Patient, Every Day" campaign.
- Updated and installed Quality Boards throughout facility. Quality Boards showcase current metrics, Process Improvement efforts and staff recognition.
- Implemented weekly Senior Leadership rounding.
- Stratified hospital quality metrics by demographic and race/ethnicity to identify opportunities for specific patient populations. Implemented screening of all Inpatient and Outpatients for "Health Related Social Needs". The Health Equity Committee expanded the "Meals to go" for those patients screening positive for food insecurities. Held food drive for local food bank.
- Successfully completed ACS Level III Trauma Center Certification– averages 30 trauma activations per month.
- Received Silver Award recognition for stroke care.
- Implemented new "Patient Safety" Committee, a multi-disciplinary committee with charter to improve processes related to Patient Safety.
- Enhanced "Workplace Violence Committee" efforts to protect staff, patients and visitors from harm.
- Partnered with local wound care providers to improve wound care processes within the hospital.
- Designated Baby-Friendly Hospital. World Health Organization (WHO) and the United Nations Children's Fund (UNICEF).
- Moved from one STAR rating to two STAR rating in the CMS STAR rating program.
- Active participation in statewide "Emergency Preparedness" drills and activities, including RIMPAC international exercise.
- Dietary services continued its farm-to-table program of locally sourced, scratch cooking for patients and employees. Locally sourced products accounted for 28% of produce, proteins, and dairy, and other food items.

Kona Community Hospital offers several programs that strengthen patient education, support families, and deepen community engagement:

• **Education Department –** KCH is an American Heart Association Certified Training Center, providing high-quality training in lifesaving skills for staff and community members.

• **Women's Services Unit –** A range of programs support both staff and expectant mothers, including:

- Prenatal education led by certified childbirth educators
- A partnership with NEST for Families to offer breastfeeding support and community-based resources for new parents
- All OB nurses certified in ALSO (Advanced Life Support in Obstetrics)

- Car seat safety inspections provided by OB nurses who are certified child passenger technicians, ensuring newborns go home safely

TECHNOLOGY

Through our partnership with The Queen's Health System, Kona Community Hospital provides access to specialty care by leveraging advanced telemedicine technology. Patients connect with expert providers across the state without the need to travel, ensuring timely, high-quality care close to home.

Our telemedicine offerings include:

- tele-psychiatry for mental health support
- tele-cardiology for heart-related consultations
- tele-neurology for rapid assessment and specialty guidance.

These services strengthen our ability to meet the needs of our community and provide a more seamless continuum of care.

EDUCATION

KCH's Education Department has established a **Center of Excellence** focused on developing sustainable, long-term solutions to the current healthcare workforce shortage through high-quality education and training. Key programs and achievements include:

- **Surgical Technology Program**
  - Graduated one student last year, now employed part-time at Ali'i Ambulatory Surgery Center and Dr. Tomita's office
  - Graduate successfully passed the Certified Surgical Technologist (CST) exam
- **Nurse Residency Program**
  - Six participants completed the program, and all six are now fully employed at KCH

- **Specialized Nursing Certificate Courses**
  - Provided TNCC (Trauma Nursing Core Course) and ENPC (Emergency Nursing Pediatric Course) through the Emergency Nurses Association; all ER staff are now certified
  - Offered OB-related courses including STABLE (for OB and non-OB staff, with strong participation from non-OB units), ALSO (Advanced Life Support in Obstetrics), and BLSO (Basic Life Support in Obstetrics)
  - All Kohala Hospital nurses completed BLSO and NRP (Neonatal Resuscitation Program) in preparation for upcoming Joint Commission/CMS guideline changes
  - Delivered Intermediate and Advanced Fetal Monitoring (IFM & AFM) courses
  - Identified growing interest in TCAR (Trauma Care After Resuscitation) for ICU and potentially Med-Surg staff; this program is currently available only in an online format

- **Basic Life Support Training for Students**
  - In April, provided CPR and First Aid training to 17 students and teachers from Kona Pacific Public Charter School

Through these initiatives, the Center of Excellence is building a stronger, more prepared healthcare workforce for West Hawai'i while expanding access to essential training across the region.

PHYSICIAN RETENTION & RECRUITMENT

Kona Community Hospital maintains a strong and diverse medical staff, with 73 active physicians representing 31 specialties. While many of our providers live locally, some reside off-island and support the hospital through scheduled rotations or telemedicine, ensuring continuity of care across specialty areas.

Our clinical workforce includes 23 hospitalists who provide comprehensive inpatient care, supported by 55 physicians affiliated with Hawaii Emergency Physicians Associated (HEPA), helping maintain consistent coverage in key medical and surgical services. Anesthesia services are delivered by a dedicated team of 6 anesthesiologists and 4 Certified Registered Nurse Anesthetists (CRNAs), providing essential support for surgical, procedural, and emergency care.

This year, KCH also welcomed a dual board-certified Infectious Disease and Internal Medicine physician, further strengthening the expertise available to our community.

Together, this multidisciplinary team—spanning on-island providers, rotating clinicians, and telemedicine support—helps ensure that Kona Community Hospital can meet the growing and complex healthcare needs of West Hawai‘i.

Kohala Hospital issued a Request for Proposals (RFP) to identify a partner capable of providing 24/7/365 Hospitalist Specialty Call Coverage Services for inpatients, observation patients, and those in the Hospital’s Skilled Nursing Facility (SNF), Long-Term Care (LTC), and Intermediate Care Facility (ICF).

Following the review of submitted proposals, Mid-Pacific Hospitalists (MPH) LLC, a subsidiary of Hawaii Emergency Physicians Associated (HEPA), Inc., was selected for award in November. Contract development between Kohala Hospital and MPH is currently underway, with MPH scheduled to begin services and coverage in March 2026.

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

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

PARTNERSHIPS & AFFILIATIONS

The West Hawaii Region maintains long-standing partnerships and affiliations with key healthcare organizations to expand access, strengthen services, and enhance the care we provide to our community. These collaborative relationships include:

- HHSC (Hawaii Health Systems Corporation)
- Alii Health Center
- Alii Ambulatory Surgery Center
- Queen's Health Systems
- Community First Hawaii
- Hawaii Life Flight
- Life Flight Network
- Hawaii Island Community Health Centers
- Diagnostic Laboratories of Hawaii

Together, these partners help us deliver a more coordinated, comprehensive, and accessible healthcare experience for the people of West Hawai'i.

WEST HAWAII REGION FOUNDATIONS

The West Hawaii Region Hospital Foundation

The West Hawai'i Region Hospital Foundation was recently established to support Kona Community Hospital and Kohala Hospital through philanthropy, community partnerships, and strategic investments in patient care. Formed in December 2024, the Foundation will serve as the primary fundraising arm for the region, helping advance major initiatives, expand services, and enhance the patient and employee experience.

Foundation Chair: Amy Feeley-Austin

Foundation Vice Chair: Dawnell Buell

Contact Information: West Hawaii Region Hospital Foundation

www.whrhospitalfoundation.org

79-1019 Haukapila Street

Kealakekua, HI 96750-7920

Email: amy@whrhospitalfoundation.org

Telephone: 808-322-5866

The Kona Hospital Foundation

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

Throughout Kona Community Hospital, you can see the remarkable impact made by our generous donors. In FY 2025 alone, their support allowed us to fund essential equipment across numerous departments.

For the Rehabilitation Department, they provided a SciFit StepOne. Clinical units received 14 Omni Feeding Pumps and two Volara systems for Respiratory Care. Surgical Services benefited from significant upgrades, including two Stryker small power sets, one large Stryker set, a cell saver, an extraction set, a Trios OR table, and a Neptune suction rover.

We also funded two Sara Stedy lifts—one for Obstetrics and one for the ICU—along with a new ultrasound machine for the ICU. The Cancer Center received a PageWriter cardiograph and a check analyzer, while the Emergency Department added a rolling full trauma equipment cart. Finally, the Imaging Department strengthened patient safety with a new ferromagnetic detection system.

Foundation Chair: Karen Zulkowski

Foundation Vice Chair: Currently Vacant

Contact Information: Kona Hospital Foundation

www.khfhawaii.org

79-1019 Haukapila Street

Kealakekua, HI 96750-7920

Email: info@khfhawaii.org

Telephone: 808-322-4587

COMMUNITY-BASED FOUNDATION SUPPORT OF KONA COMMUNITY HOSPITAL

Total Private Donations	$ 540,927
Total Fundraising	$43,595
Total Federal / State / Private Grants	$80,000
TOTAL	**$664,552**

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

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

COMMUNITY-BASED FOUNDATION SUPPORT OF KOHALA HOSPITAL

The Kohala Hospital Charitable Foundation did not make any contributions to Kohala Hospital during FY 2024–2025. The Foundation remains an independent organization, and no financial support or equipment donations were recorded for this fiscal year.

VOLUNTEER SERVICES

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

- Number of Active Volunteers: 23
- Number of Total Volunteer Hours: 2582
- Volunteer Auxiliary Contributions:
  - Nursing Scholarship $16,000

Kohala Hospital Volunteer Services provides volunteer support for resident activities.

- Number of Active Volunteers: 4
- Number of Total Volunteer Hours: 316
- Volunteer Auxiliary Contributions: $ 0.00

FACILITIES

During FY 2025, CIP funding helped Kona Community hospital to conclude a number of multi-year projects:

- **$16.2M Risk of Closure**
  - ICU HVAC unit *2
  - Electrical branch EPSS separation
  - ICS Cameras
  - BHU doors *2
  - Building envelope repair *2
  - Building envelope repair 2 - Design
  - SSB elevator upgrade *3
  - SSB elevator upgrade *3 (Fire Life & Safety labor/materials)
  - Elevator 1 & 2 door operator replacement
  - Parking lot repair/repave *4
  - 2 Main chilled water valve replacement *2

- SSB / KO Chiller Vacuum Upgrade - Design
- Chiller rebuild w/ VFD (Main Hospital Chiller)
- Domestic hot water upgrades *2
- $2.27M for Pharmacy Expansion
- $1.4M for Ultrasound Room and Relocation
- $5M for Imaging Suite and additional CT Needs
- More than $4.5M for Oncology and Infusion Center

At Kohala Hospital, $3 million State CIP dollars assisted in the design and construction of a new administration building extension and $500K of those funds to initiate a new CT service (building and equipment).

FINANCIAL

Kona Community Hospital faced a challenging fiscal year in FY25, navigating the impacts of a system implementation and optimization of a new Electronic Medical Record (EMR) system. While managing the operational and financial expense of a new EMR, phase-out of a retired EMR and significant investment in training and system optimization, KCH was able to achieve improved financial outcomes from the previous year with a total operating revenue of $135.2M, greater than a $14M improvement from the previous year.

Focusing on both patient access and operations, KCH had improved volume in the Operating Room, Imaging/Radiology and increased patient days. FY25 maintained increased efforts in the Revenue Cycle and financial awareness of the organization, which led to improved patient revenue and a reduction of greater than $6M in accounts receivable. As part of strategic goals and understanding the critical need of our partnerships, West Hawaii Region (WHR) launched additional efforts to improve payer/insurance contracts and payer language for improved insurance reimbursement, efforts toward clinical documentation improvements and chart auditing with outcomes and learning deliverables invested in education and improved documentation while continuing to improve and/or sustain improvements where areas of need were recognized. Focusing on understanding the needs of our patients, KCH launched efforts going into FY25 for improved quality, and increased investment in Provider recruitment/retention, ambulatory and outpatient growth ensuring the future of healthcare in the West Hawaii community.

Lastly, KCH and the State of Hawaii have continued recruitment and staffing challenges; while Kona Community Hospital did see continued cost and rising expenses related to agency, registry and increased provider cost, Kona Community Hospital was able to offset and continue to provide support and care to the patients of Hawaii through the $40.1M in State appropriations, helping to offset the financial impact and ensuring the hospital's continued commitment to serving the community.

With its Critical Access Hospital designation and Cost Based Reimbursement from Medicare, Kohala Hospital had a net operating income of $635,000, further enhanced by $1.4M in State appropriations, resulting in a net positive income. Kohala was able to show improved overall operating revenue performance of over $500,000.

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.

KAUA‘I REGION 2025 LEGISLATIVE REPORT

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 287 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
- Recreational Therapy
- 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)
- Fresenius Dialysis Kauai
- Diagnostic Laboratory Services, Inc.

KVMH Patient Volumes:	
Inpatient Admissions -	814
LTC Admissions -	12
Births -	253
ER Visits -	7,096
Outpatient Ancillary Visits -	24,971
Outpatient Clinic Visits -	66,381
Same Day Surgery -	1,904

Average Daily Census:	
Acute	6.32
Swing	5.62
LTC	19.68
Total	31.62

In comparison to the prior year, inpatient admissions decreased by 16%, outpatient clinic visits increased by 35% and outpatient surgeries increased by 16%. Births increased by 8%. There was a 0.4% decrease in ER visit volume and LTC census was 98%.

Samuel Mahelona Memorial Hospital (SMMH) is the oldest operating hospital on Kauai, and is designated a Critical Access Hospital. Founded in 1917 as a tuberculosis hospital, it received its name from a member of the Wilcox family, who died of TB as a young man. In the 1960s, with a cure for TB well established, SMMH gradually transitioned to providing acute care, psychiatric care, skilled nursing care, and ancillary inpatient and outpatient services. Today, SMMH has 80 licensed beds, with 66 long-term care beds, 9 psychiatric beds, and 5 acute care beds. The hospital and clinics has approximately 237 employees. Currently, SMMH patient services include:

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

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

SMMH Patient Volumes		**Average Daily Census**	
Inpatient Admissions	197	Psych	3.53
LTC Admissions	19	LTC	46.9
ER Visits	7,553	Swing	0.3
Outpatient Visits	12,392	Total	50.73

Over the prior year, inpatient psychiatric admissions decreased by 10.5%, while average daily census increased by 2.2%. Concurrently, the average daily census in Long Term Care decreased by 1.9% due to continuing renovations and modernization efforts. To facilitate these improvements, bed availability was decreased.

The Kauai Region Clinics consist of six clinics and one urgent care located in Waimea, Port Allen, Kalaheo, Poipu, Lihue, and Kapa‘a and employs 68 people. Each clinic offers the following services:

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

Urgent Care at Poipu

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

The Clinic at Kalaheo
- OB
- Primary Care

Specialty Clinic at Kalaheo
- Pediatrics
- Women’s Health

The Clinic at Lihue
- Primary Care
- Behavioral Health

Specialty Clinic at Kapaa

- OB
- Urology
- Primary Care

CHARITABLE ORGANIZATIONS SERVING THE KAUA'I REGION

Kauai Veterans Memorial Hospital Charitable Foundation, Inc.

The KVMH Foundation was founded in the fall of 1998. The foundation's main focus is to support the many services, equipment purchases, and programs that KVMH provides for its island communities. Through donations and fundraising, the Foundation has been able to purchase equipment utilized for the comfort and safety of patients. The Foundation is in a transition where we are dissolving the Kauai Veterans Memorial Hospital Charitable Foundation, Inc. to become the Hawaii Health Systems Corporation Kauai Region Charitable Foundation.

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	7
Number of Volunteer Hours provided	58
Volunteer Foundation Contributions	$15,000

KVMH Auxiliary

President, Charlene Dorsey, leads the KVMH Auxiliary. The Auxiliary operates the KVMH Auxiliary Gift Shop located at KVMH. Funds raised from the gift shop and other fundraising events are used to purchase equipment for the hospital, support hospital activities, and provide scholarships for students pursuing a career in healthcare.

Active Auxiliary Volunteers

Number of Active Volunteers:	21 active members during this time
Number of Total Volunteer Hours:	3,430
Volunteer Auxiliary Contributions:	$34,816
Scholarships	$9,000

SMMH Auxiliary

The Auxiliary received its reinstatement as a 501(c) (3) status on April, 2025. The President is Allyson Duncan. Funds raised from fundraising events are used to purchase equipment for the hospital, support hospital activities, and provide scholarships for local students to pursuing a career in healthcare starting in 2026.

Active Auxiliary Volunteers

Number of Active Volunteers:	15
Number of Total Volunteer Hours:	502 hours
Volunteer Auxiliary Contributions:	$2,500

2025 LEGISLATIVE BRIEF

KAUAI REGION ACCOMPLISHMENTS

On behalf of the Kauai Region of the Hawai‘i Health Systems Corporation (HHSC), we are pleased to submit our report highlighting the accomplishments in calendar year 2025.

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

PEOPLE

Ms. Donna Okada-Asher serves as Chair of the Kauai Regional Board which includes directors, Ms. Glenda Nogami-Streufert, Mr. Ernie Kanekoa, Mr. Christopher Yuh, Ms. Kaulana Mossman, Mr. Clyde Nakaya, and Mr. Dennis Rowley. Mr. Lance K. Segawa has served as the Chief Executive Officer since March of 2018.

The Kauai Region’s medical staff totals 47 active staff members with full privileges at KVMH and SMMH of which 35 are employed providers. We have successfully recruited for full-time Psychiatrist, Clinic Administrative Director, part-time Urgent Care Physician, active in FY2025. Also actively recruiting a full-time Psychiatrist Medical Director, Radiologist, Advance Practice Providers in Urgent Care and Behavioral Health, Internal Medicine, and Family Practice to be active in CY2025.

Our current employee turnover rate has decreased from 4.13% to 0.86% in comparison to CY2024 data. The national healthcare turnover rate in FY2024 is 20.7%, with the median and mode recorded at 23% and 22%, respectively. A total of 47 staff members separated from HHSC Kauai Region in FY2025 and of that, 15% retired, 80% resigned for personal reasons, 4.98% were in temporary-only positions, and 0.02% were terminated due to performance issues.

QUALITY

In 2024 and 2025, the Kauai Region successfully participated in five comprehensive surveys conducted by Medicare, the State Office of Healthcare Assurance, and the Centers for Medicare & Medicaid Services (CMS) Federal Licensure. As a result, Kauai Veterans Memorial Hospital (KVMH), Samuel Mahelona Memorial Hospital (SMMH), and the Kauai Region Clinics were recertified for state licensure, underscoring our commitment to maintaining high standards of healthcare. In September 2024, KVMH achieved accreditation in good standing from The Joint Commission, following an exceptionally successful survey. The Joint Commission Surveyors commended KVMH for its outstanding organizational culture and were notably impressed with the hospital's dedication to patient care and quality improvement initiatives.

In October 2024, the Kauai Region Clinics underwent a resurvey for the Rural Health Clinic designation and were subsequently awarded certification by the Health Resources and Services Administration (HRSA). In 2024, we proudly achieved accreditation for our Centering program. This significant milestone reflects our commitment to providing innovative, high-quality prenatal care that supports the holistic well-being of our patients. The Centering Pregnancy program, which focuses on group care models that foster additional time with obstetric providers, community development and peer support, is an integral part of our efforts to enhance patient outcomes and satisfaction as well as reducing health disparities in care.

These accomplishments underscore our commitment to maintaining the highest standards of healthcare delivery and continuous improvement across all facilities.

<u>Recognition and Programs:</u>

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

- SMMH named as one of the Top 20 Critical Access Hospitals in the Nation for Quality for 2023, 2024 and 2025 by the National Rural Health Association
- SMMH Emergency Department ranked in the Top 10 Hospitals in the Nation for the fastest ED throughput times for both 2024 and 2025.
- KVMH awarded the 2024 Bronze AHCA/NCAL National Quality Award for Long Term Care.
- SMMH awarded the 2024 Bronze AHCA/NCAL National Quality Award for Long Term Care and intend to apply for the Silver award in 2026.
- SMMH is a 5-Star Facility on Medicare Nursing Home Compare

- KVMH received the Mountain Pacific 2024 Nursing Home Excellence in Quality Award
- KVMH was awarded the 2025 Performance Leadership Award from The Chartis Center for Rural Health in Quality, Outcomes and/or Patient Perspective
- SMMH received the Silver award for GWTG stroke measures
- KVMH received the Bronze award for GWTG stroke measures

Participation with National Healthcare Safety Network (NHSN) for infection prevention initiatives including utilization of central line insertion checklists, sepsis protocols, and limiting indwelling urinary catheters to prevent UTIs, Clostridium Difficile (C.diff.) Infection, MRSA Bacteremia, Surgical Site Infection prevention for both colonoscopies and hysterectomies, continued documentation of COVID-19 for both acute and Long Term Care, influenza, and respiratory syncytial virus (RSV)

KVMH and SMMH actively participate in the American Heart Association's Get With The Guidelines® (GWTG) Stroke initiative. These facilities serve as stroke resource centers for the island of Kauai.

KVMH is meeting or surpassing the thresholds for evidence-based care and safety for 2024 and 2025. Notably, our mortality rate is declining, with no occurrence of unexpected excess deaths.

In 2023, 2024, and 2025 SMMH was honored to be recognized by the National Rural Health Association as one of the Top 20 Critical Access Hospitals in the area of Quality. This prestigious national recognition reflects the exceptional quality of care provided at our facility.

KVMH has achieved consistently high Core Measure compliance over the past 3 years as reported to CMS and available at www.HospitalCompare.gov. There were no incidents of ventilator-associated pneumonia, catheter-associated urinary tract infections nor central line-associated bloodstream infections.

SMMH and KVMH are deeply committed to the health and well-being of our residents. We take pride in offering a robust activities program designed to keep our residents actively engaged and enriched. Our comprehensive enrichment programs are tailored to promote psychological well-being, ensuring that each resident experiences a vibrant and fulfilling life. We believe in nurturing the mind, body, and spirit through a variety of stimulating activities that cater to the diverse interests and needs of our community.

The Regional Falls Prevention Task Force is dedicated to rigorously evaluating and enhancing patient safety protocols, with the ambitious goal of not only reducing fall incidents but ultimately eliminating them throughout the region. Demonstrating our commitment, SMMH and KVMH achieved a significant 22% reduction in falls in 2024. We remain steadfast in our efforts to build on this success, continually implementing additional preventative measures to further decrease fall rates by 18% in 2025. Our unwavering focus on patient safety underscores our dedication to providing the highest standards of care and ensuring the well-being of our community. Additionally, we have

achieved a reduction in 30-day readmission rates to 1.37% and reduced Against Medical Advice (AMA) rates by 2%, further highlighting our commitment to patient safety and care.

We have collaborated with our HCAHPS vendor to ensure the collection of relevant population surveys. By integrating our Clinics and Emergency Department into the survey process, we have developed a comprehensive approach to gathering patient satisfaction data. This enables us to thoroughly review and continuously improve our focus on patient satisfaction, maintaining it as our top priority. Additionally, we have enlisted a vendor to assist us with managing online Google reviews and responses, enhancing our online presence and capturing valuable feedback from our patients.

To enhance our ability to monitor ongoing performance on specific quality measures, KVMH and SMMH remains actively involved in various critical initiatives. We continue to participate in the Hospital Association of Hawaii (HAH), Health Services Advisory Group (HSAG), and Med-QUEST quality initiatives. Our commitment to these collaborative efforts ensures that we successfully meet the statements of work associated with each specific measure. Furthermore, our participation in these programs allows us to stay abreast of industry best practices, implement evidence-based strategies, and continuously improve the quality of care we provide to our patients. By engaging with these respected organizations, we are dedicated to advancing healthcare outcomes and maintaining the highest standards of excellence.

FACILITIES

Capital improvements to the facilities of the Kauai Region in FY2025 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 $5,983,765.37 in capital projects:

KVMH

- Walk in Freezer
- CT Scan Room Renovations
- Imaging Department Renovations
- ER Renovations Modular
- Exterior Signage
- Physical Therapy parking
- CT-Options-Prime-SP.200

SMMH

- Exterior Signage, Imaging Signage
- Imaging Signage
- Renovations: ED Office, Dental Office
- Psychiatric Unit Renovations
- Nursing Facility (LTC) Renovations

- Clinic A/C

Ongoing projects of $3,337,760.67 include:

KVMH

- Emergency Room Renovation
- Physical Therapy (PT/OT) Design/Renovation
- Dietary Walk in Cooler
- Exterior Paint
- INFOR Global Solutions (Time & Attendance)
- Furniture
- Oracle/Cerner Modules, device integration
- West-Com & TV INC

SMMH

- Asset Analysis
- Roof Repairs
- EIS Master Plan
- Structural Repair
- Nursing Facility Renovation (Shower Room)
- Renovation for CAH Beds
- Exterior Signage
- Structural Repairs
- INFOR Global Solutions (Time & Attendance)
- Clinic Renovation
- Psych Unit Repairs

OPERATIONS

CY 2025 began with a strategic planning review involving the Kauai Regional Board and Executive Leadership. Following two days of deliberation, review, and visioning, several themes emerged which are reflected in the FY 2024 – FY 2026 Strategic Plan. The strategic goals are: 1) Continue modernizing facilities and equipment 2) Strengthen clinical competency thru education programs for staff and providers 3) Implement the behavioral health service line 4) Expand community outreach programs 5) Improve financial performance of the Region. The new strategic plan will build on the accomplishments of the previous plan.

In 2024, HHSC Kauai Region launched a partnership with Diagnostic Lab Services (DLS) to enhance laboratory services. DLS assumed management of inpatient and outpatient labs at KVMH and is expanding in 2025 to establish a new Patient Service Center at SMMH while providing both inpatient and outpatient services on-site. This expansion improves turnaround times, eliminates off-island specimen transfers, and strengthens efficiency and patient care.

The Samuel Mahelona Master Campus Plan has progressed into the Environmental Impact Statement (EIS) phase, following the finalization of the preferred campus concept plan. We anticipate that the EIS phase will be completed within the next couple of months. This phase is crucial as it involves comprehensive assessments to ensure the project meets environmental and regulatory standards. For more detailed information and to view the campus plan, please visit the SMMH plan website at: www.planmahelona.com.

Between 2023 and 2025, the HHSC Kauai Region achieved some major milestones with the installation of new CT scanners at both Kauai Veterans Memorial Hospital (KVMH) and Samuel Mahelona Memorial Hospital (SMMH). The addition of a state-of-the-art CT scanner at SMMH has significantly enhanced diagnostic imaging capabilities and enabled the implementation of new stroke readiness procedures, strengthening the hospital's ability to provide rapid, life-saving care for patients presenting to the emergency department. These advancements have markedly improved emergency care across Kauai County. Building on this progress, we are now embarking on the development of a new MRI suite at the KVMH campus. Supported by a generous grant from The Leona M. and Harry B. Helmsley Charitable Trust, this initiative will bring advanced MRI technology to Kauai, further expanding access to comprehensive diagnostic services and elevating patient care for our community.

In 2023, the HHSC Kauai Region finalized comprehensive construction plans to renovate the Kauai Veterans Memorial Hospital (KVMH) Emergency Department (ED), establish a short-term acute care unit at Samuel Mahelona Memorial Hospital (SMMH), and renovate the SMMH outpatient building, which houses clinic and rehabilitation services. To ensure the efficient renovation of the KVMH ED, portable modular units were procured to temporarily house displaced departments to accommodate the phase where the ED would need to be relocated for construction. This strategic move will allow for construction to proceed smoothly and without interruption, supported by a $1 million loan from Kauai Island Utility Cooperative (KIUC).

During the initial construction phase, non-clinical departments—including Finance, Human Resources, Education, and Health Information Management (HIM)—were relocated into the modular in 2025. Rehabilitation Services Department also transitioned into modular space in 2025, freeing up its former location within the KVMH facility. This relocation created the necessary space for the ED to temporarily move into the Rehabilitation Services Department area, enabling interior renovation work to begin in 2026.

In parallel, 2024 marked the launch of our Behavioral Health Service Line and the opening of a new integrated Behavioral Health/Primary Care Clinic in Līhue—the first of its kind in our region. The clinic provides comprehensive outpatient behavioral health treatment, including an Intensive Outpatient Program (IOP), and is supported by grant funding from the County of Kauai as part of Mayor Kawakami's initiative to strengthen the island's behavioral health safety net. Programs focus on counseling and navigation support for recently released inmates, patients discharged from the SMMH Inpatient Behavioral Health Unit, and adolescents awaiting placement in treatment facilities. 2025 was a busy year in this clinic and continues to be imperative for Kauai County.

Together, these initiatives reflect our commitment to advancing emergency care, behavioral health services, and overall patient access across Kauai, ensuring meaningful impact for our community. Beyond medical services, the Kauai Region remains dedicated to addressing the diverse needs of our residents. Through our executed contract with the Kauai County Elderly Affairs Agency, we launched a Meals on Wheels program that delivers nutritious meals five days a week to home-bound seniors across the island. In 2025, we expanded the number of meals provided and saw a significant increase in the number of congregates joining us for lunch at both KVMH and SMMH, strengthening community connections and ensuring more seniors benefit from balanced, wholesome meals. In addition to nutrition, we are exploring further interventions to support senior well-being, including conducting health assessments and providing patient navigation services to ensure seamless access to primary care.

We are proud to contribute to the health, dignity, and quality of life of our seniors through these comprehensive efforts, and we look forward to continuing to expand our support for the community.

We have developed a Mobile Medical Clinic to serve our patients within the communities we service, aiming to provide access to essential healthcare services and address the social determinants of health care access disparities. This initiative is designed to bring medical care directly to those who may otherwise face barriers to accessing traditional healthcare facilities, thereby ensuring that all members of our community have the opportunity to receive the medical attention they need. In addition to offering healthcare services with our Mobile Medical Clinic, we have partnered with the food banks of Kauai to offer food access during the Mobile Medical Clinic visits. This collaboration allows us to address not only the medical needs of our patients but also to provide nutritional support, thereby contributing to their overall well-being. Our mobile clinic is equipped to deliver a comprehensive range of services, including preventive care, chronic disease management, and health education. Through these efforts, we are committed to improving health outcomes and enhancing the quality of life for our community members by ensuring that both healthcare and basic nutritional needs are met in a holistic and compassionate manner.

HHSC Kauai Region continues to hold annual Healthy Living Fairs aimed at promoting medical education and raising awareness about the services available at our facilities. These fairs serve as a platform to engage with the community, offering valuable health information, screenings, and resources to enhance overall well-being. We organized a Spring Fair on the Samuel Mahelona Memorial Hospital (SMMH) campus and a Fall Fair on the Kauai Veterans Memorial Hospital (KVMH) campus. Both events featured interactive booths, health education sessions, and demonstrations of the latest healthcare technologies. Attendees had the opportunity to meet with our healthcare professionals, learn about preventive care, and receive information about the wide range of services we offer, including primary care, specialty services, and behavioral health. These fairs also provided a space for local organizations and partners to collaborate with us in addressing the health needs of our community. By fostering a culture of wellness and education, we aim to empower residents with the knowledge and resources necessary to lead healthier lives.

The year 2025 was a transformative chapter for the Kauai Region, marked by bold initiatives and meaningful achievements that strengthened our role as a cornerstone of health and wellness for the island of Kauai. As we look ahead to 2026, we are guided by a clear vision: to not only meet the needs of today, but to anticipate and shape the future of care for generations to come. Our focus will remain on advancing healthcare services, expanding community outreach, and forging innovative partnerships that uplift the well-being of our residents. Building on the momentum of the past year, we are committed to reimagining what healthcare can be including being accessible, compassionate, and deeply connected to the unique culture and spirit of Kauai. With each step forward, we embrace new opportunities to elevate patient care and enrich the quality of life across our region, ensuring that our community thrives well into the future.

O‘AHU REGION 2025 LEGISLATIVE REPORT

OAHU REGION

The Hawaii Health Systems Corporation, Oahu Region (hereinafter, “Oahu Region”) plays a crucial role in serving our most vulnerable populations through the operation of two long-term care facilities on Oahu: Maluhia, located in lower Alewa Heights, and Leahi Hospital in Kaimuki. Maluhia and Leahi provide in-patient skilled nursing and intermediate care services for our community’s elderly, blind, disabled, and otherwise incapacitated individuals, most of whom are covered under Medicare and Medicaid programs.

The Oahu Region’s facilities also offer access to essential Adult Day Health services through our operation of two of the remaining three adult day health centers on the island. Additionally, both facilities partner with Hawaii Meals on Wheels to deliver 588 hot meals per week to disabled elders on Oahu, helping them maintain their independence at home and in the community. For many of our nursing home residents and adult day health participants, especially those receiving Medicaid benefits due to a lack of personal assets (approximately 85% of our inpatients), the Oahu Region's facilities are often the only options for quality post-acute and community-based health care services. The HHSC Oahu Region currently employs approximately 413 people.

Construction of a third facility, the Daniel K. Akaka State Veterans Home (“DKASVH”), was completed in the first quarter of 2025, and a grand opening event was held on March 26, 2025. This project was made possible through a collaborative effort by the Hawaii Legislature, State of Hawaii Department of Defense, Office of Veterans Services, the U.S. Department of Veterans Affairs (“USVA”), the State of Hawaii Department of Accounting and General Services, and the Oahu Region.

The DKASVH, which serves Veterans, their spouses, and Gold Star parents, is the second state Veterans home in Hawaii, and provides much needed nursing home and medical care for individuals who meet eligibility requirements set by the USVA.

Key features of the DKASVH include:

- A 120-bed facility with single occupancy rooms
- 130,000 square feet of space
- Support facilities such as rehabilitation rooms, therapy rooms, kitchen, dining area, laundry, pharmacy, and administrative offices
- Services including Skilled Nursing Care, Rehabilitation Therapies, Hospice Care, Respite Care, Adult Day Healthcare, Geriatric Mental Health Care, Alzheimer’s and Dementia Care

Following a vigorous selection process, the Oahu Region chose Ohana Pacific Health (“OPH”) to operate the DKASVH. Through its decades of experience and extensive network of services and consultants equipped to meet the long-term care needs of Hawaii’s veterans, OPH has already proven itself to be an effective operator. While most new state Veterans homes throughout the nation routinely require multiple surveys

before receiving formal recognition from the USVA, OPH successfully secured USVA recognition for the DKASVH following the first survey. Likewise, OPH was also able to obtain certification/licensure from the Centers for Medicare and Medicaid Services (hereinafter, "CMS") on its first attempt.

LEAHI HOSPITAL

Leahi Hospital ("Leahi"), located in the heart of Kaimuki in Honolulu, Hawaii, was first established in 1901. Leahi is licensed for 159 beds: 155 nursing home beds (dual certified for Skilled Nursing and Intermediate Care) and 4 acute beds in Leahi's tuberculosis ("TB") unit, the only unit of its kind on the island of Oahu. Individuals requiring long-term care, short-term restorative care or TB treatment are admitted to our nursing facility/acute beds. An interdisciplinary team of experienced healthcare professionals are responsible for ensuring that the comprehensive long term care needs of all our residents are met. Leahi operates with approximately 229 positions (FT/PT/Per Diem) across all departments throughout the facility.

Long-Term Care Inpatient Services:

- Currently operating 114 Dual Certified Skilled Nursing and Intermediate Care Beds.
- Hale Mohalu, the Department of Health's ("DOH") Hansen's disease program, operates in the second floor of the Young Building

Support:

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

Outpatient Services:

- Leahi Adult Day Health Center – is a program designed to enable participants to enrich their lives and to maintain their independence, dignity, and self-esteem while providing respite and support for caregivers. Importantly, the program facilitates and encourages families to continue caring for their loved ones in their homes, improving quality of life and reducing otherwise significant costs to MedQuest for institutional long-term care.
- In collaboration with Hawaii Meals on Wheels, our kitchen provides 288 meals per week (Monday through Friday), including medically tailored and therapeutic meals to meet the specific needs of residents in the Diamond Head, Kapahulu, University, Manoa, Kaimuki and East and West Waikiki areas.

Patient Census and Other Services:

	Long Term Care	TB
Patient Days	36,585	none

Adult Day Health:

Participant Days	5,863
Baths Provided	867
Meals – Take Home	243

Hawaii Meals on Wheels:

Meals Provided:	14,958

Volunteer Services:

Number of Active Volunteers:	33
Number of Total Volunteer Hours:	497
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 operates with approximately 183 positions (FT/PT/Per Diem) across all departments throughout the facility. Maluhia was established in 1923 and provides the following services:

Long-Term Care Inpatient Services:

- Currently operating 117 Dual Certified Skilled Nursing and Intermediate Care Beds

Support:

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

Outpatient Services:

- Maluhia Adult Day Health Center (“MADHC”):
  MADHC is one of only three adult day health centers on Oahu, providing specialized services for older adults and seniors. The program is designed to enhance participants' lives by promoting healthy aging, supporting their independence, and maintaining their dignity and self-esteem. Through comprehensive nursing services, health monitoring, exercise, engaging activities, and socialization, MADHC aims to improve overall well-being and keep participants in the community longer.
  A key component of the program is its support for family caregivers, enabling them to continue caring for their loved ones at home. This approach not only

enhances the quality of life for participants, but also helps reduce the financial burden on MedQuest by decreasing the need for institutional long-term care. Additionally, MADHC offers caregiver education and respite services, which help to prevent burnout and enable better care at home. Notably, FY25 includes a 9% increase in billable days. Looking ahead, the program anticipates additional growth in participant enrollment, along with enhanced community engagement through new partnerships with local organizations. This expansion will further contribute to the program's mission of improving quality of life for seniors while reducing healthcare costs. Collaboration between MADHC and other local organizations include:

  - The Kupuna Collective,
  - Project Dana,
  - Alzheimer's Association of Hawaii,
  - YMCA,
  - Rehab Hospital of the Pacific,
  - Hawaii Fall Prevention Alliance,
  - Lanakila Pacific KupunaU,
  - Daniel K. Akaka Family Foundation,
  - City & County of Hawaii Elderly Affairs Division,
  - Veterans Affairs, Home and Community Based Services,
  - The Hawaii Executive Office on Aging,
  - Hawaii Dementia Coalition Task Force,
  - Adult Day Centers of Hawaii,
  - Catholic Charities of Hawaii.

- Collaboration with Hawaii Meals on Wheels to provide nearly 300 meals per week to residents in the Kalihi and Liliha areas.

Patient Census and Other Services:

	Long Term Care
Patient Days	28,958

Adult Day Health:

Participant Days	7,162
Baths Provided	652
Meals – Take Home	170

Meals on Wheels:

Meals Provided	16,340

Volunteer Services:

Number of Active Volunteers:	131
Number of Total Volunteer Hours:	1240
Volunteer Auxiliary Contributions:	Approximately $13,180 from the "Friends of Maluhia"

SARS-CoV-2 (Severe Acute Respiratory Syndrome Coronavirus-2) AND STAFFING

We remain vigilant in our infection control procedures, even though the COVID-19 pandemic ended on May 11, 2023, to ensure the ongoing safety of our residents, staff, and visitors. Simultaneously, we are addressing the residual effects of the pandemic, such as the financial stability of our facilities and significant staffing shortages.

We continue to face challenges with staffing shortages in nursing, which require us to operate with lower levels of both Licensed Nurses ("LN") and Certified Nurse Aides ("CNA"). To mitigate these gaps, we utilize employees from other departments where available to assist in clinical care, approve overtime for existing nursing staff, and use agency staff when possible. Additionally, alongside our traditional recruitment strategies, such as advertisements, staffing agencies, and participation in local job fairs, we have implemented a Free CNA Education/Certification program to produce qualified staff.

This training program, available at both Maluhia and Leahi, mirrors the Good Jobs HI initiative. The program offers no-cost training provided by Healthcare Training & Career Consultants – an established CNA training center - and covers the full cost of CNA education and certification for students who agree to work at Maluhia or Leahi for at least one year after becoming certified. Participants in the program can work as Nurse Aides while completing their certification requirements. We believe this program benefits everyone involved by addressing our staffing shortages and providing a valuable opportunity for individuals who could not otherwise afford CNA certification.

To date, the Oahu Region has successfully advanced approximately 24 student CNAs through the training program. Additionally, we anticipate enrolling at least 10 new CNA students in the next program term. It is our intent to continue recruiting and developing students through this initiative until our staffing needs have been met.

STRATEGIC PLAN ACHIEVEMENTS

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

Briefly stated, the Strategic Plan focused on the growing needs of our aging population and the anticipation that, in the next 5-10 years, it is projected that an additional 1,100 long-term care beds will be necessary to accommodate the aging community on Oahu. The 120 bed Daniel K. Akaka State Veterans Home significantly increases the number of available beds, addressing some of the projected shortage. The Oahu Region team also recognized that its resources, particularly areas throughout the Leahi campus, were underutilized and could be improved and repurposed to provide other important

public benefits. Specifically, we identified an immediate need to address the lack of facilities on Oahu for people with a history of mental health, housing instability, and/or substance use issues. We also identified the need for facilities that could help alleviate the overcrowding of waitlisted patients in our acute hospitals.

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

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

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

In 2024, the Judiciary's Children's Justice Center ("CJC") approached the Oahu Region for assistance in securing a new space for their base of operations. While no definitive deadline was given, the CJC's landlord informed them that they would be required to move from their current location in Nuuanu due to their plans to repurpose the property. After over a year of meetings, site visits, and professional services consultations, the CJC and Oahu Region entered into a Memorandum of Agreement on August 12, 2025

to facilitate extensive renovations to the Sinclair Building that would enable the CJC to move all of its primary operations and services to the Leahi campus. At present, designs and plans are being finalized for the project and the CJC, with the assistance of the Department of Accounting and General Services, anticipates bidding out the construction phases shortly thereafter. The CJC provides support services to children who have been the victims of sexual assault and other forms of sensitive crimes and assists law enforcement with related forensic investigations. On average, the CJC serves approximately 1,000 children each year ranging in age from 2-18.

NURSING

Our biggest challenge in Nursing is to bring our staffing levels to full capacity so that we may increase the number of our occupied beds and meet the rapidly growing needs for safety-net long-term care services on Oahu. While we still engage in traditional recruitment practices, we also continue to participate in other strategic initiatives such as the Good Jobs HI program and the Free CNA training program detailed above. Although Maluhia and Leahi advanced roughly 24 student CNAs through their respective programs, only a handful of CNAs remain employed for a variety of reasons. As such, due to the critical need for CNAs in our facilities, we have been required to rely heavily on agency CNAs to provide care. Agency CNAs currently comprise about 30% of our CNA workforce.

To help alleviate the shortage of acute beds due to long stay waitlisted patients at the Queens Medical Center, Maluhia has admitted twelve (12) of their patients since November 2023 and eleven (11) patients since December 2024. Currently twenty-one (21) of these patients reside in Maluhia. Most of these patients have complex medical issues requiring maximal assistance to total care. Similar to last year, nine of the patients admitted have diagnosis of massive strokes with severe disabilities, while the other patients are afflicted with equally complex diagnoses such as congestive heart failure, traumatic brain injury with agitation/behavioral health disturbances and quadriplegia with decompensated schizophrenia and dementia.

Per Act 62, Session Laws of Hawaii 2025, the Oahu Region and Department of Health were required to enter into a formal memorandum of agreement by which the Oahu Region would accept psychiatrically stable patients who are transferred or discharged from the Hawaii State Hospital (“HSH”), meet institutional level of care, and are appropriate admissions for Oahu Region’s facilities. This memorandum was finalized and executed by the parties on October 10, 2025. Since the passage of Act 62, Leahi admitted about four (4) HSH patients that were being treated at acute facilities but could not be returned because they required IV administration and care for other medical conditions that HSH could not provide. Following successful treatment and stabilization at Leahi, these patients were later discharged back to HSH. Moving forward, the Oahu Region and the Department of Health will rely on the executed memorandum to facilitate future HSH admissions. As also required by Act 62, the parties will provide the legislature with a report covering HSH admission statistics from December 1, 2025 to November 30, 2026 prior to the convening of the 2027 legislative session.

From the community and acute hospitals, Leahi and Maluhia consistently admit hospice patients as the need for hospice care in nursing facilities constantly increases. About 20-25% of the census at Maluhia is comprised of hospice residents with various terminal diagnoses. At Leahi, the rate of hospice residents is roughly 10%.

Despite the staffing and related census challenges, Leahi and Maluhia are committed to providing safe and high-quality resident-centered care to our long-term care residents as demonstrated by both facilities' CMS five-star rating. With due credit given to our hardworking and dedicated staff members, we are proud to highlight that our facilities continue to have low incidents of facility acquired pressure ulcers, infections and grievances/complaints. Our facilities have also managed to limit the use of antibiotics responsibly.

QUALITY ASSURANCE PERFORMANCE IMPROVEMENT

Maluhia's current Performance Improvement Project is on Behavior Management with an emphasis on non-Pharmacologic Interventions (*e.*g., Activity Boxes, Aromatherapy). Our Direct Care staff will be learning Positive Physical Approaches to Care (*e.*g., Hand under Hand techniques) and our Recreational Therapy staff (Long Term Care & Adult Day Health) are being trained/certified with MUSIC & MEMORY ® and discovering how it can help individuals with cognitive and physical challenges reconnect with their memories, reduce anxiety and improve quality of life through personalized music. As of October 2025, Maluhia is rated 5 Stars on Quality and 5 Stars overall on the Centers for Medicare and Medicaid Services Nursing Home Compare website.

Last year, Leahi Hospital began an Environmental Services Cleaning and Disinfection Performance Improvement Project based on recommendations from an Infection Control Assessment & Response ("ICAR") review by Mountain Pacific Quality Health. Proper hand hygiene along with cleaning and disinfecting the environment is effective in preventing the spread of disease. This year, during our annual survey by Department of Health, there were no citations in the Infection Control area.

Our Key Areas of Focus in QAPI are:

- **Resident Safety**: Initiatives aimed at reducing falls, preventing hospital readmissions, and reducing medication errors.
- **Infection Control**: Detail the infection prevention programs, particularly efforts related to controlling outbreaks like COVID-19 or other contagious diseases.
- **Person-Centered Care**: Efforts to promote resident autonomy and dignity, including initiatives to improve communication, individual care plans, and family engagement.
- **Staff Training and Development**: Emphasize any initiatives designed to enhance the skill sets of staff members, reduce turnover, and improve care quality.

Clinical Outcomes: Focus on improving clinical care outcomes such as appropriate psychotropic medication use, wound care, managing chronic conditions, managing behavior, and other high-priority clinical needs.

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

Oahu Region's partnership with Beyond Green Partners ("BGP") has provided our staff with valuable knowledge on improving meal quality for our residents. This includes the benefits of utilizing local products, fresh ingredients, and minimizing food waste. Our kitchens continue to implement the quality food production practices introduced by BGP. We prioritize serving scratch-cooked foods and using fresh ingredients over frozen whenever possible. To support local farmers and Hawaii's economy, we consistently seek and use local food sources. Although the costs for local products have significantly increased, we remain committed to providing delicious and healthy meals to our residents and Adult Day Health participants. This commitment extends to the community as well through the Hawaii Meals on Wheels Program, where we create new menus that strategically utilize fresh and local products. We are very proud that our fresh produce items, such as vegetables and fruits, and almost exclusively sourced locally.

For FY25, the total cost of food purchased for our dietary operations at Leahi Hospital and Maluhia was approximately $1,129,758. The total amount spent on fresh local agricultural products and local value-added, processed, agricultural, or food products (collectively, "Locally Sourced Food Products") during this time period was approximately $189,298. Accordingly, 16% of the Oahu Region's food budget in FY25 was committed to Locally Sourced Food Products.

PERSONNEL

Full Time Equivalent ("FTE") figures are as follows:
FY 25 – 413.20
FY 24 – 407.13
FY 23 – 414.97
FY 22 – 428.51

FINANCIAL PICTURE

Approximately 85% 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 labor and overhead expenses, which steadily increase year-to-year.

Given the insufficient Medicaid reimbursement rates, HGEA and UPW wage increases, higher post-employment fringe benefits rate, inflation and the increased costs of

providing quality health care, the Oahu Region will remain unable to maintain its provision of long-term care services without continued General Fund support from the Legislature.

Moreover, to prevent future COVID-19 outbreaks at Maluhia and Leahi, heightened pandemic precautions and restrictions continue to remain in place. These COVID prevention efforts, coupled with the ongoing nursing staff shortage, have led the Oahu Region to experience a lower census – resulting in decreased revenues – from our forecasted budget for both long-term care and Adult Day Health services during FY 24/25.

Fortunately, while still insufficient to cover our actual labor and overhead expenses, we did experience a significant increase in the daily Medicaid reimbursement rate effective January 1, 2024. This increase enabled us to defray some of the financial losses that accrued due to: (1) public union pay raises; (2) the increase to the post-retirement fringe benefit rate; (3) lower revenues; and (4) the use of overtime and contracted agency nursing costs to address staffing shortages. Nevertheless, as the increased Medicaid reimbursement rate still remains lower than the cost of the quality care we provide, we remain dependent on the legislature's assistance to cover the resulting deficits and ensure that we are able to continue serving the ever-growing needs of our community as the safety-net for long-term care and adult day health.

RISK MANAGEMENT

Improving our residents' quality of life and providing individualized care are currently our primary areas of focus. In support of these goals, we promulgate an annual online staff education fair to provide all staff with valuable information on a variety of topics, including infection control, protected health information, IT security, resident rights, and patient safety. We also provide regular hands-on training to ensure that staff are performing their skills by "doing" instead of just observing. This approach also creates an opportunity for staff to engage in discussion with experienced personnel and receive real-time feedback. Throughout the year, our staff are also encouraged to attend education and training sessions provided by the Healthcare Association of Hawaii, American Health Care Association and Mountain Pacific Quality Health.

On June 13, 2025, Maluhia and Leahi Hospital participated in Makani Pahili, a state-wide emergency response exercise lead by Hawaii Healthcare Emergency Management ("HHEM"). The scenario described a category 1 hurricane that caused the facility to operate on emergency power. In addition, all Oahu Island fiber optic, cellular and landline/copper communication systems were impacted and operating at an intermittent level at best as the majority of statewide utility companies were impacted by wind, storm surge and flood damage. Several injects were given throughout the exercise which required a response back to HHEM to ensure that established communication devices were working properly and appropriate action was taken. Both facilities submitted their respective after-action report and made necessary changes to prepare for any future real-life emergencies.

On July 11, 2025 and August 20, 2025, Maluhia and Leahi Hospital respectively participated in an active shooter/active threat drill with the Honolulu Police Department ("HPD"). The drill was utilized to assess how staff, visitors and patients would respond to an active shooter/threat. HPD went into various areas of the facility portraying an active shooter event and evaluated staff responses. Following the drill, HPD immediately provided a debriefing session to review their observations and provide important recommendations to our staff. Given the importance of this type of preparation, we will continue to promote further training on workplace violence and active shooter response.

THE LEAHI-MALUHIA FOUNDATION

The Leahi-Maluhia Foundation was established in 2003.

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

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

Board of Director Members for FY 2025
Michelle Kato, President
Jerilyn Yamashiro, Director
Sean Sanada, Director
Sean Simmons, Director

Individual Donations	$11,100
Aloha United Way	$ 600
Total:	$11,700

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