Hawaii Health Systems Corporation

Financial Report
with Supplemental Information
June 30, 2015

Hawaii Health Systems Corporation

Contents

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Independent Auditor's Report

To the Board of Directors
Hawaii Health Systems Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Health Systems Corporation (HHSC), a component unit of the State of Hawaii, as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise HHSC's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of HHSC as of June 30, 2015 and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Hawaii Health Systems Corporation

Emphasis of Matter

As discussed in Note 1, the financial statements present only HHSC (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, 2015 or the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

As described in Note 2 to the financial statements, in 2015, HHSC has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, GASB Statement No. 68 - NPL Changes - Cost Sharing, and GASB Statement No. 68 - Pension Contributions - Cost Sharing, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Directors
Hawaii Health Systems Corporation

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2015 on our consideration of HHSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HHSC's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 29, 2015

This discussion and analysis of Hawaii Health Systems Corporation's (HHSC or the "Corporation") financial performance provides an overview of the Corporation's financial activities for the fiscal years ended June 30, 2015 and 2014. Please read it in conjunction with the Corporation's financial statements, which begin on page 13.

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. It is important to note that as of July 1, 2014, the Corporation implemented a new accounting standard, GASB 68, which is reflected in the amounts shown below for 2015. The amounts for the year ended June 30, 2014 do not contain the impact of GASB 68.

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

- The analysis of the Corporation's finances begins on page 5. One of the most important questions asked about the Corporation's finances is, "Is the Corporation as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses, and changes in net position report information about the Corporation's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

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

The Corporation's Net Position

The Corporation's net position is the difference between its assets plus deferred outflows and liabilities plus deferred inflows reported in the statement of net position. The Corporation's net position increased by $22,109,899 after restatement in 2015 for GASB 68 and increased by $6,647,575 (15 percent) in 2014, as you can see from the following table.

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

Summarized financial information of HHSC's statement of net position as of June 30, 2015 and 2014 is as follows:

	2015	2014
Assets		
Current assets	$ 292,659,374	$ 255,840,029
Capital assets - Net	363,310,339	354,422,174
Other assets	7,150,602	23,384,323
Deferred Outflows	68,293,235	-
Total assets and deferred outflows	**$ 731,413,550**	**$ 633,646,526**
Liabilities		
Current liabilities	$ 128,278,636	$ 157,464,327
Other postemployment liability	338,248,725	302,156,349
Due to the State of Hawaii	34,122,507	34,122,504
Accrued pension obligations	583,997,239	-
Other liabilities	88,630,726	90,223,609
Deferred Inflows	67,153,604	-
Total liabilities and deferred inflows	1,240,431,437	583,966,789
Net Position		
Invested in capital assets - Net of related debt	304,552,720	307,727,450
Restricted	4,132,930	979,985
Unrestricted	(817,703,537)	(259,027,698)
Total net position	(509,017,887)	49,679,737
Total liabilities, deferred inflows, and net position	**$ 731,413,550**	**$ 633,646,526**

At June 30, 2015 and 2014, HHSC's current assets approximated 40 percent of total assets. Current assets increased approximately $36.8 million in 2015 due to increases in cash of $30.8 million and Due from State of Hawaii CIP funds of $16.1 million. These increases are offset by a decrease in third-party payor settlements of $13.4 million. Current assets increased approximately $16.6 million in 2014 due to increases in cash of $21.4 million and Due from State of Hawaii CIP funds of $6.9 million. These increases are offset by a decrease in third-party payor settlements of $13.9 million. The increases in cash for both 2015 and 2014 are primarily due to various factors, as reflected in the statement of cash flows. The increase in due from State of Hawaii CIP funds for both 2015 and 2014 is due to additional unexpended appropriations from the State of Hawaii for capital improvements. The decrease in estimated third-party payor settlements in 2015 is primarily attributable to the timely payment of uncompensated care revenues and significant settlements of prior year cost report filings, primarily for the three acute facilities in HHSC. The decrease in estimated third-party payor settlements in 2014 can be primarily attributable to a decrease in the uncompensated care receivable balance in 2014 versus 2013 due to the receipt of substantially all of the outstanding uncompensated care funds remaining from fiscal year 2013 during fiscal year 2014. The reasons for this change are discussed in the operating results and changes in net position section below.

At June 30, 2015 and 2014, HHSC's current liabilities were approximately 10 and 27 percent of total liabilities, respectively. The primary reason for the decrease in current liabilities in 2015 of $29.2 million is due to a $16.7 million decrease in accounts payable and accrued expenses and a decrease in the current portion of long-term debt of $12.6 million. The decrease in accounts payable and accrued expenses is primarily due to the savings realized from HHSC's contingency plans, increases in cash collections, and cost reporting and other settlements from third-party payors, which allowed HHSC to pay down previously extended accounts payable. The decrease in current portion of long-term debt is due to the refinancing in January 2015 of Maui Memorial Medical Center's (MMMC) series 2013 bond issuance through the issuance of Revenue Bond Number 3, which extended the payment term of the series 2013 bond issuance. The primary reason for the increase in current liabilities in 2014 of $8.4 million is due to an increase in the current portion of long-term debt and capital lease obligations of $13.5 million, which was partially offset by a decrease in accounts payable and accrued expenses of $5.8 million. The increase in the current portion of long-term debt and capital leases is primarily driven by MMMC's series 2013 bond issuance of $12.6 million. The decrease in accounts payable and accrued expenses is a result of emergency appropriations received from the State of Hawaii of $22.3 million in addition to the receipt of 2013 uncompensated care receivables during fiscal year 2014, which enabled the facilities to decrease their payables.

At June 30, 2015 and 2014, HHSC's net position is reflected as its invested in capital assets, net of related debt, of approximately $305 million and $308 million, respectively. Total net (deficit) position was approximately $(509) million in 2015 and $50 million in 2014.

Capital Assets

At June 30, 2015 and 2014, HHSC's capital assets, net of accumulated depreciation, comprised approximately 55 and 56 percent of its total assets, respectively. These assets consist mainly of land, hospital buildings, and equipment that are used in HHSC's operations. The increase of approximately $8.9 million in 2015 and $14.1 million in 2014 is due primarily to ongoing construction projects, particularly the EMR project.

A summary of HHSC's capital assets as of June 30, 2015 and 2014 is as follows:

	2015	2014
Land and land improvements	$ 7,770,788	$ 7,492,341
Building and improvements	458,859,742	435,797,063
Equipment	238,381,691	222,277,212
Construction in progress	32,120,301	34,784,628
Total capital assets	737,132,522	700,351,244
Less accumulated depreciation and amortization	(373,822,183)	(345,929,070)
Capital assets - Net	**$ 363,310,339**	**$ 354,422,174**

Long-term Debt and Capital Lease Obligations

At June 30, 2015 and 2014, HHSC had long-term debt and capital lease obligations totaling approximately $66.6 million and $77.0 million, respectively. The decrease of $10.4 million in 2015 was due to continuing payments on existing obligations with very little new issuances of capital lease obligations. The increase of $15.5 million in 2014 was primarily due to the issuance of series 2013 bonds by MMMC of $12.64 million and additional capital leases for equipment of $2 million. More detailed information about HHSC's long-term debt and capital lease obligations is presented in the notes to the financial statements.

Operating Results and Changes in Net Position

Summarized financial information of HHSC's statement of revenue, expenses, and changes in net position for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Operating revenue	$ 620,537,502	$ 576,459,900
Operating expenses:		
Salaries and wages	311,684,721	294,619,025
Employee benefits	168,013,909	168,934,781
Purchased services and professional fees	100,463,590	97,244,873
Medical supplies and drugs	76,988,122	76,151,543
Depreciation and amortization	37,180,988	31,965,968
Insurance	5,558,652	4,315,721
Other	65,688,088	63,857,888
Total operating expenses	765,578,070	737,089,799
Operating loss	(145,040,568)	(160,629,899)
Nonoperating revenue:		
General appropriations from the State of Hawaii	106,440,001	108,540,395
Other nonoperating revenue - Net	12,547,965	12,021,284
Total nonoperating revenue	118,987,966	120,561,679
Excess of revenue under expenses before capital contributions	(26,052,602)	(40,068,220)
Capital contributions	48,162,501	46,715,795
Increase in net position	**$ 22,109,899**	**$ 6,647,575**

For the years ended June 30, 2015 and 2014, HHSC's operating expenses exceeded its operating revenue by $145.0 million and $160.6 million, respectively. General appropriations from the State of Hawaii totaled $106.4 million and $108.5 million, respectively. In addition, the appropriations from the State of Hawaii for capital contributions totaled $44.1 million and $46.7 million, respectively. These items, along with the other nonoperating revenue, contributed to an increase in net position of $22.1 million in 2015 and $6.6 million in 2014.

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

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

Operating expenses for the fiscal year ended June 30, 2014 were approximately 3.2 percent higher than 2013. Operating expenses for the fiscal year ended June 30, 2014 increased $23.2 million from fiscal year 2013, which was primarily due to increases in payroll expenses of $4.6 million and nonpayroll expenses of $18.6 million. The increase in payroll and benefits expense is the result of a $21.8 million increase in payroll which was largely offset by a $17.1 million decrease in benefits. The increase in payroll is due to pay increases as stipulated under bargaining unit contracts. The primary driver for the decrease in benefits is the postemployment healthcare benefit which decreased from the prior year by $35 million due to a revision in the allocation methodology of total costs by DAGS. The increase in nonpayroll expense is primarily due to increases at Hilo Medical Center (HMC) of $2.7 million, Maui Memorial Medical Center (MMMC) of $8.2 million, and Kona Community Hospital (KCH) of $4.9 million. At HMC, the increase was due to an increase of medical supplies and drugs of $2.4 million which was a result of higher drug costs, the shortage of some drug items, and the much higher cost for chemotherapy drugs. At MMMC, the increase was primarily due to increases in purchased services and professional fees of $7 million and depreciation and amortization of $1.7 million. Both of these increases are a result of the EMR implementation which occurred in March 2014. At KCH, the increase can be primarily attributed to increases in purchased services and professional fees of $3.4 million and increases in depreciation and amortization of $1.7 million. The increase in professional fees and purchased services occurred with services provided from Huron Consulting Services for the review of KCH operations, and for various nursing agencies for the shortage of nursing positions. The increase in depreciation and amortization was due to the completion of various CIP projects funded by the State of Hawaii specific to the upgrade of the CT scanner, chiller upgrade, Seismic mitigation upgrade, security doors upgrade, and the EMR being operational for a full year.

Operating revenues for the fiscal year ended June 30, 2014 were approximately 4.8 percent higher than 2013. The increase in operating revenues is primarily due to a 1.7 percent increase in acute patient days from fiscal year 2013, an increase of 2.7 percent in emergency room visits from fiscal year 2013, and $5 million in additional revenue as a result of the uncompensated care payments earned from the State Department of Human Services.

Fiscal year 2015 was a difficult year financially for HHSC. HHSC started the fiscal year with less than 30 days' cash on hand and over 65 days in accounts payable despite receiving a $15 million emergency appropriation in June 2014. To make matters worse, during the 2014 State of Hawaii Legislative Session, HHSC had requested approximately $150 million in General Fund appropriations (excluding the appropriation for Kahuku Medical Center) for fiscal year 2015, and the Legislature appropriated approximately $102 million. The difference of $48 million was due to underfunding of collective bargaining pay raises negotiated by the Administration on HHSC's behalf. HHSC was forced to absorb approximately $60 million in collective bargaining pay raises, and the State only provided $12 million in General Fund appropriations to cover those pay raises, leaving a funding deficit of $48 million.

Understanding the perilous financial situation it was facing, HHSC governance and management worked diligently to find savings to reduce the deficit without severely jeopardizing the healthcare services HHSC's facilities brought to their communities. Several items occurred that allowed HHSC to reduce the deficit to a much lower level, of which the ones with the largest dollar impact are highlighted in the following paragraph.

Contingency plans were developed by HHSC management that resulted in approximately $21.5 million in savings, primarily through attrition/retirement savings, revenue enhancements such as clinical documentation improvement and strategic pricing initiatives, and reductions in administrative costs. Included in these contingency plan savings is the closure of Maui Memorial Medical Center's adolescent psychiatric unit. Successful negotiations with commercial third-party payors were made, which brought in over $5 million in increased revenue than what was projected. Improvements in HHSC revenue cycle performance across the system were made which led to a reduction in net accounts receivable days of 1.8 days, resulting in approximately $2.7 million in additional cash flow. A one-time receipt of $10 million in catch-up interim settlements for HHSC's critical access hospitals from the formation of QUEST Integration was received, which will not be a reoccurring revenue source.

These events further reduced HHSC's funding deficit to approximately $15 million. During the 2015 State of Hawaii Legislative Session, HHSC requested an emergency appropriation of $15 million. The Legislature approved the $15 million emergency appropriation for HHSC in late April 2015, and HHSC received the funds from the emergency appropriation in early June 2015. The emergency appropriation funds were used to reduce HHSC's accounts payable balances, which had built up during the year.

In June 2015, the State Legislature passed Act 103, H.B. 1075, effective June 10, 2015, which authorized the Maui Region of HHSC to transfer the operation of its facilities to a new entity in order to mitigate future budget deficits. On September 23, 2015, the Maui Region of HHSC announced that it had selected Kaiser Permanente to proceed with negotiations with the governor for the management, operation, and provision of healthcare services at its facilities. On October 22, 2015, the governor announced that the State of Hawaii began negotiations with Kaiser Permanente for the provision of healthcare services at HHSC's Maui Region facilities, with the State Comptroller and Director of the Department of Accounting and General Services serving as lead negotiator for the State of Hawaii.

At the conclusion of the 2015 Legislative Session, the Legislature approved HHSC's General Fund appropriation level (excluding Kahuku Medical Center) for FY 2016 at $105.9 million, but left the General Fund appropriation for FY 2017 at $85 million, both of which are substantially less than what HHSC received during fiscal year 2015 in combined General Fund appropriations. However, the Legislature also approved collective bargaining pay raises of varying percentages for all bargaining units, which are expected to cost HHSC $14.7 million in FY 2016 and another $16.6 million in FY 2017. Collective bargaining funding was provided for raises for units 3 and 4 only of $1.9 million for FY 2016 and $3.7 million for FY 2017. The results of the session left HHSC having to deal with a projected cash flow deficit of $49 million for FY 2016 and $86 million for FY 2017, primarily due to projected increases in the fringe benefit rate from 42 percent to 52 percent costing HHSC $34.7 million and collective bargaining pay raises costing HHSC $14.7 million. Given the repeated scenario of having to cut services in order to live within the confines of the State budget, HHSC management and governance developed a contingency plan to deal with the deficit.

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

Contacting the Corporation's Financial Management

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

Statement of Net Position
June 30, 2015

Assets and Deferred Outflows of Resources

Current Assets	
Cash and cash equivalents - State of Hawaii (Note 2)	$ 3,277,318
Cash and cash equivalents	83,207,293
Patient accounts receivable - Less allowance for doubtful accounts of $37,682,593 (Note 2)	87,213,757
Investments (Note 3)	7,225,244
Supplies and other current assets	17,873,300
Due from the State of Hawaii (Note 5)	86,379,249
Estimated third-party payor settlements	7,483,213
Total current assets	292,659,374
Capital Assets - Net (Note 4)	363,310,339
Assets Limited as to Use (Note 2)	6,140,577
Other Assets	1,010,025
Total assets	663,120,315
Deferred Outflows of Resources - Pension (Note 7)	68,293,235
Total assets and deferred outflows of resources	**$ 731,413,550**

Hawaii Health Systems Corporation

Statement of Net Position (Continued)
June 30, 2015

Liabilities and Net Position

Current Liabilities	
Current portion of long-term debt (Note 9)	$ 1,657,630
Current portion of capital lease obligations (Note 9)	9,484,120
Accounts payable and accrued expenses	92,488,136
Current portion of accrued workers' compensation (Note 10)	3,565,000
Current portion of accrued vacation (Note 6)	19,533,493
Estimated third-party payor settlements	194,756
Other current liabilities	1,355,501
Total current liabilities	128,278,636
Long-term Debt - Less current portion (Note 9)	41,003,723
Capital Lease Obligation - Less current portion (Note 9)	14,455,146
Other Liabilities	
Accrued vacation - Less current portion (Note 6)	22,602,677
Accrued workers' compensation - Less current portion (Note 10)	10,214,000
Other postemployment benefit liability (Note 8)	338,248,725
Due to the State of Hawaii - Less current portion (Note 5)	34,122,507
Pension liability (Note 7)	583,997,239
Patients' safekeeping deposits	295,357
Other liabilities	59,823
Total liabilities	1,173,277,833
Deferred Inflows of Resources - Pension (Note 7)	67,153,604
Total liabilities and deferred inflows of resources	1,240,431,437
Net Position (Deficit)	
Net investment in capital assets	304,552,720
Restricted for capital purchases (Note 2)	4,132,930
Unrestricted	(817,703,537)
Total net deficit	(509,017,887)
Total liabilities and net position	**$ 731,413,550**

Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2015

Operating Revenue	
Net patient service revenue (net of provision for doubtful accounts of $31,268,645)	$ 604,311,124
Other revenue	16,226,378
Total operating revenue	620,537,502
Operating Expenses	
Salaries	311,684,721
Employee benefits	168,013,909
Medical supplies and drugs	76,988,122
Depreciation and amortization	37,180,988
Utilities	16,907,108
Repairs and maintenance	15,568,460
Other supplies	16,906,635
Purchased services	81,044,662
Professional fees	19,418,928
Insurance	5,558,652
Rent and lease	8,064,016
Other	8,241,869
Total operating expenses	765,578,070
Operating Loss	(145,040,568)
Nonoperating Revenue (Expenses)	
General appropriations from the State of Hawaii	106,440,001
Collective bargaining pay raise appropriation from the State of Hawaii	12,000,000
Loss on disposal of capital assets	(361,388)
Restricted contributions	2,260,648
Interest expense	(3,552,239)
Interest and dividend income	168,806
Other nonoperating revenue - Net	2,032,138
Total nonoperating revenue	118,987,966
Excess of Expenses Over Revenue Before Capital Contributions	(26,052,602)
Capital Contributions	44,162,501
Restricted Capital Contributions	4,000,000
Increase in Net Position	22,109,899
Net Position - Beginning of year - As restated (Note 2)	(531,127,786)
Net Position - End of year	**$ (509,017,887)**

See Notes to Financial Statements.

Hawaii Health Systems Corporation

Statement of Cash Flows
Year Ended June 30, 2015

Cash Flows from Operating Activities	
Cash received from government, patients, and third-party payors	$ 614,802,825
Cash payments to employees for services	(439,134,510)
Cash payments to suppliers for services and goods	(269,914,999)
Other receipts from operations	16,226,378
Net cash used in operating activities	(78,020,306)
Cash Flows from Noncapital Financing Activities	
Appropriations from the State of Hawaii	106,440,001
Collective bargaining funding from the State of Hawaii	12,000,000
Other nonoperating revenue - Net	4,292,786
Repayment of advance from the State of Hawaii	(2,000,000)
Net cash provided by noncapital financing activities	120,732,787
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(14,987,010)
Interest paid	(3,552,239)
Restricted capital contributions	4,000,000
Repayments on long-term debt	(14,130,845)
Repayments on capital lease obligations	(9,989,787)
Proceeds from sale of assets	21,311
Proceeds from issuance of long-term debt	12,346,609
Net cash used in capital and related financing activities	(26,291,961)
Cash Flows from Investing Activities	
Interest income	168,806
Decrease in short-term investments and assets limited as to use	14,208,107
Net cash provided by investing activities	14,376,913
Net Increase in Cash and Cash Equivalents	30,797,433
Cash and Cash Equivalents - Beginning of year	55,687,178
Cash and Cash Equivalents - End of year	**$ 86,484,611**
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and cash equivalents - State of Hawaii	$ 3,277,318
Cash and cash equivalents	83,207,293
Total cash and cash equivalents	**$ 86,484,611**

See Notes to Financial Statements.

Statement of Cash Flows (Continued)
Year Ended June 30, 2015

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

Cash Flows from Operating Activities	
Operating loss	$ (145,040,568)
Adjustments to reconcile operating loss to net cash from operating activities:	
Provision for doubtful accounts	31,268,645
Depreciation and amortization	37,180,988
Changes in assets and liabilities:	
Patient accounts receivable	(31,022,341)
Supplies and other assets	1,478,445
Accounts payable, accrued expenses, and other liabilities	(20,239,021)
Accrued workers' compensation liability	48,000
Postemployment benefit liability	36,092,376
Pension liability	(54,371,554)
Deferred outflows and inflows	56,421,639
Estimated third-party payor settlements	10,245,397
Accrued vacation	(82,312)
Net cash used in operating activities	**$ (78,020,306)**
Noncash Financing and Investing Activities	
Assets acquired under capital leases and debt	$ 1,447,410
Capital assets contributed by the State of Hawaii and others	28,183,907
Loss on disposal of capital assets	361,388
Change in due from the State of Hawaii	15,978,594

Note 1 - Organization

Structure - Hawaii Health Systems Corporation (HHSC or the "Corporation") is a public body corporate and politic and an instrumentality and agency of the State of Hawaii (the "State"). HHSC is managed by a chief executive officer under the control of a 13-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 HHSC. HHSC currently operates the following facilities:

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

West Hawaii Region:
- Kona Community Hospital
- Kohala Hospital

Maui Region:
- Maui Memorial Medical Center
- Kula Hospital
- Lanai Community Hospital

Kauai Region:
- Kauai Veterans Memorial Hospital
- Samuel Mahelona Memorial Hospital

Oahu Region:
- Leahi Hospital
- Maluhia

Kahuku Medical Center

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

HHSC 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 HHSC 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 HHSC 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, 2015. Accordingly, the assets, liabilities, and net assets of HHSC reflected in the accompanying statement of revenue, expenses, and changes in net assets may be significantly different from those eventually included in the final settlement.

Note 1 - Organization (Continued)

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

In June 2007, the State Legislature passed Act 290, S.B. 1792. This act, which became effective 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 HHSC 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 HHSC board of directors to 15 members, comprised of 10 members appointed by the governor from nominees submitted by legislative leadership, two at-large members at the governor's discretion, two physician members selected by the HHSC 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 HHSC 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 HHSC board of directors to a 12-member board of directors which includes the five regional chief executive officers, one representative each appointed by the East Hawaii, West Hawaii, Kauai, and Oahu regional boards, two members appointed by the Maui regional board, and the Director of the Department of Health as an ex-officio nonvoting member.

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

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

Note 1 - Organization (Continued)

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. In September 2015, HHSC - Maui Region accounced it had entered into a letter of intent to affiliate of Kaiser Permanente, and is in the process of completing due diligence.

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 HHSC in a manner and to an extent that was to be negotiated between Kahuku Hospital and HHSC. The act also specified that none of the liabilities of Kahuku Hospital were to become the liabilities of HHSC, that HHSC could adjust the levels of services provided by Kahuku Hospital, and that the employees of Kahuku Hospital were not to be considered employees of the State. This act appropriated $3,900,000, which was disbursed through the Department of Health of the State, to pay for the cost of acquiring the assets of Kahuku Hospital and to operate the facility. On March 14, 2008, the asset purchase was completed for a purchase price of approximately $2,652,000 in cash, including transaction costs of $197,000 in cash, and the facility is now operating as Kahuku Medical Center. The purchase price was allocated to assets based on their respective estimated fair values at the acquisition date.

Liquidity - During the year ended June 30, 2015, HHSC incurred losses from operations of approximately $145 million and had negative cash flows from operations of $78 million. Overall, days in accounts payable have decreased 10.0 days as compared to June 30, 2014 due to contingency plans prepared by management to decrease costs (primarily through attrition savings) as well as increases in reimbursement from negotiations with third-party payors and one-time settlements from the State Medicaid QUEST Integration program which allowed facilities to pay previously extended vendor payables. Days in accounts receivable have decreased as compared to June 30, 2014 due primarily to more efficient billings at Maui Memorial Medical Center, now that they have been using Soarian electronic medical records system for over a year. Downward pressure on reimbursements was due to federal healthcare reform and federal deficit legislation. Although improvements continue to be seen by HHSC, management believes maintaining the current levels of service provided by HHSC will require continued funding by the State of Hawaii.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - HHSC prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

Cash and Cash Equivalents - Cash and cash equivalents include short-term investments with original maturities of three months or less. It also includes amounts held in the State Treasury. The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury (cash pool). HHSC's portion of this cash pool at June 30, 2015 is indicated in the accompanying statement of net position as "cash and cash equivalents on deposit with the 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.

HHSC has cash in financial institutions that is in excess of available depository insurance coverage. The amount of uninsured and uncollateralized deposits totaled approximately $80,757,000 at June 30, 2015. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a financial institution failure, HHSC's deposits might not be returned to it. HHSC 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, HHSC 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 HHSC'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 - Summary of 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 estimated fair market value at the date of donation. Donated buildings, equipment, and land are recognized as revenue when all eligibility requirements have been met, generally at the date of donation. Equipment under capital leases is recorded at the present value of future payments. Buildings, equipment, and improvements are depreciated by the straight-line method using these asset lives:

Building and improvements	5-40 years
Equipment	3-20 years

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

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

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

At June 30, 2015, assets limited as to use consisted of restricted cash of $6,140,577.

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. HHSC has only one item that qualifies for reporting in this category. It is the deferred outflow of resources related to the cost-sharing defined benefit pension plan (see Note 7).

Note 2 - Summary of 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. HHSC has only one item that qualifies for reporting in this category. It is the deferred inflow of resources related to the cost-sharing defined benefit pension plan (see Note 7).

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

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

Pension - For purposes 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's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

Net Position - Net position is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Corporation. Unrestricted net position is the remaining net assets that do not meet the definition of invested in capital assets - net of related debt or restricted.

Operating Revenue and Expenses - HHSC has defined its operating revenue and expenses as those relating to the provision of healthcare services. The revenue and expenses relating to capital and related financing activities, noncapital financing activities, and investing activities are excluded from that definition.

Note 2 - Summary of Significant Accounting Policies (Continued)

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. HHSC, as a safety net provider, provides charity care to certain patients; the specific cost of such care for the year ended June 30, 2015 was approximately $4,300,000.

HHSC 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 2015 financial statements.

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

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

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

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

  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 - Summary of Significant Accounting Policies (Continued)

All Medicare-certified hospitals and skilled nursing facilities are required to file annual Medicare cost reports. HHSC facilities required to file Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2007.

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

- *Sole Community Hospital* - HHSC has three facilities (Hilo Medical Center, Kona Community Hospital, and Maui Memorial Medical Center) that are designated as sole community hospitals by the CMS. Inpatient case rates for services rendered to Medicare beneficiaries are finally determined upon the filing of the annual Medicare cost reports.

Note 2 - Summary of Significant Accounting Policies (Continued)

- *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* - HHSC 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.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 may be reviewed by contractors for validity, accuracy, and proper documentation. HHSC has been contacted by the RAC auditors and is currently unable to determine the extent of liability for overpayments, if any.

State Appropriations - HHSC recognizes general and capital appropriations at the time allotments are made available to the facility for expenditure.

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

Bond Interest - HHSC is allocated an amount for interest paid by the State of general obligation bonds whose proceeds were used for hospital construction. A corresponding contribution from the State is also allocated to HHSC. The bonds are obligations for the State, to be paid by the State's General Fund, and are not reported as liabilities of HHSC. For the year ended June 30, 2015, interest expense totaled approximately $7,923,000.

Risk Management - HHSC is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The facilities are self-insured for workers' compensation and disability claims and judgments as discussed in Note 10.

Note 2 - Summary of Significant Accounting Policies (Continued)

New Accounting Pronoucement - In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Corporation has adopted this standard as of June 30, 2015. As a result of implementing this statement, the beginning net position was restated to $(531,127,786) (a reduction of $580,807,523).

Upcoming Accounting Changes - In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 requirements will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The statement will be effective for the Corporation's 2016 fiscal year.

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

HHSC is currently evaluating the impact these standards will have on the financial statements when adopted.

Note 2 - Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk - 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, 2015 was as follows:

	Percentage	
	2015	
Medicare	32	%
Medicaid	28	
HMSA	8	
Other third-party payors	18	
Patient and other	14	
Total	100	%

Note 3 - Investments

HHSC's investment options are limited to investments listed in the Hawaii Revised Statutes. At June 30, 2015, HHSC held investments in U.S. Treasury obligations, U.S. government agencies, and money market funds. At June 30, 2015, the fair value of these investments was $4,303,708, $2,800,621, and $120,915, respectively.

HHSC'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, HHSC 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 HHSC's investments are held by financial institutions registered in HHSC's name.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, HHSC's investment policy generally limits maturities on investments to not more than five years from the date of investment. All of HHSC's investments at June 30, 2015 have an original maturity date within five years from the date of investment.

Note 3 - Investments (Continued)

Credit Risk

HHSC'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, 2015, HHSC held investments in U.S. Treasury securities and U.S. government agencies.

Concentration of Credit Risk

HHSC's investment policy provides guidelines for portfolio diversification by placing limits on the amount that may be invested in any one issuer, types of investment instruments, and position limits per issue of an investment instrument. There were no investments that individually exceed 5 percent of HHSC's total investments at June 30, 2015.

Note 4 - Capital Assets

Transactions in the capital asset accounts for the year ended June 30, 2015 were as follows:

	Beginning of Year	Additions	Retirements	Transfers and Adjustments	End of Year
Assets not subject to depreciation:					
Land and land improvements	$ 7,492,343	$ -	$ -	$ 278,445	$ 7,770,788
Construction in progress	34,878,087	38,934,123	(108,327)	(41,583,582)	32,120,301
Assets subject to depreciation:					
Buildings and improvements	435,796,874	536,844	(3,420,996)	25,947,020	458,859,742
Equipment	220,873,517	6,968,735	(4,818,678)	15,358,117	238,381,691
Total	699,040,821	46,439,702	(8,348,001)	-	737,132,522
Less accumulated depreciation:					
Buildings and improvements	(196,732,113)	(15,416,442)	3,292,614	-	(208,855,941)
Equipment	(147,886,534)	(21,752,396)	4,672,688	-	(164,966,242)
Total	(344,618,647)	(37,168,838)	7,965,302	-	(373,822,183)
Capital assets - Net	$ 354,422,174	$ 9,270,864	$ (382,699)	$ -	$ 363,310,339

The State Department of Accounting and General Services and others transferred capital assets, including construction in progress, aggregating approximately $28,184,000 to HHSC as a contribution of capital for the year ended June 30, 2015.

Note 4 - Capital Assets (Continued)

HHSC may enter into capital leases on behalf of the facilities. In that situation, the capital lease obligation is recorded in Corporate's accounting records. While the assets are being constructed, the amounts are recorded as construction in progress in the accounting records of either Corporate or the facilities. Corporate makes the capital lease payments and incurs the interest expense, while the facilities record depreciation on the capital asset. Corporate also computes capitalized interest on construction in progress and transfers the capitalized interest asset to the facilities. The facilities reimburse Corporate through the due from affiliates account.

The facilities may also enter into capital leases individually. In that situation, the capital lease obligation is recorded in the facility's accounting records. While the assets are being constructed, the amounts are recorded as construction in progress in the accounting records of the facility. The facility makes the capital lease payments and incurs the interest expense, as well as the depreciation on the capital asset.

In July 2011, HHSC entered into a $28.7 million contract with Siemens Healthcare to implement its Soarian Electronic Medical Records and Health Information Systems. West Hawaii Region and Corporate implemented the system in February 2013. Maui Memorial Medical Center implemented the system in March 2014. The remainder of the Maui region implemented the system in March 2015. The other HHSC facilities will be implementing the system in a phased approach.

Note 5 - State of Hawaii Advances and Receivable

In fiscal year 2003, HHSC received a $14,000,000 advance from the State to relieve its cash flow shortfall. At June 30, 2015, HHSC did not have the ability and thus does not intend to repay the advance. Furthermore, management does not expect the State to demand payment of the advance in fiscal year 2016. Accordingly, the advance is classified as a noncurrent liability at June 30, 2015. The amount due to the State of $34,122,507 at June 30, 2015 includes the $14,000,000 previously described plus $20,122,507 of cash advances to the Department of Health - Division of Community Hospitals, which was assumed by HHSC at the date of its formation.

At June 30, 2015, $86,379,249 was due from the State for allotments made to HHSC before June 30, 2015.

Note 6 - Accrued Vacation

Transactions in this account during the year ended June 30, 2015 were as follows:

	Beginning of Year	Additions	Reductions	End of Year	Current Portion	Noncurrent Portion
Accrued vacation	$ 42,218,482	$ 18,532,945	$ (18,615,257)	$ 42,136,170	$ 19,533,493	$ 22,602,677

Note 7 - Cost-Sharing Defined Benefit Pension Plan

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

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

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

Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

Contributions - Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2015 was 15.50 percent. Contributions to the pension plan from the Corporation were $46.6 million for the fiscal year ended June 30, 2015.

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

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2015, the Corporation reported a liability of $584 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 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, 2015, relative to all other contributing employers. At June 30, 2014, the Corporation's proportion was 7.28 percent, which was an increase of 0.13 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Corporation recognized pension expense of $49,173,000. At June 30, 2015, 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	$ 7,236,804	$ (163,188)
Net difference between projected and actual earnings on plan investments	-	(66,990,416)
Corporation contributions and proportionate share of contributions	1,041,824	-
Employer contributions to the plan subsequent to the measurement date	60,014,607	-
Total	$ 68,293,235	$ (67,153,604)

Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

The $60,014,607 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liabiity in the year ending June 30, 2016. Other reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2016	$ (15,044,862)
2017	(15,044,862)
2018	(15,044,862)
2019	(15,044,861)
2020	1,304,471

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 %	
Salary increases	3.5 %	Average, including inflation
Investment rate of return	7.8 %	Per year, compounded annually, including inflation

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

Postretirement mortality rates were based on Client Specific Tables. Preretirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2010. ERS updates their experience studies every five years.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the ERS will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

Projected Cash Flows

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

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

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return
Domestic equity	30 %	8.5 %
International equity	26	9.0
Real estate	7	8.5
Total fixed income	20	3.1
Private equity	7	11.8
Real return	5	6.1
Other	5	7.7

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Corporation, calculated using the discount rate of 7.75 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 (6.75 percent) or 1 percentage point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability	$ 728,975,870	$ 583,997,239	$ 420,685,219

Note 7 - Cost-sharing Defined Benefit Pension Plan (Continued)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in a separately issued ERS financial report, which is available at http://www.ers.ehawaii.gov. The plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become 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 8 - Employee Benefits

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

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

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

Note 8 - Employee Benefits (Continued)

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

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

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

For cost allocation purposes, the State allocates the full accrual ARC expense among its component units, including HHSC, based on respective percentages of full-time equivalents. The State requires HHSC to contribute to the plan at a rate of covered payroll necessary to fund its share of the annual "pay-as-you-go contributions," which is significantly less than the actuarially determined contribution rate. HHSC then allocates its full accrual ARC expense among its various regions based on their respective percentages of full-time equivalents. The cumulative difference between the amounts the State requires HHSC to contribute and HHSC's allocation of the total plan ARC expense is recorded as other postretirement benefit liability on the balance sheet of each region. HHSC's actual cash contributions for postretirement benefits approximated $29.3 million and $29.5 million for the years ended June 30, 2015 and 2014, respectively.

Beginning of year	$ 302,156,349
Required contributions	65,423,087
Actual contributions	(29,330,711)
End of year	$ 338,248,725

Note 8 - Employee Benefits (Continued)

Sick Leave - Accumulated sick leave as of June 30, 2015 was approximately $82,198,000. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded in the accompanying financial statements.

Note 9 - Long-term Liabilities

Long-term liability activity for the year ended June 30, 2015 was as follows:

	2014	Current Year Additions	Current Year Reductions	2015	Amounts Due Within One Year
Long-term debt	$ 46,433,833	$ 10,358,365	$ (14,130,845)	$ 42,661,353	$ 1,657,630
Capital lease obligations	$ 30,493,399	$ 3,435,654	$ (9,989,787)	$ 23,939,266	$ 9,484,120

The long-term debt obligations are summarized as follows:

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

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

The note payable requires monthly payments of $126,433 including interest at 5.9 percent, through October 2027. The note is collateralized by certain property and equipment. At June 30, 2015, the balance payable was $13,272,746.

Note 9 - Long-term Liabilities (Continued)

Maui Bonds

In 2012, Maui Memorial Medical Center (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 Bank of Montreal. Total borrowing under the first agreement was $8,100,000. These bonds carry an interest rate of 4.05 percent. The series 2012A bonds are secured by a loan note guarantee issued by the United States Department of Agriculture (USDA) through its Rural Development division. The series 2012B bonds provided initial funding for the purposes of construction of a physician clinic adjacent to the hospital, partially funding a building renovation, and equipment associated with imaging services. Total borrowing costs under the second agreement were $901,000. These bonds carry a variable interest rate that starts at 5 percent until September 1, 2017, at which point the rate shall reset on each September 1, occurring every five years thereafter at a rate equal to 3.75 percent over the prevailing five-year FHLB bulled rate (Seattle). In the event that such rate is no longer available or practicable, a similar index, as mutually agreed upon by the issuer and holders of the bonds, will be used. The series 2012B bonds are unsecured. The bonds are payable in annual installments ranging from $172,000 to $978,000. In connection with the series 2012A and series 2012B bond issuance, MMMC is subject to certain financial covenants.

In October 2013, MMMC closed on the final issuance under its agreement with the USDA (series 2013). The issuance consisted of an additional $12.64 million of revenue anticipation bonds which matured on February 1, 2015 and were issued under the existing master trust indenture dated April 1, 2008. These bonds carried an interest rate of 2.25 percent. The Series 2013 bonds were secured by the Direct Loan issued by the United States Department of Agriculture through its Rural Development division. The 2013 bonds provided the remaining funding for the construction of a physician clinic adjacent to the hospital and also for building renovations and equipment associated with imaging servies. The Series 2013 bonds were refinanced in full in Janary 2015.

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

Note 9 - Long-term Liabilities (Continued)

Hilo Residency Training Program - 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 of $11,893,162 from Central Pacific Bank and the United States Department of Agriculture (USDA). The assets and related liabilities have been recorded in the facility's accounting records. The loans and notes payable are collateralized by a security interest in the capital assets acquired from HRTP, as well as any rights, interest, and other tangible assets relating to such property. In October 2007, the loans and notes payable to Central Pacific Bank and the USDA were refinanced into a single note payable to Academic Capital.

The note payable requires monthly payments, including interest, totaling $64,069 through September 2032. The note payable is secured by certain assets of Hilo Medical Center (HMC). At June 30, 2015, the balance payable was $8,309,732.

Yukio Okutsu Veterans' Home - In May 2008, the Yukio Okutsu Veterans' Home entered into a line of credit for $1.8 million, which calls for monthly interest-only payments at an interest rate of 5 percent. In November 2014, the Yukio Okutsu Veterans' Home signed an extension, which extended the balloon principal payment due from December 2015 to December 2016. At June 30, 2015, the balance payable was $1,051,460.

KVMH's Port Allen Clinic - In April 2008, HHSC - Corporate entered into a promissory note with a bank to finance the leasehold improvements for KVMH's Port Allen Clinic. The note requires monthly principal and interest payments of $16,207 through maturity at November 23, 2017. The note is secured by a security interest in the leasehold improvements of the clinic. At June 30, 2015, the balance payable was $369,880.

Kahuku Medical Center - In July 2012, Kahuku Medical Center entered into a purchase and maintenance services agreement with Holden Hospital Supply, Inc. to finance the purchase and maintenance of an oxygen generator. The note requires monthly payments of $4,188 through maturity on June 30, 2019. The agreement also includes the financing of electrical and additional charges related to the oxygen generator. Interest is not a component of the agreement. At June 30, 2015, the balance of the loan was $146,972.

Note 9 - Long-term Liabilities (Continued)

In April 2014, Kahuku Medical Center entered into a loan, secured by a mortgage, to finance the purchase of land. The agreement required monthly principal and interest payments of $12,475 through maturity at April 2019. At June 30, 2015, the balance of the loan was $524,030.

The capital lease obligations are summarized as follows:

Corporate - HHSC entered into capital leases on behalf of the facilities. The capital lease obligation is recorded in HHSC - Corporate's accounting records. While the assets are being constructed, the amounts are recorded as construction in progress in the accounting records of either Corporate or the facilities. Corporate makes the capital lease payments and incurs the interest expense, while the facilities record depreciation on the capital assets. Corporate also computes capitalized interest on construction in progress and transfers the capitalized interest asset to the facilities. The facilities reimburse Corporate through the due from affiliates account. For the year ended June 30, 2015, capitalized interest was not material. Capital lease obligations recorded on Corporate's accounting records at June 30, 2015 were $22,544,167.

Corporate entered into a capital lease with Siemens for the financing of an electronic medical records system that is currently being installed.

Kahuku Medical Center - Kahuku Medical Center has entered into various capital lease obligations. The leases require monthly payments and are collateralized by the equipment. During 2014, Kahuku Medical Center entered into a capital lease for electronic medical records. Monthly payments are approximately $25,000, including interest at 7.8 percent. At June 30, 2015, the balance payable was $1,052,480.

Alii Health Center - Kona - During 2013, Alii Health Center - Kona entered into a capital lease for equipment for $125,921. The lease term is 60 months, with a monthly payment of $2,099, including interest. The lease is collateralized by the equipment. At June 30, 2015, the balance payable was $92,502.

Hilo Medical Center - Hilo Medical Center had one ongoing capital lease during fiscal year 2015 for time-keeping software and related support in the amount of $125,000. The lease term of this agreement is 36 months with total monthly payments of $3,472. There is no interest included in the capital payments and the lease is collateralized by the equipment. At June 30, 2015, the balance outstanding under this lease agreement was $69,445.

During the year ended June 30, 2015, Hilo Medical Center entered into two capital leases for a time-keeping system and related support in the amount of $279,968. The lease term is 27 months with a monthly payment of $10,369. There is no interest included in the capital payments. The lease is collateralized by the equipment. At June 30, 2015, the balance payable was $250,117.

Note 9 - Long-term Liabilities (Continued)

The following is a schedule by year of principal and interest as of June 30, 2015:

	Long-term Debt		Capital Lease Obligation	
Years Ending June 30	Principal	Interest	Principal	Interest
2016	$ 1,657,630	$ 2,006,025	$ 9,484,120	$ 726,824
2017	2,989,502	1,908,629	6,259,234	431,422
2018	1,754,215	1,864,082	4,340,114	249,498
2019	1,759,529	1,718,792	1,617,035	152,839
2020	1,727,665	1,626,484	341,087	123,359
2021-2025	10,213,188	10,421,411	1,458,141	343,910
2026-2030	9,052,018	5,346,924	439,535	22,306
2031-2035	5,064,203	2,058,927	-	-
Thereafter	8,443,403	1,557,734	-	-
Total payments	$ 42,661,353	$ 28,509,008	$ 23,939,266	$ 2,050,158

Note 10 - Commitments and Contingencies

Professional Liability - HHSC maintains professional and general liability insurance with a private insurance carrier with a $35 million limit per claim and a $39 million aggregate. HHSC has also purchased additional excess insurance with a $10 million per claim and aggregate limit. HHSC's general counsel advises that, in the unlikely event any judgments rendered against HHSC exceed HHSC's professional liability coverage, such amount 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.

Workers' Compensation Liability - HHSC is self-insured for workers' compensation claims. HHSC 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. HHSC 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. HHSC has accrued a liability of $13,779,000 for unpaid claims as of June 30, 2015.

Estimated liability - Beginning of year	$ 13,731,000
Estimated claims incurred - Including changes in estimates	3,636,000
Claim payments	(3,588,000)
Estimated liability - End of year	$ 13,779,000

Note 10 - Commitments and Contingencies (Continued)

Operating Leases - HMC, MMMC, and Alii entered into various operating leases and related sublease agreements. Future minimum lease payments and sublease receipts at June 30, 2015 are as follows:

Years Ending June 30	Lease Payments	Sublease Receipts
2016	$ 1,879,111	$ 106,294
2017	1,912,135	106,294
2018	1,169,499	-
2019	1,204,670	-
2020	1,240,802	-
Thereafter	3,414,077	-
Total	$ 10,820,294	$ 212,588

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

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

Note 10 - Commitments and Contingencies (Continued)

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

For the year ended June 30, 2015, there were no payments made to OHA.

Litigation - HHSC 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 HHSC's financial statements.

Supplemental Information

Hawaii Health Systems Corporation

Supplemental Schedule of Reconciliation of Cash on Deposit and Assets Limited as to Use with the State of Hawaii
June 30, 2015

	Appropriation Symbol	
Cash and cash equivalents - State of Hawaii		
Special Funds:		
	S-14-303-H	597,385
	S-15-373-H	254
	S-93-359-H	2,818
	S-96-359-H	2,007
	S-97-359-H	3,556
	S-12-350-H	1
	S-12-351-H	1,274
	S-12-352-H	1
	S-12-353-H	30,627
	S-11-354-H	1,214,846
	S-10-355-H	700,233
	S-10-371-H	106,576
	S-10-358-H	160,205
	S-14-365-H	1,474
	S-14-312-H	448,109
	S-13-373-H	0
Trust Funds:		
	T-04-918-H	1,273
	T-04-921-H	6,679
Total Per State		3,277,318
Reconciling Items		0
Total Per HHSC		**3,277,318**
Assets limited as to use - Patient trust funds:		
	T-04-923-H	4,129
	T-04-919-H	1,044
	T-04-911-H	22,912
	T-09-909-H	9,386
	T-09-925-H	70,440
Total Per State		107,911
Reconciling Items:		
Patients' safekeeping deposits held by financial institutions		124,859
Restricted assets held by financial institutions		5,907,807
Total Per HHSC		**6,140,577**

Hawaii Health Systems Corporation

Statement of Net Position (Deficit) of Facilities
June 30, 2015

	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital	Maluhia
	Facilities										
Assets											
Current Assets											
Cash and cash equivalents - State of Hawaii	$ 1	$ 2,547	$ 6,680	$ -	$ 1,214,846	$ 30,627	$ 700,233	$ 106,576	$ 160,205	$ 448,109	$ 1,474
Cash and cash equivalents	9,729,619	9,005	10,323	1,000	7,333,084	3,323,073	34,667,406	6,925,806	557,676	789,832	3,508,418
Patient accounts receivable - Less allowances for doubtful accounts	19,993,554	1,814,817	695,011	1,693,823	12,496,704	652,625	32,059,490	3,694,946	933,469	2,130,556	2,191,325
Investments	7,225,244	-	-	-	-	-	-	-	-	-	-
Supplies and other current assets	4,301,961	477,134	85,897	17,492	2,373,222	52,056	7,271,538	335,214	133,694	141,286	1,298,273
Due from the State of Hawaii	23,033,406	-	4,000	-	5,320,144	1,227,814	23,027,000	5,841,000	3,579,000	9,043,000	6,726,000
Estimated third-party payor settlements	1,595,040	224,696	173,848	-	1,036,855	110,027	1,332,090	102,212	46,654	601,892	383,044
Total current assets	65,878,825	2,528,199	975,759	1,712,315	29,774,855	5,396,222	99,057,757	17,005,754	5,410,698	13,154,675	14,108,534
Due from Affiliates - Net	-	-	-	-	-	-	5,982,540	354,204	-	-	-
Capital Assets - Net	44,294,308	17,559,147	6,221,928	22,988,596	33,581,427	2,528,396	152,254,166	15,142,347	3,187,411	8,587,803	6,948,703
Assets Limited as to Use	40,683	32,620	4,649	-	81,141	-	999,457	77,764	7,532	90,792	55,631
Other Assets	192,681	-	-	-	661,653	-	111,209	3,435	-	-	-
Total assets	110,406,497	20,119,966	7,202,336	24,700,911	64,099,076	7,924,618	258,405,129	32,583,504	8,605,641	21,833,270	21,112,868
Deferred Outflows of Resources - Pension	17,129,370	1,400,556	865,516	-	7,098,090	846,144	22,976,218	2,965,485	426,329	3,083,773	2,510,836
Total assets and deferred outflows of resources	**$ 127,535,867**	**$ 21,520,522**	**$ 8,067,852**	**$ 24,700,911**	**$ 71,197,166**	**$ 8,770,762**	**$ 281,381,347**	**$ 35,548,989**	**$ 9,031,970**	**$ 24,917,043**	**$ 23,623,704**
Liabilities and Net Position (Deficit)											
Current Liabilities											
Current portion of long-term debt	$ 286,211	$ -	$ -	$ -	$ -	$ -	$ 236,900	$ -	$ -	$ -	$ -
Current portion of capital lease obligations	166,097	-	-	-	-	-	-	-	-	-	-
Accounts payable and accrued expenses	24,419,219	1,298,800	581,174	561,993	10,277,676	435,260	33,508,720	1,739,671	643,510	2,379,760	1,602,017
Current portion of accrued workers' compensation liability	928,000	126,000	10,000	-	469,000	78,000	820,000	246,000	18,000	460,000	186,000
Current portion of accrued vacation	5,224,552	299,150	225,815	78,386	2,212,980	240,679	4,299,740	750,871	84,815	1,148,935	813,179
Estimated third party payor settlements	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities	-	-	-	-	-	-	744,239	20,000	10,000	-	-
Total current liabilities	31,024,079	1,723,950	816,989	640,379	12,959,656	753,939	39,609,599	2,756,542	756,325	3,988,695	2,601,196
Long-term Debt - Less current portion	8,023,521	-	-	1,051,460	-	-	18,617,994	-	-	-	-
Capital Lease Obligations - Less current portion	84,020	-	-	-	-	-	-	-	-	-	-
Other Liabilities											
Accrued vacation - Less current portion	4,960,585	372,205	293,738	-	1,851,370	343,161	7,627,807	1,332,058	150,464	1,610,773	1,173,561
Accrued workers' compensation - Less current portion	2,825,000	483,000	117,000	-	886,000	51,000	3,453,000	475,000	57,000	291,000	362,000
Other postemployment benefit liability	84,943,429	6,807,951	4,206,678	-	34,881,893	4,114,488	114,901,557	14,446,315	2,069,981	14,989,194	12,203,403
Due to affiliates - Net	85,154,227	(5,066,948)	7,853,673	544,674	41,396,555	9,882,882	-	28,824,516	16,855,633	17,511,941	28,033,887
Due to the State of Hawaii - Less current portion	-	506,153	-	-	7,605,205	528,149	-	1,114,264	-	6,416,791	491,450
Pension liability	140,532,797	13,142,445	7,835,426	-	62,465,335	6,946,480	193,620,190	26,711,137	3,866,251	28,996,305	23,801,688
Patients' safekeeping deposits	40,683	32,620	4,649	-	-	-	-	77,764	7,532	81,407	29,215
Other liabilities	19,663	500	-	-	3,833	-	-	-	-	-	-
Total liabilities	357,608,004	18,001,876	21,128,153	2,236,513	162,049,847	22,620,099	377,830,147	75,737,596	23,763,186	73,886,106	68,696,400
Deferred Inflows of Resources - Pension	16,843,527	1,377,184	851,073	-	6,979,642	832,024	22,592,807	2,915,999	419,214	3,032,313	2,468,937
Total liabilities and deferred inflows of resources	374,451,531	19,379,060	21,979,226	2,236,513	169,029,489	23,452,123	400,422,954	78,653,595	24,182,400	76,918,419	71,165,337
Net Position (Deficit)											
Invested in capital assets - Net of related debt	35,734,459	17,559,147	6,221,928	21,937,136	33,581,427	2,528,396	141,242,272	15,142,347	3,187,411	8,587,803	6,948,703
Restricted for capital purchases	2,000,000	-	-	-	81,141	-	2,012,695	-	-	9,386	24,535
Unrestricted	(284,650,123)	(15,417,685)	(20,133,302)	527,262	(131,494,891)	(17,209,757)	(262,296,574)	(58,246,953)	(18,337,841)	(60,598,565)	(54,514,871)
Total net position (deficit)	(246,915,664)	2,141,462	(13,911,374)	22,464,398	(97,832,323)	(14,681,361)	(119,041,607)	(43,104,606)	(15,150,430)	(52,001,376)	(47,541,633)
Total liabilities and net position (deficit)	**$ 127,535,867**	**$ 21,520,522**	**$ 8,067,852**	**$ 24,700,911**	**$ 71,197,166**	**$ 8,770,762**	**$ 281,381,347**	**$ 35,548,989**	**$ 9,031,970**	**$ 24,917,043**	**$ 23,623,704**

	Kahuku Medical Center	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Total Facilities	Corporate	Reclassifications and Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Reclassifications and Eliminations	HHSC Consolidated
	Facilities											
Assets												
Current Assets												
Cash and cash equivalents - State of Hawaii	$ -	$ 8,381	$ 254	$ 2,679,933	$ 597,385	$ -	$ 3,277,318	$ -	$ -	$ -	$ -	$ 3,277,318
Cash and cash equivalents	1,135,755	5,030,781	3,086,460	76,108,238	6,883,951	-	82,992,189	40,235	49,498	125,371	-	83,207,293
Patient accounts receivable - Less allowances for doubtful accounts	2,425,500	3,653,294	2,355,227	86,790,341	-	-	86,790,341	-	10,153	413,263	-	87,213,757
Investments	-	-	-	7,225,244	-	-	7,225,244	-	-	-	-	7,225,244
Supplies and other current assets	352,707	676,480	224,133	17,741,087	57,696	-	17,798,783	-	26,731	47,786	-	17,873,300
Due from the State of Hawaii	1,866,000	2,585,037	3,099,848	85,352,249	1,027,000	-	86,379,249	-	-	-	-	86,379,249
Estimated third-party payor settlements	-	1,050,880	825,975	7,483,213	-	-	7,483,213	-	-	-	-	7,483,213
Total current assets	5,779,962	13,004,853	9,591,897	283,380,305	8,566,032	-	291,946,337	40,235	86,382	586,420	-	292,659,374
Due from Affiliates - Net	-	-	-	6,336,744	314,270,677	(302,287,550)	18,319,871	-	-	-	(18,319,871)	-
Capital Assets - Net	9,281,007	10,933,470	5,925,714	339,434,423	13,626,491	-	353,060,914	-	10,095,797	153,628	-	363,310,339
Assets Limited as to Use	3,222	2,723	19,309	1,415,523	4,725,054	-	6,140,577	-	-	-	-	6,140,577
Other Assets	-	-	-	968,978	-	-	968,978	-	-	41,047	-	1,010,025
Total assets	15,064,191	23,941,046	15,536,920	631,535,973	341,188,254	(302,287,550)	670,436,677	40,235	10,182,179	781,095	(18,319,871)	663,120,315
Deferred Outflows of Resources - Pension	-	4,896,295	1,927,508	66,126,120	2,167,115	-	68,293,235	-	-	-	-	68,293,235
Total assets and deferred outflows of resources	**$ 15,064,191**	**$ 28,837,341**	**$ 17,464,428**	**$ 697,662,093**	**$ 343,355,369**	**$ (302,287,550)**	**$ 738,729,912**	**$ 40,235**	**$ 10,182,179**	**$ 781,095**	**$ (18,319,871)**	**$ 731,413,550**
Liabilities and Net Position (Deficit)												
Current Liabilities												
Current portion of long-term debt	$ 177,970	$ 169,542	$ -	$ 870,623	$ -	$ -	$ 870,623	$ -	$ 754,408	$ 32,599	$ -	$ 1,657,630
Current portion of capital lease obligations	553,163	-	-	719,260	8,729,060	-	9,448,320	-	-	35,800	-	9,484,120
Accounts payable and accrued expenses	1,055,115	5,008,715	1,427,994	84,939,624	6,852,198	-	91,791,822	-	205,045	808,614	(317,345)	92,488,136
Current portion of accrued workers' compensation liability	-	112,000	112,000	3,565,000	-	-	3,565,000	-	-	-	-	3,565,000
Current portion of accrued vacation	281,546	2,536,385	642,801	18,839,834	693,659	-	19,533,493	-	-	-	-	19,533,493
Estimated third party payor settlements	194,756	-	-	194,756	-	-	194,756	-	-	-	-	194,756
Other current liabilities	-	110,000	10,000	894,239	23,000	-	917,239	-	438,262	-	-	1,355,501
Total current liabilities	2,262,550	7,936,642	2,192,795	110,023,336	16,297,917	-	126,321,253	-	1,397,715	877,013	(317,345)	128,278,636
Long-term Debt - Less current portion	493,032	200,338	-	28,386,345	-	-	28,386,345	-	12,518,338	99,040	-	41,003,723
Capital Lease Obligations - Less current portion	499,317	-	-	583,337	13,815,107	-	14,398,444	-	-	56,702	-	14,455,146
Other Liabilities												
Accrued vacation - Less current portion	-	969,726	1,065,748	21,751,196	751,045	-	22,502,241	-	-	100,436	-	22,602,677
Accrued workers' compensation - Less current portion	-	695,000	258,000	9,953,000	261,000	-	10,214,000	-	-	-	-	10,214,000
Other postemployment benefit liability	-	24,751,204	9,368,627	327,684,720	10,564,005	-	338,248,725	-	-	-	-	338,248,725
Due to affiliates - Net	413,398	56,672,683	14,210,429	302,287,550	-	(302,287,550)	-	-	18,002,526	-	(18,002,526)	-
Due to the State of Hawaii - Less current portion	-	1,043,345	2,417,150	20,122,507	14,000,000	-	34,122,507	-	-	-	-	34,122,507
Pension liability	-	45,373,173	17,643,931	570,935,158	13,062,081	-	583,997,239	-	-	-	-	583,997,239
Patients' safekeeping deposits	3,222	-	18,265	295,357	-	-	295,357	-	-	-	-	295,357
Other liabilities	-	26,087	9,740	59,823	-	-	59,823	-	-	-	-	59,823
Total liabilities	3,671,519	137,668,198	47,184,685	1,392,082,329	68,751,155	(302,287,550)	1,158,545,934	-	31,918,579	1,133,191	(18,319,871)	1,173,277,833
Deferred Inflows of Resources - Pension	-	4,814,589	1,895,343	65,022,652	2,130,952	-	67,153,604	-	-	-	-	67,153,604
Total liabilities and deferred inflows of resources	3,671,519	142,482,787	49,080,028	1,457,104,981	70,882,107	(302,287,550)	1,225,699,538	-	31,918,579	1,133,191	(18,319,871)	1,240,431,437
Net Position (Deficit)												
Invested in capital assets - Net of related debt	7,557,525	10,563,590	5,925,714	316,717,858	1,178,997	-	317,896,855	-	(3,176,949)	(70,513)	(10,096,673)	304,552,720
Restricted for capital purchases	-	4,129	1,044	4,132,930	-	-	4,132,930	-	-	-	-	4,132,930
Unrestricted	3,835,147	(124,213,165)	(37,542,358)	(1,080,293,676)	271,294,265	-	(808,999,411)	40,235	(18,559,451)	(281,583)	10,096,673	(817,703,537)
Total net position (deficit)	11,392,672	(113,645,446)	(31,615,600)	(759,442,888)	272,473,262	-	(486,969,626)	40,235	(21,736,400)	(352,096)	-	(509,017,887)
Total liabilities and net position (deficit)	**$ 15,064,191**	**$ 28,837,341**	**$ 17,464,428**	**$ 697,662,093**	**$ 343,355,369**	**$ (302,287,550)**	**$ 738,729,912**	**$ 40,235**	**$ 10,182,179**	**$ 781,095**	**$ (18,319,871)**	**$ 731,413,550**

Hawaii Health Systems Corporation

Statement of Revenue, Expenses, and Changes in Net Position (Deficit) of Facilities
Year Ended June 30, 2015

	Facilities									
	Hilo Medical Center	Hale Ho'ola Hamakua	Ka'u Hospital	Yukio Okutsu Veterans Care Home - Hilo	Kona Community Hospital	Kohala Hospital	Maui Memorial Medical Center	Kula Hospital	Lanai Community Hospital	Leahi Hospital
Operating Revenue										
Net patient service revenue - Net of provision for doubtful accounts	$ 150,121,577	$ 16,618,436	$ 6,357,556	$ 11,520,293	$ 70,990,165	$ 7,024,249	$ 215,288,944	$ 22,940,930	$ 3,529,676	$ 16,176,246
Other revenue	1,918,545	146,626	117,410	-	2,350,746	6,623	3,355,360	85,919	232,645	208,626
Total operating revenue	152,040,122	16,765,062	6,474,966	11,520,293	73,340,911	7,030,872	218,644,304	23,026,849	3,762,321	16,384,872
Operating Expenses										
Salaries	74,201,510	6,873,303	3,889,750	4,690,723	31,479,219	3,861,339	100,156,238	12,502,620	2,176,715	12,609,278
Employee benefits	43,730,001	3,403,951	1,912,581	450,384	15,686,939	2,155,622	57,070,408	7,367,218	1,266,464	7,464,835
Purchased services	22,645,954	2,029,822	1,232,117	1,430,567	14,419,009	1,387,378	25,743,185	1,606,871	1,579,835	527,959
Medical supplies and drugs	20,859,609	493,662	139,239	489,754	7,729,801	49,429	41,716,944	738,854	273,569	556,732
Depreciation and amortization	7,605,797	1,023,689	705,755	743,664	4,865,256	278,607	15,219,545	1,042,154	224,990	560,133
Utilities	3,288,839	584,898	225,983	966,773	1,598,840	155,714	5,036,772	322,633	170,256	1,079,424
Repairs and maintenance	3,897,484	295,591	107,786	76,187	2,983,477	147,312	4,524,645	389,989	126,197	355,434
Other supplies	3,929,576	610,644	214,392	433,453	1,349,483	401,873	5,289,617	719,554	168,577	657,827
Professional fees	7,389,981	202,193	31,408	65,897	3,850,337	126,099	2,838,933	182,524	42,286	43,294
Insurance	1,106,358	48,370	68,965	1,163,424	565,094	11,356	1,564,863	118,589	20,039	150,529
Rent and lease	2,309,860	40,195	35,357	71,904	545,184	68,826	3,126,193	107,256	1,377	22,523
Other	2,153,783	221,191	118,025	760,626	531,068	(65,797)	1,627,480	90,223	57,207	67,610
Total operating expenses	193,118,752	15,827,509	8,681,358	11,343,356	85,603,707	8,577,758	263,914,823	25,188,485	6,107,512	24,095,578
Operating (Loss) Income	(41,078,630)	937,553	(2,206,392)	176,937	(12,262,796)	(1,546,886)	(45,270,519)	(2,161,636)	(2,345,191)	(7,710,706)
Nonoperating Revenue (Expenses)										
General appropriations from the State of Hawaii	25,300,676	2,075,510	1,444,165	-	14,897,177	1,089,890	32,932,870	4,393,278	1,514,249	6,711,975
Collective bargaining pay raise appropriations	3,146,123	249,418	121,976	-	1,578,773	144,282	4,369,707	443,646	80,949	475,003
Loss on disposal of capital assets	(16,312)	-	-	-	(249,889)	-	(402)	-	-	(94,785)
Restricted contributions	693,765	-	54,368	-	350,000	45,699	1,017,796	-	-	-
Interest expense	(498,976)	-	-	(50,190)	(110,369)	(2,570)	(889,580)	(1,143)	(38)	(13,150)
Interest and dividend income	28,831	5,706	2,529	-	9,722	7,357	52,375	11,574	110	9,430
Corporate allocation expense	(3,191,437)	(258,478)	(138,499)	-	(2,227,084)	(219,974)	(6,708,053)	(647,152)	(158,079)	(630,710)
Other nonoperating revenue (expenses) - Net	828,387	238,385	(23,922)	53	(1,728,819)	15,293	279,512	52,467	19,274	38,103
Total nonoperating revenue (expenses)	26,291,057	2,310,541	1,460,617	(50,137)	12,519,511	1,079,977	31,054,225	4,252,670	1,456,465	6,495,866
Excess of Revenue (Under) Over Expenses	(14,787,573)	3,248,094	(745,775)	126,800	256,715	(466,909)	(14,216,294)	2,091,034	(888,726)	(1,214,840)
Capital Contributions	14,328,000	(1,000)	(105,000)	-	7,023,592	999,000	7,959,303	3,652,073	1,800,112	5,795,044
Restricted Capital Contributions - Net	2,000,000	-	-	-	-	-	2,000,000	-	-	-
Transfer from (to) Affiliate	-	-	-	-	361,619	23,317	1,123,949	923,102	206,441	-
Increase (Decrease) in Net Position	**$ 1,540,427**	**$ 3,247,094**	**$ (850,775)**	**$ 126,800**	**$ 7,641,926**	**$ 555,408**	**$ (3,133,042)**	**$ 6,666,209**	**$ 1,117,827**	**$ 4,580,204**

	Facilities												
	Maluhia	Kahuku Medical Center	Kauai Veterans Memorial Hospital	Samuel Mahelona Memorial Hospital	Total Facilities	Corporate	Reclassifications and Eliminations	HHSC Combined	Hawaii Health Systems Foundation	Alii Community Care - Maui	Alii Community Care - Kona	Reclassifications and Eliminations	HHSC Consolidated
Operating Revenue													
Net patient service revenue - Net of provision for doubtful accounts	$ 16,274,094	$ 11,609,181	$ 34,359,373	$ 18,169,996	$ 600,980,716	$ -	$ -	$ 600,980,716	$ -	$ -	$ 3,330,408	$ -	$ 604,311,124
Other revenue	35,041	1,248,666	905,495	1,146,998	11,758,700	-	(420,142)	11,338,558	-	3,807,504	1,080,316	-	16,226,378
Total operating revenue	16,309,135	12,857,847	35,264,868	19,316,994	612,739,416	-	(420,142)	612,319,274	-	3,807,504	4,410,724	-	620,537,502
Operating Expenses													
Salaries	11,672,326	4,820,681	21,548,756	9,442,723	299,925,181	8,270,054	-	308,195,235	-	-	3,489,486	-	311,684,721
Employee benefits	5,775,964	1,900,212	8,695,584	4,393,496	161,273,659	5,423,243	-	166,696,902	-	-	1,317,007	-	168,013,909
Purchased services	612,209	1,320,311	3,703,320	1,295,209	79,533,746	1,846,018	(420,142)	80,959,622	-	25,776	59,264	-	81,044,662
Medical supplies and drugs	379,539	1,081,502	1,894,266	299,042	76,701,942	-	-	76,701,942	-	-	286,180	-	76,988,122
Depreciation and amortization	490,301	929,204	1,423,539	624,335	35,736,969	476,977	-	36,213,946	-	893,190	73,852	-	37,180,988
Utilities	741,788	474,412	1,061,677	454,723	16,162,732	364,244	-	16,526,976	-	379,652	480	-	16,907,108
Repairs and maintenance	433,539	642,079	662,550	477,466	15,119,736	284,069	-	15,403,805	-	53,286	111,369	-	15,568,460
Other supplies	738,489	469,574	785,778	540,872	16,309,709	162,603	-	16,472,312	-	407,487	26,836	-	16,906,635
Professional fees	48,659	933,845	734,021	333,045	16,822,522	288,329	-	17,110,851	-	2,418,134	(110,057)	-	19,418,928
Insurance	86,406	43,427	362,636	84,878	5,394,934	13,001	-	5,407,935	-	97,474	53,243	-	5,558,652
Rent and lease	1,126	155,660	395,338	43,646	6,924,445	216,714	-	7,141,159	-	339,927	582,930	-	8,064,016
Other	38,550	855,369	414,929	114,071	6,984,335	525,504	-	7,509,839	2,199	157,602	572,229	-	8,241,869
Total operating expenses	21,018,896	13,626,276	41,682,394	18,103,506	736,889,910	17,870,756	(420,142)	754,340,524	2,199	4,772,528	6,462,819	-	765,578,070
Operating (Loss) Income	(4,709,761)	(768,429)	(6,417,526)	1,213,488	(124,150,494)	(17,870,756)	-	(142,021,250)	(2,199)	(965,024)	(2,052,095)	-	(145,040,568)
Nonoperating Revenue (Expenses)													
General appropriations from the State of Hawaii	4,145,609	1,500,000	7,713,596	2,721,006	106,440,001	-	-	106,440,001	-	-	-	-	106,440,001
Collective bargaining pay raise appropriations	376,135	-	695,642	269,290	11,950,944	49,056	-	12,000,000	-	-	-	-	12,000,000
Loss on disposal of capital assets	-	-	-	-	(361,388)	-	-	(361,388)	-	-	-	-	(361,388)
Restricted contributions	-	-	-	-	2,161,628	-	-	2,161,628	-	-	99,020	-	2,260,648
Interest expense	(220)	(133,528)	(83,225)	(135)	(1,783,124)	(959,547)	-	(2,742,671)	-	(806,028)	(3,540)	-	(3,552,239)
Interest and dividend income	4,837	-	7,464	11,443	151,378	11,272	-	162,650	-	6,156	-	-	168,806
Corporate allocation expense	(556,018)	-	(1,133,872)	(468,269)	(16,337,625)	16,337,625	-	-	-	-	-	-	-
Other nonoperating revenue (expenses) - Net	-	-	286,545	207,310	212,588	293,219	-	505,807	-	-	1,526,331	-	2,032,138
Total nonoperating revenue (expenses)	3,970,343	1,366,472	7,486,150	2,740,645	102,434,402	15,731,625	-	118,166,027	-	(799,872)	1,621,811	-	118,987,966
Excess of Revenue (Under) Over Expenses	(739,418)	598,043	1,068,624	3,954,133	(21,716,092)	(2,139,131)	-	(23,855,223)	(2,199)	(1,764,896)	(430,284)	-	(26,052,602)
Capital Contributions	966,264	1,447,410	7,500	(110,082)	43,762,216	400,285	-	44,162,501	-	-	-	-	44,162,501
Restricted Capital Contributions - Net	-	-	-	-	4,000,000	-	-	4,000,000	-	-	-	-	4,000,000
Transfer from (to) Affiliate	-	-	-	-	2,638,428	(2,638,428)	-	-	-	-	-	-	-
Increase (Decrease) in Net Position	**$ 226,846**	**$ 2,045,453**	**$ 1,076,124**	**$ 3,844,051**	**$ 28,684,552**	**$ (4,377,274)**	**$ -**	**$ 24,307,278**	**$ (2,199)**	**$ (1,764,896)**	**$ (430,284)**	**$ -**	**$ 22,109,899**

Required Supplemental Information

Required Supplemental Information
Schedule of Contributions
Employees' Retirement System of the State of Hawaii
Year Ended June 30

	2015	2014
Contractually required contribution	$ 49,213,969	$ 53,279,576
Contributions in relation to the contractually required contribution	50,272,620	47,500,308
Contribution (Excess) Deficiency	**$ (1,058,651)**	**$ 5,779,268**
Corporation's Covered Employee Payroll	$ 285,988,382	$ 268,597,949
Contributions as a Percentage of Covered Employee Payroll	17.6 %	17.7 %

Hawaii Health Systems Corporation

Required Supplemental Information
Schedule of the Proportionate Share of the Net Pension Liability
Employees' Retirement System of the State of Hawaii
Year Ended June 30

	2015	2014
Corporation's proportion of the net pension liability (asset)	7.3 %	7.2 %
Corporation's proportionate share of the net pension liability (asset)	$ 583,997,239	$ 638,368,793
Corporation's covered employee payroll	$ 285,988,382	$ 268,597,949
Corporation's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	204.2 %	237.7 %
Plan Fiduciary Net Position as a Percent of Total Pension Liability	63.9 %	58.0 %

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

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

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

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

Valuation methods and assumptions used to determine contribution for fiscal year 2014:

Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Remaining amortization period	23 years
Asset valuation method	5-year smoothed market
Inflation	3.0%
Salary increases	3.5% wage inflation
Investment rate of return	7.75% per year, compounded annually including inflation

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

Independent Auditor's Report

To Management and the Board of Directors
Hawaii Health Systems Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hawaii Health Systems Corporation (HHSC or the "Corporation"), which comprise the basic statement of net position as of June 30, 2015 and the related basic statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hawaii Health Systems Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HHSC's internal control. Accordingly, we do not express an opinion on the effectiveness of HHSC'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, we identified certain deficiencies in internal control that we consider to be material weaknesses 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as Findings 2015-1 through 2015-3 to be material weaknesses.

To Management and the Board of Directors
Hawaii Health Systems Corporation

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 2015-4 through 2015-9 to be significant deficiencies.

Compliance and Other Matters

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

Hawaii Health Systems Corporation's Responses to Findings

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

Plante & Moran, PLLC

Grand Rapids, Michigan
December 29, 2015

Finding - 2015-1

Organization - Alii Community Care, Inc.

Finding Type - Material weakness

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

Condition - A property and equipment lapse schedule is not being updated properly at Roselani. Also, depreciation expense had not been recorded correctly in fiscal year 2015.

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

Cause - An adjustment to depreciation expense of $6,581 needed to be recorded in fiscal year 2015.

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

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

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

Finding - 2015-2

Organization - Alii Community Care, Inc.

Finding Type - Material weakness

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

Condition - Alii Community Care, Inc. reported financial results on a cash basis throughout 2015.

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

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

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

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

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

Finding - 2015-3

Organization - Alii Community Care, Inc.

Finding Type - Material weakness

Criteria - Segregation of duties should be in place for individuals who receive cash and post payments to patient accounts.

Condition - Alii Community Care, Inc. did not have appropriate segregation of duties in place throughout 2015.

Context - Misappropriation of assets could occur and could go unnoticed and uncorrected.

Cause - Employees' responsibilities include receiving cash and posting the payment to the patient account.

Effect - Misappropriation of assets could occur and could go unnoticed and uncorrected.

Recommendation - We recommend that the cash receipt procedures be updated to segregate the process of collecting cash payments and the responsibility for posting payments to patient accounts. We also recommend a detailed review of adjustments to patient accounts.

Views of Responsible Officials and Planned Corrective Action Plan - The ACC Board will review and evaluate Alii Health Center's cash receipt processes based on concerns raised by Plante & Moran, PLLC.

Finding - 2015-4

Organization - East Hawaii Region

Finding Type - Significant deficiency

Criteria - Inventory quantities within the detail listing should be reconciled to count sheets periodically to ensure the balance in the general ledger is accurate.

Condition - Inventory quantities were incorrect in the detail listing.

Context - For two supplies in inventory, obsolete and disposed inventory was not appropriately written off at June 30, 2015, which resulted in an estimated adjustment of $26,400 to decrease the inventory balance associated with these two supplies.

Cause - The obsolete inventory was not properly updated in the detail listing.

Effect - Inventory was overstated at June 30, 2015.

Recommendation - We recommend the East Hawaii Region reconcile inventory count sheets to the detail listing on a periodic basis and review for slow-moving or obsolete inventory.

Views of Responsible Officials and Planned Corrective Action Plan - Management has corrected the error and put procedures in place to properly review inventory quantities.

Finding - 2015-5

Organization - Kauai Region

Finding Type - Significant deficiency

Criteria - The balance recorded in a vacation accrual should be reviewed on a regular basis to ensure proper reporting of employee balances.

Condition - Changes to employee accrued vacation were not carried forward into the 2015 year leave report, causing the ending balance to be understated.

Context - Vacation balances for an employee was understated by 40 hours.

Cause - Management does not verify when requested vacation is used.

Effect - The ending accrued vacation balance is understated.

Recommendation - Management should implement a process to better track employee vacation used.

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

Finding - 2015-6

Organization - Kauai Region

Finding Type - Significant deficiency

Criteria - Management should be reviewing accounting guidance on the capitalization of assets prior to entry into the accounting system.

Condition - During the year, it was noted that costs for asbestos remediation were capitalized as an asset.

Context - Fixed asset additions were improperly overstated by approximately $319,000.

Cause - Lack of review of capitalization guidance.

Effect - Fixed asset balances were overstated, and expenses were understated by approximately $319,000 as of June 30, 2015.

Recommendation - We recommend that management review capitalization guidance prior to entering assets into the accounting system.

Views of Responsible Officials and Planned Corrective Action Plan - Management will work to review guidance prior to future capitalization of assets.

Finding - 2015-7

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - Management should have a process for proper review of all manual entries posted to the general ledger.

Condition - A correcting entry was posted for Kula Hospital which was already captured and recorded within the year-end revenue accrual entry, effectively booking an entry twice.

Context - Patient accounts receivable and revenue were overstated by approximately $250,000 as of June 30, 2015.

Cause - An entry was recorded twice due to lack of understanding of the revenue accrual already recorded, in addition to a lack of proper review of the entry recorded.

Effect - As a result of the duplicate adjustment, approximately $250,000 of patient accounts receivable and revenue were removed from the statement of net position and statement of revenue, expenses, and changes in net position, respectively, for the year ended June 30, 2015.

Recommendation - We recommend that all manual entries be properly reviewed and approved.

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

Finding - 2015-8

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - Management should be actively identifying and understanding generally accepted accounting principles that are relevant to the Region.

Condition - During audit testing, it was identified that there was no retainage recorded related to the Region's ongoing construction projects at June 30, 2015.

Context - We identified that there was no liability or related asset recorded for retainage related to capital projects in place at year end.

Cause - Lack of review of applicable accounting rules.

Effect - As a result of not recording retainage, liabilities and the related construction in progress assets are understated on the statement of net position by approximately $100,000 at June 30, 2015.

Recommendation - We recommend that management regularly review generally accepted accounting principles and implement any that are applicable to the Region.

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

Finding - 2015-9

Organization - Maui Region

Finding Type - Significant deficiency

Criteria - The ability to post adjustments to specific patient accounts should be limited to a small group of necessary individuals.

Condition - Over 150 individuals in the Region have the ability to post adjustments to specific patient accounts.

Context - We identified that an excessive number of individuals are able to post adjustments to patient accounts, including individuals that receive cash.

Cause - Lack of proper limitation of access to patient accounts.

Effect - No financial statement effect was identified; however, internal controls are considered to be negatively impacted as incorrect adjustments could be posted and not identified.

Recommendation - We recommend that the number of individuals with the ability to post adjustments to patient accounts be significantly reduced, and be limited to individuals that do not have cash receipt or accounting responsibilities.

Views of Responsible Officials and Planned Corrective Action Plan - Management will work to correct the issue.