Consolidated Financial Statements and Supplementary Information

Hawai‘i Pacific Health
Years Ended June 30, 2023 and 2022
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Hawaiʻi Pacific Health

Consolidated Financial Statements and
Supplementary Information

Years Ended June 30, 2023 and 2022

Contents

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Report of Independent Auditors

The Board of Directors
Hawai‘i Pacific Health

Opinion

We have audited the consolidated financial statements of Hawai‘i Pacific Health, which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hawai‘i Pacific Health at June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hawai‘i Pacific Health and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hawai‘i Pacific Health’s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hawai‘i Pacific Health’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hawai‘i Pacific Health’s ability to continue as a going concern for a reasonable period of time.

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

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Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Members of the Hawai‘i Pacific Health Obligated Group combined financial statements are presented for purposes of additional analysis and are 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 audit 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.

Ernst & Young LLP

November 9, 2023

Hawaiʻi Pacific Health

Consolidated Balance Sheets

	June 30 2023	June 30 2022
Assets		
Current assets:		
Cash and cash equivalents	**$ 264,961,729**	$ 294,306,954
Patient accounts receivable, net	**177,810,925**	181,985,645
Due from third-party payors	**32,894,451**	24,520,090
Other receivables	**23,075,927**	18,692,736
Inventories	**27,415,075**	22,740,916
Funds held by trustee under bond indenture agreement	**16,363,575**	15,903,482
Prepaid expenses and other	**17,234,385**	15,195,995
Total current assets	**559,756,067**	573,345,818
Assets whose use is limited or restricted:		
Board-designated	**376,538,112**	341,240,820
Restricted by donor or grantor	**26,060,293**	24,801,752
Total assets whose use is limited or restricted	**402,598,405**	366,042,572
Investments	**482,948,991**	438,923,753
Property and equipment, net	**571,638,796**	568,743,261
Right of use assets – operating	**121,003,566**	121,547,153
Right of use assets – finance	**3,909,343**	4,017,038
Prepaid pension	**41,990,612**	45,142,421
Investments in business ventures	**16,364,483**	16,678,655
Goodwill	**66,123,594**	37,696,133
Other	**77,747,905**	72,594,134
Total assets	**$ 2,344,081,762**	$ 2,244,730,938

See accompanying notes.

	June 30	
	2023	**2022**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 80,154,411**	$ 74,062,702
Payroll and related liabilities	**92,110,346**	102,692,020
Accrued expenses	**38,766,951**	36,538,459
Due to third-party payors	**8,881,747**	32,815,612
Current portion of long-term debt	**12,804,006**	9,793,344
Current portion of operating lease obligations	**14,585,617**	14,769,143
Current portion of finance lease obligations	**1,718,885**	1,570,521
Total current liabilities	**249,021,963**	272,241,801
Long-term debt, less current portion	**395,503,272**	408,307,279
Operating lease obligations, less current portion	**118,110,878**	118,385,741
Finance lease obligations, less current portion	**2,250,908**	2,639,661
Other long-term liabilities	**125,611,178**	107,293,171
Net assets:		
Net assets without donor restrictions:		
Attributable to Hawai‘i Pacific Health	**1,326,856,589**	1,240,419,700
Attributable to noncontrolling interests	**17,145,913**	–
Net assets without donor restrictions	**1,344,002,502**	1,240,419,700
Net assets with donor restrictions	**109,581,061**	95,443,585
Total net assets	**1,453,583,563**	1,335,863,285
Total liabilities and net assets	**$ 2,344,081,762**	$ 2,244,730,938

See accompanying notes.

Hawai‘i Pacific Health

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2023	**2022**
Revenues		
Net patient service revenue	**$ 1,559,592,370**	$ 1,441,662,625
Premium revenue	**42,320,677**	42,097,947
Other revenue	**89,697,280**	118,349,491
Net assets released from restrictions for operations	**17,518,601**	15,826,553
Total revenues	**1,709,128,928**	1,617,936,616
Expenses		
Salaries and employee benefits	**916,319,043**	876,869,478
Services	**254,623,282**	237,168,050
Supplies	**280,526,214**	243,503,859
Other purchases	**116,984,300**	112,436,182
Depreciation and amortization	**57,284,625**	55,309,368
Specific purpose projects/donations	**17,518,601**	15,826,553
Interest	**18,704,031**	19,375,033
Other	**35,688,447**	16,029,047
Total expenses	**1,697,648,543**	1,576,517,570
Operating income	**11,480,385**	41,419,046
Business venture investment income	**9,174,979**	3,467,082
Other non-operating loss	**–**	(2,490,798)
Investment income (loss), net	**79,488,532**	(65,890,906)
Pension non-operating income	**2,183,240**	11,850,701
	90,846,751	(53,063,921)
Excess (deficiency) of revenues over expenses	**102,327,136**	(11,644,875)
Less excess of revenues over expenses attributable to noncontrolling interests	**(1,700,874)**	–
Excess (deficiency) of revenues over expenses attributable to Hawai‘i Pacific Health	**$ 100,626,262**	$ (11,644,875)

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Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended June 30	
	2023	**2022**
Net assets without donor restrictions		
Controlling:		
Excess (deficiency) of revenues over expenses attributable to Hawai‘i Pacific Health	**$ 100,626,262**	$ (11,644,875)
Change in net unrealized losses on debt securities	**(524,512)**	(5,297,708)
Net assets released from restrictions for purchase of property and equipment	**1,398,561**	5,529,063
Pension related changes other than net periodic pension costs	**(3,009,911)**	14,981,543
Change in interest rate swap value	**809,045**	859,096
Other changes in net assets	**703,505**	12,280,292
Transfer of noncontrolling interest	**(13,566,061)**	–
Increase in controlling interests	**86,436,889**	16,707,411
Noncontrolling:		
Excess of revenues over expenses attributable to noncontrolling interests	**1,700,874**	–
Other changes in net assets attributable to noncontrolling interests	**1,878,978**	–
Transfer of noncontrolling interest	**13,566,061**	–
Increase in noncontrolling interests	**17,145,913**	–
Increase in net assets without donor restrictions	**103,582,802**	16,707,411
Net assets with donor restrictions		
Restricted grants and contributions	**30,652,387**	44,948,715
Investment income (loss)	**1,652,267**	(76,189)
Change in net unrealized gains (losses) on investments	**561,534**	(1,998,334)
Net assets released from restrictions	**(18,917,162)**	(21,355,616)
Change in beneficial interest in perpetual trusts	**242,513**	(892,155)
Other changes in net assets with donor restrictions	**(54,063)**	(2,128)
Increase in net assets with donor restrictions	**14,137,476**	20,624,293
Increase in net assets	**117,720,278**	37,331,704
Net assets at beginning of year	**1,335,863,285**	1,298,531,581
Net assets at end of year	**$ 1,453,583,563**	$ 1,335,863,285

See accompanying notes.

Hawaiʻi Pacific Health

Consolidated Statements of Cash Flows

	Year Ended June 30 2023	2022
Operating activities		
Increase in net assets	**$ 117,720,278**	$ 37,331,704
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**57,284,625**	55,309,368
Business venture investment income	**(9,174,979)**	(3,467,082)
Noncontrolling interest in acquired business venture	**(3,950,000)**	–
Net (gains) losses on alternative investments	**(42,225,868)**	35,734,421
Net (gains) losses on debt and equity investments	**(22,482,886)**	42,928,165
Restricted contributions	**(30,652,387)**	(44,948,715)
Changes in operating assets and liabilities:		
Patient accounts receivable	**4,174,720**	(14,672,443)
Due to/from third-party payors	**(32,308,226)**	(50,628,545)
Other receivables	**(4,383,191)**	13,159,960
Inventories and other assets	**(11,422,749)**	(9,503,317)
Restricted pledges receivable	**1,067,778**	(1,397,734)
Prepaid pension	**3,151,809**	(33,766,589)
Accounts payable and accrued expenses	**(2,615,424)**	4,920,900
Other long-term liabilities	**18,318,007**	(14,126,461)
Net cash provided by operating activities	**42,501,507**	16,873,632
Investing activities		
Purchases of property and equipment	**(55,836,277)**	(51,978,784)
Net distributions from business venture	**3,489,151**	4,661,180
Acquisitions	**(21,281,289)**	–
Purchases of investment securities	**(82,019,922)**	(145,612,796)
Sales of investment securities	**73,533,892**	135,299,900
Increase in funds held by trustee under bond indenture agreement	**(460,093)**	(197,582)
Assets whose use is limited or restricted:		
Purchases of investment securities	**(56,808,898)**	(94,247,143)
Sales of investment securities	**48,354,833**	92,819,568
Net cash used in investing activities	**(91,028,603)**	(59,255,657)

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Hawai‘i Pacific Health

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30 2023	2022
Financing activities		
Payment of long-term debt	**$ (9,793,345)**	$ (9,485,002)
Payments of finance lease obligations	**(1,677,171)**	(1,614,612)
Restricted contributions	**30,652,387**	44,948,715
Net cash provided by financing activities	**19,181,871**	33,849,101
Decrease in cash and cash equivalents	**(29,345,225)**	(8,532,923)
Cash and cash equivalents at beginning of year	**294,306,954**	302,839,877
Cash and cash equivalents at end of year	**$ 264,961,729**	$ 294,306,954
Supplemental disclosures of noncash activity		
Noncontrolling interest in acquired business venture	**$ 3,950,000**	$ –
Equity investment consideration as part of business acquisition	**$ 6,000,000**	$ –
Accruals of equipment	**$ 1,577,000**	$ 997,000

See accompanying notes.

1. Organization and Summary of Accounting Policies

Hawaiʻi Pacific Health (HPH) is the sole member of Kapiʻolani Medical Center for Women and Children (KMCWC), Pali Momi Medical Center (PMMC), Pali Momi Foundation, Kapiʻolani Medical Specialists, Providers Insurance Corporation (PIC), Kapiʻolani Health Foundation, Straub Clinic & Hospital (SCH), Straub Foundation, Wilcox Memorial Hospital (WMH), Kauai Medical Clinic, Wilcox Health Foundation, Hawaiʻi Pacific Health Partners, Inc. (HPHPI), Hawaiʻi Health Partners and other smaller health care-related entities (some of which are for-profit) located in Hawaiʻi. The accompanying consolidated financial statements reflect the consolidated operations of all wholly owned affiliates and business ventures that HPH, through affiliates, holds a controlling interest. The unrelated investor's ownership interest of the consolidated business ventures is recorded as noncontrolling interest (see noncontrolling disclosure in Note 1). HPH and the above affiliates are collectively referred to as the "Company". All inter-organizational transactions and balances have been eliminated in consolidation.

Except with regard to unrelated business income, which is taxed at corporate income tax rates, the Company's not-for-profit organizations are: (1) exempt from federal and state income taxes pursuant to Internal Revenue Code Section 501(a) and applicable state laws, and (2) generally exempt from Hawaiʻi general excise tax on revenue related to their tax-exempt purpose.

The taxable affiliates of the Company utilize the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Valuation allowances are used to reduce deferred tax assets to their estimated net realizable values and are established by management when it is more likely than not that a deferred tax asset will not be realized.

The accounting principles followed by the Company and the methods of applying those principles comply with accounting principles generally accepted in the United States of America and general practice within the health care industry. The significant policies are summarized below.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and highly liquid investments with a maturity of three months or less when purchased.

1. Organization and Summary of Accounting Policies (continued)

Inventories

Inventories, consisting of medical, surgical and other supplies, are stated at the lower of cost (first-in, first-out method) or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from approximately 2 to 40 years for buildings and improvements, 75 years for Pali Momi Medical Center building, and 3 to 20 years for equipment.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions and are excluded from the excess (deficiency) of revenues over expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported within net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported within net assets without donor restrictions when the donated or acquired long-lived assets are placed in service.

Investments

Investments in equity securities with readily determinable fair values, and all investments in debt securities, are measured at fair value on the consolidated balance sheets. Fair value is established based on quoted prices from established securities exchanges or based on quoted market prices of similar instruments. The Company determined that all marketable securities held at June 30, 2023 and 2022 are designated as other than trading. The Company uses multiple investment managers to diversify its investment portfolio.

The Company also holds investments in fund of funds and direct funds, which include private equities and limited partnerships that are classified as alternative investments. These alternative investments seek positive returns regardless of market direction and are not restricted to any particular asset class. At the investment managers' direction, these alternative investments may invest in both registered and non-registered securities in the United States and globally, with exposure to both emerging and developed markets. The alternative investment fund managers employ a range of investment strategies including, but not limited to, long/short equity positions, derivatives, forward and futures contracts, and currency hedges.

1. Organization and Summary of Accounting Policies (continued)

The Company accounts for its ownership interests in these alternative investments under the equity method of accounting based on the Company's shares held in the funds and the funds' net asset values. The net asset value is determined based on the estimated fair value of the underlying investments. However, the fair value of such investments may have been estimated by the alternative investment fund managers in the absence of readily ascertainable fair values. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had an active market for these investments existed. The investment income recorded is based on the Company's proportionate share of the fund's portfolio net asset value.

Investment income, including interest and dividends received, realized gains and losses on investments, unrealized gains and losses on equity securities, and net gains on alternative investments, is included in excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on debt securities, except for other-than-temporary declines in fair value, are excluded from the excess (deficiency) of revenue over expenses for the years ended June 30, 2023 and 2022.

The Company determines whether a decline in the fair market value of debt securities below the cost basis is other than temporary based on objective evidence, as well as subjective factors, including knowledge of recent events and assumptions of future events. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security is written down to fair value. There were no other-than-temporary losses in 2023 or 2022.

The Company's investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets.

Equity Method Investments

Investments in business ventures that are 20% to 50% owned or where the Company has the ability to exercise significant influence over the operating and financial activities of the business venture are recorded under the equity method of accounting, which approximates the Company's interest in the business ventures' underlying net book values. Investments in business ventures that are more than 50% owned and where the Company can exert control are consolidated in the accompanying consolidated financial statements.

1. Organization and Summary of Accounting Policies (continued)

At June 30, investments in business ventures that are accounted for using the equity method of accounting include ownership in the following organizations:

	Ownership Percentage	
	2023	**2022**
Pacific ASC, LLC	**50.00%**	50.00%
InVision LLC	**–**	40.00
The Cancer Center of Hawaii, LLC	**30.56**	30.56
Pacific Medical Collections, Inc.	**33.33**	33.33

On August 8, 2022, Honolulu Imaging Center LLC (a wholly-owned entity of HPHPI) entered into an agreement to acquire the remaining 60% controlling interest in InVision, LLC (see Note 6).

Summarized financial information (unaudited) for unconsolidated business ventures as of and for the years ended June 30 follows:

	2023	**2022**
Current assets	**$ 9,635,000**	$ 11,238,000
Non-current assets	**27,029,000**	20,032,000
Total assets	**$ 36,664,000**	$ 31,270,000
Current liabilities	**$ 4,420,000**	$ 3,720,000
Non-current liabilities	**12,063,000**	6,367,000
Capital	**20,181,000**	21,183,000
Total liabilities and capital	**$ 36,664,000**	$ 31,270,000

	2023	**2022**
Excess of revenues over expenses	**$ 10,507,000**	$ 9,555,000

Board-Designated Assets

Board-designated assets consist of investments and accumulated income that have been designated by the Board of Directors for expansion and support of fundraising activities. The Board of Directors can redesignate these assets at its discretion.

1. Organization and Summary of Accounting Policies (continued)

Contributions

Contributions received, including unconditional promises to give, are recognized as revenue at fair value in the period received. Fair value is measured as the present value of estimated cash flows using a discount rate commensurate with the risks involved. Pledges receivable are stated at their estimated net realizable value and are included in other receivables and assets whose use is limited or restricted – restricted by donor or grantor on the accompanying consolidated balance sheets.

Pledges receivable as of June 30 follows:

	2023	2022
Receivable in less than one year	**$ 4,135,424**	$ 7,750,981
Receivable in one to five years	**5,100,342**	3,895,200
Thereafter	**260,000**	570,000
	9,495,766	12,216,181
Less: present value discount	**970,234**	1,142,842
Less: allowance for uncollectible pledges	**1,393,226**	1,399,190
	$ 7,132,306	$ 9,674,149

Net Assets With Donor Restrictions

Net assets with donor restrictions are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Company. Donor-restricted gifts are recorded as an addition to net assets with donor restrictions in the period received. When the time period or purpose is met, the gifts are released into net assets without donor restrictions. Donor-restricted gifts include amounts held in perpetuity or for terms designated by donors. Earnings on donor-endowment gifts are recorded as investment income in net assets with donor restrictions and subsequently used in accordance with the donor’s designation. Net assets with donor restrictions are primarily restricted for health and hospital care, plant expansion and equipment replacement and research and grants.

1. Organization and Summary of Accounting Policies (continued)

Net Patient Service Revenue and Patient Accounts Receivable

Net patient accounts receivable and net patient service revenue have been adjusted to the estimated amounts expected to be received based on contractual rates for services rendered, inclusive of the estimated price concessions and retroactive adjustments. The Company has entered into agreements with third-party payors, including government programs and managed care health plans, under which the facilities are paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates or discounts from established charges.

The Company uses a portfolio approach to estimate the transaction price used to record net patient service revenue. The transaction price reflects the amount of consideration the Company expects to collect in exchange for satisfying its service performance obligations. The portfolios consist of various payor classes and patient types for inpatient and outpatient revenue, including the identification of uninsured, under-insured and patient coinsurance and deductible as a separate portfolio. Based on historical collection trends and other analyses, the Company believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

The transaction price, which involves significant estimates, is determined based on the Company’s established charges, with a reduction recorded for price concessions. The Company estimates the transaction price associated with services provided to patients who have third-party payor coverage based on the reimbursement terms outlined in contractual agreements and historical experience and includes estimated retroactive revenue adjustments under the agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as final settlements are determined. For uninsured and under-insured patients who do not qualify for charity care, the Company determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Company’s historical collection experience, changes in collection patterns, composition of patient accounts by patient type and general economic condition. Patients who meet the Company’s criteria for charity care are provided care without charge; such amounts are not reported as revenue. Management regularly reviews payment data for each major payor in evaluating the sufficiency of the estimated allowance for price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change.

1. Organization and Summary of Accounting Policies (continued)

Net patient service revenue is recognized as performance obligations are satisfied. Inpatient service performance obligations are satisfied over time and revenue is recognized based on actual charges incurred in relation to total expected or actual charges. Unsatisfied or partially satisfied performance obligations for inpatient services primarily relate to patients in-house at the end of each reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. Outpatient services are performance obligations satisfied over a period of time, which is often less than one day, and revenue is recognized when services are provided.

The Company has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payors, the lines of business that render services to patients, and the timing of when revenue is recognized and billed. Net patient service revenue by line of business for the years ended June 30 follows:

	2023	**2022**
Hospital	**$ 1,280,045,274**	$ 1,200,347,372
Clinic	**224,460,450**	207,791,791
Other	**55,086,646**	33,523,462
	$ 1,559,592,370	$ 1,441,662,625

Net patient service revenue, by significant payor classification, for the years ended June 30 follows:

	2023	**2022**
Medicare	**$ 426,116,848**	$ 397,099,920
Medicaid/QUEST integration	**340,286,338**	306,081,981
Commercial	**701,694,288**	661,506,824
Self-pay and other	**91,494,896**	76,973,900
	$ 1,559,592,370	$ 1,441,662,625

Significant concentrations of patient accounts receivable include Hawaii Medical Service Association – 18% and 26%, Medicaid and QUEST Integration programs – 26% and 26%, and Medicare and Medicare Advantage – 32% and 29% as of June 30, 2023 and 2022, respectively.

1. Organization and Summary of Accounting Policies (continued)

Government Reimbursement Programs

The Company renders service to patients under contractual arrangements with the Medicare and Medicaid programs. The Medicare program includes the traditional Medicare fee for service and Medicare managed care plans. Medicare hospital reimbursement for hospital inpatient and outpatient services are based on the Medicare prospective payment systems, fee schedules and cost reimbursement methods. A portion of the Company's Medicare reimbursement, primarily disproportionate share, medical education and bad debt, are paid during the year at an interim rate. Final settlement is determined after annual cost reports submitted by the Company are audited by the Medicare contractors. Differences between final cost report settlements and amounts accrued in previous years, due to audit adjustments recorded by the Medicare contractor, are reported as current year changes to net patient service revenue. The Company has the ability to appeal the adjustments based on a process established by Medicare.

The state of Hawaiʻi administers its QUEST Integration Medicaid program through participating Medicaid managed care health plans under a Section 1115 waiver. The Medicaid managed care plans provide access to health care services to Medicaid eligible members. The Company contracts with the Medicaid managed care health plans to provide health care services under negotiated reimbursement rates and methodologies, which include per diem, per discharge, fee schedules, percentage of charge and capitation. Newly eligible Medicaid beneficiaries receive health care services under the traditional Medicaid program based on Hawaiʻi Administrative Rules pending assignment to a Medicaid managed care health plan.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing that would have a material impact on the consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

1. Organization and Summary of Accounting Policies (continued)

The state of Hawai‘i uses a provider fee to help finance the state's share of Medicaid expenditures. The Hospital Sustainability Program Act (HSPA) was amended in federal fiscal year 2017 to make payments to private hospitals through three payment types: (1) additional access payments based on increased rates received through Medicaid Managed Care Plans, (2) additional payments received under the state of Hawai‘i pay-for-performance program, incentivizing quality care measured on a calendar year basis, and (3) additional payments made for Medicaid disproportionate share hospital portions of payments as compared to levels of uncompensated care measured on a federal fiscal year basis.

For the years ended June 30, 2023 and 2022, the Company recorded approximately $83,026,000 and $55,282,000, respectively, in net patient service revenues related to HSPA payments and approximately $21,128,000 and $20,853,000, respectively, in other purchase expense related to provider tax payments.

The Company recorded a change in estimate, for the years ended June 30, 2023 and 2022, of approximately $22,450,000 and $12,125,000, respectively, as an increase in net patient service revenues relating to the HSPA monies received during 2023, relating to prior year program revenues. The change was due to updated uncompensated care cost data received in the current year that supported an increase in Medicaid disproportionate share hospital payments.

Charity Care

The Company will treat patients regardless of their ability to pay. An established charity care policy sets guidelines to determine which patients qualify for care given at no charge. Since the Company does not pursue collection from qualified charity care patients, related charges are not reported as revenue. Charity care cost provided in both 2023 and 2022 was less than 1% of total net patient service revenue, as measured by applying the cost to gross charges ratio to gross uncompensated charges associated with providing charity care to patients.

Collective Bargaining Agreements (Unaudited)

The Company has several collective bargaining agreements covering approximately 35% of its labor force. As of June 30, 2023, three collective bargaining agreements with two unions, or approximately 12% of the Company's labor force, will expire within one year.

1. Organization and Summary of Accounting Policies (continued)

Deferred Financing Costs

Costs incurred in obtaining long-term financing, reported within long-term debt, are deferred and amortized over the terms of the related obligations using the effective-interest method.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for circumstances which could indicate that carrying values may not be recoverable. Management determined that no long-lived assets were impaired as of or during the fiscal years ended June 30, 2023 or 2022.

Excess (Deficiency) of Revenues Over Expenses

The consolidated financial statements of operations and changes in net assets include the excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from the excess (deficiency) of revenues over expenses, include changes in unrealized losses on debt securities, net assets released from restrictions for purchase of property and equipment, pension related changes other than net periodic pension costs, change in interest rate swap value, and other changes in net assets.

Noncontrolling Interest

HPH holds controlling interests in several business ventures. The business ventures’ financial results are included within HPH’s consolidated financial statements. HPH records the unrelated investor’s ownership share of these business ventures as noncontrolling interests. The noncontrolling interests reported in the consolidated financial statements primarily relate to the acquisition of Specialty Surgical Suites dba Minimally Invasive Surgery in December 2020 with the unrelated investor holding a 40% ownership interest, and an unrelated investor’s purchase of a 9% interest in Hawaii Imaging Center LLC in August 2022. The noncontrolling interest as of June 30, 2023 amounted to approximately $17,145,000 and the noncontrolling interest as of June 30, 2022, reported within net assets without donor restrictions attributable to Hawaii Pacific Health, amounted to approximately $13,566,000.

Subsequent Events

Subsequent events have been evaluated through November 9, 2023, the date these consolidated financial statements were issued.

1. Organization and Summary of Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes and supplementary information. Actual results could differ from those estimates.

New Accounting Standard

In June 2016, the Financial Accounting Standards Board issued a new accounting standard, *Financial Instruments – Credit Losses,* which requires the use of an "expected loss" model on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The expected loss model requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. This accounting standard is effective for fiscal years beginning after December 15, 2022. Management is currently evaluating the impact of adopting this standard.

2. Liquidity and Availability

Financial assets available for general expenditures within one year of the consolidated balance sheet date are comprised of the following as of June 30:

	2023	2022
Cash and cash equivalents	**$ 264,961,729**	$ 294,306,954
Patient accounts receivable, net	**177,810,925**	181,985,645
Board-designated investments	**176,754,584**	136,035,312
Unrestricted investments	**428,577,771**	389,692,774
Financial assets available to meet general expenditures within one year	**$ 1,048,105,009**	$ 1,002,020,685

2. Liquidity and Availability (continued)

The Company has certain board-designated assets limited to use that are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. Certain of the Company's alternative investments include provisions in which the fund can require future capital calls up to approximately $29,349,000. Lock up periods for alternative investments other than private equities are expired as of June 30, 2023. Private equity funds amounting to approximately $60,525,000 can not be liquidated until the end of the fund term period which generally ranges from 10 to 15 years after initial purchase. Accordingly, these investments are excluded from the liquidity table.

As part of the Company's liquidity management plan, a $75,000,000 line of credit is maintained, as discussed in more detail in Note 9.

3. Fair Value

The Company's investments are recorded at fair value based on an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the fair value measurement accounting standard establishes a three-tier fair value hierarchy and prioritizes the inputs used in measuring fair value as follows:

> Level 1 – Pricing inputs are based on quoted prices, unadjusted, for identical assets or liabilities in active markets.
>
> Level 2 – Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full contractual term of the assets or liabilities.
>
> Level 3 – Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. Level 3 fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to, private and public comparables, discounted cash flow models and fund manager estimates.

3. Fair Value (continued)

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques. The three valuation techniques are identified in the tables below. The valuation techniques are as follows:

(a) Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

(b) Cost approach – Amount that would be required to replace the service capacity of an asset (replacement cost).

(c) Income approach – Techniques to convert future amounts to a single present value amount based on market expectations (including present value techniques, option-pricing and excess earnings models for intangibles).

As of June 30, 2023 and 2022, the Company's alternative investments, amounting to approximately $477,489,000 and $432,144,000, respectively, are accounted for using the equity method of accounting and are recorded within assets whose use is limited or restricted and investments within the consolidated balance sheets. Since alternative investments are accounted for using the equity method of accounting, which is not a fair value measurement, they are omitted from the following tables.

The Company has unfunded capital commitments under alternative investment private equity funds totaling approximately $29,349,000 as of June 30, 2023. Capital commitments are determined by fund managers and the unfunded capital commitments can be funded through May 2026. Some of the alternative investments are subject to redemption provisions.

As of June 30, 2023 and 2022, the Company's investments in cash surrender values of life insurance policies amounting to approximately $20,987,000 and $19,496,000, respectively, are omitted from the following tables, as they are accounted for as life insurance contracts and are recorded within investments on the consolidated balance sheets.

3. Fair Value (continued)

The tables below present the Company's fair value measurements on a recurring basis as of June 30:

	2023				
Description	**Total**	**Level 1**	**Level 2**	**Level 3**	**Valuation Technique**
Board-designated investments:					
Money market funds	$ 22,341,780	$ 22,341,780	$ –	$ –	a
Equity securities mutual funds	103,726,633	103,726,633	–	–	a
Debt securities:					
U.S. Treasury obligations	8,256,683	8,256,683	–	–	a
Asset-backed securities	4,486,694	–	4,486,694	–	a
Corporate and municipal bonds	9,336,027	–	9,336,027	–	a
Funds held by trustee under bond indenture agreement:					
Money market funds	16,363,575	16,363,575	–	–	a
Investments restricted by donor or grantor:					
Equity securities mutual funds	3,321,838	3,321,838	–	–	a
Debt securities:					
Asset-backed securities	112,583	–	112,583	–	a
Corporate bonds	380,255	–	380,255	–	a
Foreign bonds	3,175	–	3,175	–	a
U.S. Treasury obligations	330,209	330,209	–	–	a
Charitable remainder trust assets	58,536	–	58,536	–	a
Certificate of deposit	600,000	–	600,000	–	a
Money market funds	560,613	560,613	–	–	a
Beneficial interest in perpetual trusts	4,869,668	–	–	4,869,668	c
Unrestricted investments:					
Money market funds	27,764,057	27,764,057	–	–	a
Equity securities mutual funds	138,992,570	138,992,570	–	–	a
Global equity common stocks	76,058	76,058	–	–	a
Debt securities:					
U.S. Treasury obligations	20,392,821	20,392,821	–	–	a
Asset-backed securities	5,575,600	–	5,575,600	–	a
Corporate bonds	21,383,833	–	21,383,833	–	a
Foreign bonds	13,121	–	13,121	–	a
Deferred compensation plan assets:					
Cash	1,667,592	1,667,592	–	–	a
Money market funds	577,943	577,943	–	–	a
Mutual funds	35,399,766	35,399,766	–	–	a
Equity securities	7,085,751	7,085,751	–	–	a
Indexed option	499,775	–	–	499,775	a
Collective investment trusts	3,810,261	–	3,810,261	–	a
Total investments at fair value	$ 437,987,417	$ 386,857,889	$ 45,760,085	$ 5,369,443	

Funds held by trustee under bond indenture agreement	$ 16,363,575
Assets whose use is limited or restricted	402,598,405
Investments	482,948,991
Deferred compensation plan assets – within other assets	49,041,088
Less alternative investments	(477,489,388)
Less cash surrender value of life insurance policies	(20,986,524)
Less cost method investment	(3,999,996)
Less restricted pledge receivables, net	(6,216,234)
Less cash and cash equivalents	(4,272,500)
Total investments at fair value	$ 437,987,417

3. Fair Value (continued)

	2022				
Description	**Total**	**Level 1**	**Level 2**	**Level 3**	**Valuation Technique**
Board-designated investments:					
Money market funds	$ 16,335,016	$ 16,335,016	$ –	$ –	a
Equity securities mutual funds	95,956,739	95,956,739	–	–	a
Debt securities:					
U.S. Treasury obligations	8,319,127	8,319,127	–	–	a
Asset-backed securities	4,307,077	–	4,307,077	–	a
Corporate and municipal bonds	9,215,155	–	9,215,155	–	a
Foreign bonds	166,152	–	166,152	–	a
Funds held by trustee under bond indenture agreement:					
Money market funds	15,903,482	15,903,482	–	–	a
Investments restricted by donor or grantor:					
Equity securities mutual funds	2,699,022	2,699,022	–	–	a
Debt securities:					
Asset-backed securities	93,722	–	93,722	–	a
Corporate bonds	379,055	–	379,055	–	a
Foreign bonds	8,640	–	8,640	–	a
U.S. Treasury obligations	305,796	305,796	–	–	a
Charitable remainder trust assets	66,865	–	66,865	–	a
Certificate of deposit	600,000	–	600,000	–	a
Money market funds	355,451	355,451	–	–	a
Beneficial interest in perpetual trusts	4,627,155	–	–	4,627,155	c
Unrestricted investments:					
Money market funds	20,319,765	20,319,765	–	–	a
Equity securities mutual funds	127,898,938	127,898,938	–	–	a
Global equity common stocks	89,035	89,035	–	–	a
Debt securities:					
U.S. Treasury obligations	26,717,824	26,717,824	–	–	a
Asset-backed securities	5,357,742	–	5,357,742	–	a
Corporate bonds	15,818,373	–	15,818,373	–	a
Foreign bonds	225,004	–	225,004	–	a
Deferred compensation plan assets:					
Cash	1,392,181	1,392,181	–	–	a
Money market funds	581,642	581,642	–	–	a
Mutual funds	28,256,327	28,256,327	–	–	a
Equity securities	5,075,018	5,075,018	–	–	a
Indexed option	497,243	–	–	497,243	a
Collective investment trusts	3,259,288	–	3,259,288	–	a
Total investments at fair value	$ 394,826,834	$ 350,205,363	$ 39,497,073	$ 5,124,398	

Funds held by trustee under bond indenture agreement	$ 15,903,482
Assets whose use is limited or restricted	366,042,572
Investments	438,923,753
Deferred compensation plan assets – within other assets	39,061,699
Less alternative investments	(432,144,304)
Less cash surrender value of life insurance policies	(19,495,991)
Less cost method investment	(2,000,000)
Less restricted pledge receivables, net	(7,284,012)
Less cash and cash equivalents	(4,180,365)
Total investments at fair value	$ 394,826,834

3. Fair Value (continued)

The Company received restricted pledges and contributions amounting to approximately $30,652,000 and $44,949,000 in 2023 and 2022, respectively, which are recorded within net assets with donor restrictions – restricted grants and contributions on the consolidated financial statements of operations and changes in net assets. These restricted pledges are subject to fair value measurement upon initial receipt using discounted cash flow projections. Pledges receivable, net of the present value discount, using discount rates from 0.16% to 3.76%, and allowance for uncollectible pledges was approximately $7,132,000 and $9,674,000 as of June 30, 2023 and 2022, respectively.

4. Property and Equipment

Property and equipment as of June 30 follows:

	2023	2022
Land and land improvements	**$ 45,876,748**	$ 45,876,748
Buildings and improvements	**796,684,348**	779,923,186
Equipment	**465,901,975**	434,843,615
Construction in progress	**57,558,475**	43,373,317
	1,366,021,546	1,304,016,866
Less: accumulated depreciation	**794,382,750**	735,273,605
Property and equipment, net	**$ 571,638,796**	$ 568,743,261

5. Other Assets

Other assets as of June 30 follows:

	2023	2022
Deferred compensation plan assets	**$ 49,041,088**	$ 39,061,699
Reinsurance receivable	**15,475,449**	23,841,358
Other	**13,231,368**	9,691,077
Total other assets	**$ 77,747,905**	$ 72,594,134

6. Goodwill

Changes in goodwill for the years ended June 30, 2023 and 2022 follows:

Goodwill, July 1, 2021	$ 16,873,142
Goodwill from acquisitions	20,822,991
Goodwill, June 30, 2022	37,696,133
Goodwill from acquisitions	**28,427,461**
Goodwill, June 30, 2023	**$ 66,123,594**

On August 8, 2022, Honolulu Imaging Center LLC (a wholly-owned entity of HPHPI) entered into an agreement to acquire a 100% controlling interest in InVision, LLC and Avanti Imaging LLC dba InSight Imaging for $9,000,000 and $15,500,000, respectively. Accordingly, the financial results of InVision, LLC and InSight Imaging have been consolidated with the Company's financial statements as of and for the eleven months ended June 30, 2023. As part of these business acquisitions, a 9% ownership interest in Honolulu Imaging Center LLC was sold to a third party. These transactions are considered to be business acquisitions. The Invision, LLC and InSight Imaging purchase consideration is allocated to the underlying assets acquired, liabilities assumed and non-controlling interest based upon the estimated fair value at the date of acquisition. The difference between the purchase consideration and the fair value of the assets acquired, liabilities assumed and non-controlling interest amounting to approximately $28,427,000 is recorded as goodwill.

7. Other Long-Term Liabilities

Other long-term liabilities as of June 30 follows:

	2023	2022
Deferred compensation liability	**$ 46,682,460**	$ 37,240,747
Long-term malpractice reserves	**33,543,936**	27,596,707
Reinsurance obligations	**15,475,449**	23,841,358
Other	**29,909,333**	18,614,359
Total other long-term liabilities	**$ 125,611,178**	$ 107,293,171

8. Employee Benefit Plans

Eligible employees of the Company are covered under the Hawaiʻi Pacific Health Retirement Plan (the Plan), a non-contributory defined benefit pension plan. Benefits are based on years of service and a percentage of the employee’s compensation. The Company’s policy is to accrue actuarially determined net periodic pension costs and to annually contribute an amount within regulatory guidelines. Active eligible participant accounts receive a cash balance credit, ranging from 3.0% to 6.5% of eligible compensation based on the participant’s age and years of service.

8. Employee Benefit Plans (continued)

The following is a summary of the changes in the projected benefit obligation and the fair value of plan assets for the years ended June 30:

	2023	2022
Projected benefit obligation		
Benefit obligation, at beginning of year	**$ 385,533,901**	$ 502,853,393
Service cost	**17,349,580**	22,939,394
Interest cost	**16,554,778**	10,787,811
Actuarial gain	**(13,870,302)**	(110,953,795)
Benefits paid	**(28,908,569)**	(40,092,902)
Benefit obligation at end of year	**376,659,388**	385,533,901
Fair value of plan assets		
Fair value of plan assets, at beginning of year	**430,676,322**	514,229,225
Contributions	**15,000,000**	30,000,000
Actual return (loss) on plan assets	**1,882,247**	(73,460,001)
Benefits paid	**(28,908,569)**	(40,092,902)
Fair value of plan assets at end of year	**418,650,000**	430,676,322
Prepaid pension, end of year	**$ 41,990,612**	$ 45,142,421

	2023	2022
Unrecognized net actuarial loss	**$ 183,248,206**	$ 187,670,915
Unrecognized prior service credit	**(42,127,237)**	(49,559,857)
Accumulated other comprehensive loss	**$ 141,120,969**	$ 138,111,058

The overfunded status of the Plan of approximately $41,991,000 and $45,142,000 at June 30, 2023 and 2022, respectively, is recognized on the accompanying consolidated balance sheets as prepaid pension. The accumulated benefit obligation approximated $376,659,000 and $385,534,000 at June 30, 2023 and 2022, respectively. No plan assets are expected to be returned to the Company during the year ending June 30, 2024.

The Company recorded an actuarial gain of approximately $13,870,000 and $110,954,000 in 2023 and 2022, respectively, as a result of a change in the discount rate. The change in the discount rate related to the change in yields of high-quality corporate bonds.

8. Employee Benefit Plans (continued)

Components of net periodic benefit cost for the years ended June 30 follows:

	2023	2022
Service cost	**$ 17,349,580**	$ 22,939,394
Interest cost	**16,554,778**	10,787,811
Expected return on plan assets	**(22,368,208)**	(27,240,031)
Recognized prior service credit	**(7,408,180)**	(7,408,180)
Recognized net loss	**11,038,368**	12,009,699
Net periodic benefit cost	**$ 15,166,338**	$ 11,088,693

Weighted-average assumptions used to determine benefit obligations as of June 30 follows:

	2023	2022
Discount rate	**5.21%**	4.78%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30 follows:

	2023	2022
Discount rate	**4.78%**	2.90%
Expected return on plan assets	**5.25**	5.25
Rate of compensation increase	**3.50**	3.50

8. Employee Benefit Plans (continued)

Asset Allocations

The assets of the Plan are held by the plan trustee in the HPH combined pension fund. Oversight of the combined pension fund assets is provided by the HPH Investment Advisory Group and the HPH Finance Committee of the Board of Directors. The long-term financial objectives of the combined pension fund are to comply with regulatory funding requirements and balance liquidity needs to meet benefit and expense obligations when due with long-term investment return goals to satisfy future plan obligations.

The long-term investment objective is to earn an average real return of 5%, after adjusting for inflation and management fees, over long time periods. In order to achieve this objective, the fund needs to exceed the investment objectives in certain periods in order to compensate for shortfalls in other periods. This implies a higher average allocation to equity securities. HPH's current asset allocation policy target of 38% equity securities and 62% fixed income securities and cash will change based on the Plan's status to hedge interest rate risk.

The expected return on plan assets of 5.25% was developed based upon analysis of historical market returns, current market conditions, targeted future asset allocations, the plan assets' past performance, and expectations on potential future market returns. The expected return represents a long-term average view of the performance of the plan assets, which may not be achieved during a given plan year.

The weighted average target asset allocations, compared with actual asset allocations as of June 30, by major asset category, follows:

	Target Allocation	Percentage of Actual Plan Assets	
	2023	**2023**	**2022**
Major asset category			
Global equity	**26%**	**27%**	31%
Fixed income	**60**	**56**	51
Marketable alternative and private investments	**12**	**11**	12
Real estate	**–**	**3**	3
Cash and cash equivalents	**2**	**3**	3
	100%	**100%**	100%

8. Employee Benefit Plans (continued)

The table below presents the plan's assets measured at fair value on a recurring basis as of June 30:

	2023				
	Total	**Level 1**	**Level 2**	**Level 3**	**Valuation Technique *(Note 3)***
Equity securities:					
Mutual funds	**$ 35,561,808**	**$ 35,561,808**	**$ –**	**$ –**	**a**
Common stock	**9,243,239**	**9,243,239**	**–**	**–**	**a**
Real estate	**12,620,000**	**–**	**12,620,000**	**–**	**a**
Common collective funds	**132,795,737**	**132,795,737**	**–**	**–**	**a**
Limited liability companies	**79,069,487**	**79,069,487**	**–**	**–**	**a**
Cash and cash equivalents	**12,074,717**	**12,074,717**	**–**	**–**	**a**
Total investments	**281,364,988**	**$ 268,744,988**	**$ 12,620,000**	**$ –**	
Alternative investments measured at net asset value:					
Closely held securities	**14,310,716**				
Common collective funds	**25,915,103**				
Limited partnerships	**80,580,833**				
Limited liability companies	**16,478,360**				
Total investments at fair value	**$ 418,650,000**				

8. Employee Benefit Plans (continued)

	2022				
	Total	**Level 1**	**Level 2**	**Level 3**	**Valuation Technique *(Note 3)***
Equity securities:					
Mutual funds	$ 13,369,206	$ 13,369,206	$ –	$ –	a
Common stock	7,710,105	7,710,105	–	–	a
Real estate	12,170,000	–	12,170,000	–	a
Common collective funds	165,686,039	165,686,039	–	–	a
Limited liability companies	67,048,772	67,048,772	–	–	a
Cash and cash equivalents	15,119,960	15,119,960	–	–	a
Total investments	281,104,082	$ 268,934,082	$ 12,170,000	$ –	
Alternative investments measured at net asset value:					
Closely held securities	14,864,651				
Common collective funds	21,479,011				
Limited partnerships	89,562,208				
Limited liability companies	23,666,370				
Total investments at fair value	$ 430,676,322				

8. Employee Benefit Plans (continued)

The Plan’s alternative investments are reported at net asset value per share as a practical expedient or its equivalent. The following tables and explanations identify attributes relating to the nature and risk of such investments as of June 30:

	2023			
	Fair Value	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period (If Currently Eligible)**	**Redemption Restrictions and Expiration of Restriction**
Fixed income	**$ 200,599,136**	Daily	2–5 business days	–
Global ex-U.S. equity	**21,113,184**	Daily, monthly	1 or 10 days	–
U.S. equity growth	**30,945,380**	Daily, monthly	3 or 31 days	–
Emerging markets equity	**7,989,996**	Daily, monthly	2, 10, 30 or 32 days	–
Diversified arbitrage/ event-driven	**4,028,978**	Quarterly	65 days	Side pockets, gates
Distressed	**282,164**	Every 24 months, 25% quarterly	60–65 days	Side pockets, gates
Global long/short equity	**32,812,695**	Semi-monthly, monthly, quarterly, annually, semi-annually	3–60 days	Side pockets, gates,
U.S. long/short equity	**16,478,360**	Quarterly	45 days	–
Global macro	**6,956,073**	Monthly, quarterly	14–60 days	–
Private equity	**27,936,808**	–	–	–
Opportunistic	**7,462**	Every 24 months	90 days	Side pockets
	$ 349,150,236			

8. Employee Benefit Plans (continued)

	2022			
	Fair Value	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period (If Currently Eligible)**	**Redemption Restrictions and Expiration of Restriction**
Fixed income	$ 219,566,830	Daily	2–5 business days	–
Global ex-U.S. equity	18,996,011	Daily, monthly	1 or 10 days	–
U.S. equity growth	29,917,703	Daily, monthly	3 or 31 days	–
Emerging markets equity	9,501,140	Daily, monthly	2, 10, 30 or 32 days	–
Diversified arbitrage/ event-driven	4,836,141	Quarterly	65 days	Side pockets, gates
Distressed	339,625	Every 24 months, 25% quarterly	60–65 days	Side pockets, gates
Global long/short equity	39,624,768	Semi-monthly, monthly, quarterly, annually, semi-annually	3–65 days	Side pockets, gates, hold backs
U.S. long/short equity	23,666,370	Quarterly	45 days	–
Global macro	9,244,372	Monthly, quarterly	14–60 days	–
Private equity	26,601,369	–	–	–
Opportunistic	12,722	Every 24 months	90 days	Side pockets
	$ 382,307,051			

Fixed income: Portfolios that seek to exploit mispricings in fixed income securities, utilizing a variety of investment instruments, including corporate and municipal bonds, sovereign debt, mortgage-backed securities, swaps and options. These managers often utilize leverage to magnify their returns.

Global ex-U.S. equity: This category invests in portfolios consisting of a core group of long stock positions and stock indices in global ex.-U.S. equity markets. These managers do not focus on a single sector or geographic region, instead employing a broad, global ex.-U.S. mandate.

U.S. equity growth: This category has an emphasis on equities of companies with rapid earnings growth and high multiples of earnings, dividends, and book values.

Emerging markets equity: This category has products investing in the equity securities of companies located in emerging and frontier market countries.

8. Employee Benefit Plans (continued)

Diversified arbitrage/event-driven: This category has multi-strategy portfolios that have broad investment parameters, seeking to profit from mispricings across asset classes and strategies and exploit security mispricings caused by mergers and acquisitions, spin-offs, tracking stocks, accounting write-offs, reorganizations, bankruptcies, share buybacks and special dividends.

Distressed: This category has portfolios consisting primarily of investments in debt securities of companies that are experiencing business, financial, market or legal uncertainties, attempting to capture the difference between the market price of security or debt obligations and their underlying intrinsic value.

Global long/short equity: This category has portfolios consisting of a core group of long stock positions with short sales of stock and stock indices in global and global ex.-U.S. equity markets.

U.S. long/short equity: This category has portfolios consisting of a core group of long stock positions with short sales of stock and stock indices in U.S. equity markets.

Global macro: This category has broad, top-down strategies that seek to capitalize on perceived macroeconomic and political shifts in investor behavior and market positions. This category is unconstrained by asset class or geography and implemented through long and short positions and means of cash, asset purchases (including physical commodities), futures, options, and other instruments. Leverage is often applied, and return and volatility targets may vary sharply.

Private equity: Private equity is capital that is not traded on a public exchange. Private equity is comprised of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity. The Plan has unfunded capital commitments for private equity funds totaling approximately $25,468,000 as of June 30, 2023. Capital commitments are determined by fund managers and the unfunded capital commitments can be funded through June 2028.

Opportunistic: This category has multi-strategy portfolios that have a broad mandate and employ an opportunistic investment approach, shifting capital across asset classes and strategies, depending on their profitability.

The Company expects to make contributions to the Plan amounting to approximately $17,000,000 in fiscal year 2024.

8. Employee Benefit Plans (continued)

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year ending June 30:	
2024	$ 28,017,891
2025	24,765,561
2026	26,221,038
2027	27,939,666
2028	28,900,325
Years 2029–2032	151,102,128

The Company has defined contribution retirement plans (Retirement Plans) that cover substantially all employees and provide participants with the ability to make pretax payroll deduction contributions for deposit into retirement savings accounts. The participants' contributions are matched at a percentage of their total contributions up to annual dollar limits per participant, as defined by the Retirement Plans. The Company may also make discretionary contributions. The total expense related to the above Retirement Plans was approximately $24,212,000 and $23,498,000 in 2023 and 2022, respectively.

9. Line and Letters of Credit

The Company has a $75,000,000 unsecured revolving line of credit available, expiring March 1, 2024. The interest rate on the line is based on the lender's prime rate or the three-month London Interbank Offered Rate plus an applicable margin. There were no outstanding draws on this facility as of June 30, 2023 and 2022.

As of June 30, 2023, the Company's available letters of credit were as follows:

Coverage	Amount	Expiration Date	Interest Rate
Malpractice insurance policies:			
PIC	$ 2,000,000	February 15, 2024	*
Workers' compensation insurance policies:			
HPH	$ 1,000,000	February 1, 2024	*

* Interest rate would be determined if drawn upon.

There were no draws on the above letters of credit as of June 30, 2023 and 2022.

10. Long-Term Debt

Long-term debt, net of issuance costs, as of June 30 follows:

	2023	2022
Prudential 3.25% Series A Senior Note due March 2043, semi-annual amortizing principal and interest payments due in March and September, with principal payments beginning September 2023	**$ 50,000,000**	$ 50,000,000
Series 2019 Special Purpose Revenue Bonds, interest payable monthly at a fixed rate of 2.71%, principal payments in varying annual amounts ranging from $3,032,670 to $4,424,880 due July 2023 through 2033	**38,683,804**	41,725,878
Series 2018B Taxable Refunding Revenue Bonds, interest payable semi-annually at rates ranging from 3.38% to 4.27% (4.10% at June 30, 2023), principal payments in varying annual amounts ranging from $1,860,000 to $2,605,000 due July 2023 through 2032; $2,715,000 to $3,610,000 due July 2033 through July 2040	**46,817,747**	48,576,627
Series 2018A Taxable Refunding Revenue Bonds, interest payable semi-annually at rates ranging from 3.38% to 4.27% (4.22% at June 30, 2023), principal payments in varying annual amounts ranging from $545,000 to $1,665,000 due July 2023 through 2032; $1,210,000 to $11,605,000 due July 2033 through July 2040	**85,111,751**	85,483,629
Prudential 3.81% Series A Senior Note due September 2042 annual amortizing principal payments due in September and semi-annual interest payments due in March and September	**48,898,976**	50,506,841
Series 2013B Special Purpose Revenue Bonds, interest payable semi-annually 4.00%, principal payment of $2,515,000 through 2023. 2013B Bonds were paid off through proceeds received from the Series 2023A and 2023B Bonds issued July 6, 2023	**26,490,000**	28,789,808
Series 2013A Special Purpose Revenue Bonds, interest payable semi-annually at 5.00%, principal payment of $1,505,000 through 2023. 2013A Bonds were paid off through proceeds received from the Series 2023A and 2023B Bonds issued July 6, 2023	**112,305,000**	113,017,840
Total long-term debt	**408,307,278**	418,100,623
Less current portion	**12,804,006**	9,793,344
Non-current portion	**$ 395,503,272**	$ 408,307,279

10. Long-Term Debt (continued)

In August 2022, the Company entered into a commitment to issue approximately $205,675,000 of direct purchase forward delivery bonds in November 2023. The forward delivery bond agreement was amended in November 2023 to issue approximately $203,985,000 of direct purchase forward delivery bonds in January 2024. The proceeds from the Series 2023C Bonds will be used to finance early phase costs of the Straub redevelopment project. The forward delivery bond allows the Company to lock in long-term fixed rates in advance of the January 2024 bond delivery date.

In June 2020, the Company executed a draw on the Prudential shelf arrangement. Senior notes were issued totaling $50,000,000 with interest at 3.25%, due March 2043. Principal and interest are payable semi-annually with interest payments starting March 2021 and principal payments starting September 2023. The proceeds from the notes were used to fund additional contributions to the pension plan in fiscal year 2020. The Company executed a shelf note arrangement (Prudential Note) in September 2017, which allows the Company to issue senior notes up to an aggregate of $150,000,000 through September 2020. In September 2017, senior notes payable totaling $56,500,000 were issued with interest at 3.81% due September 2042. Principal is payable annually, and interest is payable semi-annually. The proceeds from the notes were used to fund additional contributions to the Plan in fiscal year 2018.

In February 2020, the Company executed a forward delivery bond purchase agreement to issue Series 2023A and 2023B Bonds amounting of approximately $105,515,000 and $21,820,000, respectively. The transaction was completed on July 6, 2023. The Series 2023A and 2023B Bonds were issued at a premium of $8,900,000. The Series 2023A and 2023B Bonds have maturity dates from July 1, 2024 through 2043, with fixed interest rates ranging between 4.00% and 5.00%, and will be collateralized by a security interest in the gross receipts and pledged assets of the Obligated Group. Upon issuance, the Series 2023A and 2023B Bonds were used to refund the outstanding obligation of the Company’s Series 2013A and 2013B Bonds.

In April 2018, the Company issued Series 2018A and 2018B Taxable Refunding Bonds in the amounts of approximately $93,025,000 and $54,090,000, respectively. The proceeds of the Series 2018A and 2018B Bonds were used to defease the Series 2010A and 2010B Department of Budget and Finance of the State of Hawai‘i Special Purpose Revenue Bonds on July 1, 2020.

10. Long-Term Debt (continued)

The 2018A and 2018B Bonds are subject to optional redemption prior to their stated maturities at the option of the Company at a redemption price equal to a Make-Whole Redemption Price. The 2018A and 2018B Bonds are also subject to Extraordinary Optional Redemption at the direction of the Company. The 2018B Bonds are subject to mandatory redemption on or after July 1, 2033, payable in annual sinking fund installments from $2,715,000 to $3,610,000. The 2018A Bonds are subject to mandatory redemption on or after July 1, 2033, payable in annual sinking fund installments from $1,210,000 to $11,605,000.

The Prudential Notes, 2018 Series Taxable Refunding Bonds, 2019 and 2013 Series Special Purpose Revenue Bonds are collateralized by a security interest in the gross receipts and pledged assets of the Obligated Group (comprised of HPH – parent company only, KMCWC, PMMC, SCH and WMH), as defined in the Master Indenture.

As of June 30, 2023 and 2022, approximately $16,364,000 and $15,903,000, respectively, were held by the bond trustee to fund principal maturities and accrued interest payable.

Certain bond agreements require the Obligated Group, as defined in the Company's Master Trust Indenture, to comply with various covenants, including the maintenance of a minimum long-term debt service coverage ratio. As of June 30, 2023, the Obligated Group was in compliance with all bond covenants.

Long-term debt maturities (including bond issuance costs of $1,406,515) for the years succeeding June 30, 2023 are as follows.

Year ending June 30:	
2024	$ 12,804,006
2025	13,318,312
2026	13,859,327
2027	14,390,602
2028	14,951,364
Thereafter	338,983,667
	$ 408,307,278

Interest paid was approximately $17,629,000 and $18,037,000 in 2023 and 2022, respectively.

10. Long-Term Debt (continued)

As previously disclosed, the Series 2013A and 2013B Special Purpose Revenue Bonds were paid off through the proceeds received from the Series 2023A and 2023B Bonds that were issued on July 6, 2023. Long-term debt maturities for the outstanding debt as of June 30, 2023, excluding the principal payments on the 2013A and 2013B Special Purpose Revenue Bonds and including the principal payments on the 2023A and 2023B Bonds amount to approximately $9,792,000 in 2024, $14,136,000 in 2025, $14,480,000 in 2026, $14,939,000 in 2027, $15,408,000 in 2028 and $335,560,000 thereafter.

11. Leases

The Company adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, which requires the rights and obligations arising from lease contracts to be recognized on the consolidated balance sheets.

Short-term leases, with terms of 12 months or less, are not included in the present value calculations of the right of use assets and lease obligations per the Company's accounting policy. For leases with terms greater than 12 months, management records the related right of use assets and lease obligations based on the present value of lease payments over the lease term. The Company has elected to exclude non-lease components from the minimum rent payment used to calculate the right of use assets and lease obligations. The Company has elected to utilize an incremental borrowing rate similar to a collateralized borrowing rate available to the Company, commensurate with the lease term to determine the present value of lease payments. Several of the Company's leases include rental escalation clauses and renewal options that are factored into management's determination of lease payments, when appropriate.

The following table summarizes the weighted average lease term and discount rate as of June 30:

	2023	**2022**
Weighted average remaining term:		
Operating leases	**21.2 years**	21.6 years
Finance leases	**2.8 years**	2.8 years
Weighted average discount rate:		
Operating leases	**2.66%**	2.38%
Finance leases	**2.23%**	1.32%

11. Leases (continued)

The following table reconciles the undiscounted cash flows to the operating lease and finance lease liabilities recorded on the consolidated balance sheet as of June 30, 2023:

	Operating Leases	**Finance Leases**
2024	$ 17,952,052	$ 1,791,073
2025	17,300,589	1,355,417
2026	15,219,565	477,501
2027	14,186,824	318,492
2028	12,695,644	185,787
Thereafter	98,379,343	–
Total minimum lease payments	175,734,017	4,128,270
Less amount of lease payments representing interest	(43,037,522)	(158,477)
Present value of future minimum lease payments	132,696,495	3,969,793
Less current obligations under leases	14,585,617	1,718,885
Long-term lease obligations	$ 118,110,878	$ 2,250,908

The lease cost components, by lease type, for the years ended June 30 follows:

	2023	**2022**
Finance lease expense:		
Amortization of leased assets	**$ 1,547,374**	$ 1,608,285
Interest on lease liabilities	**66,534**	66,620
Operating leases	**17,762,987**	17,467,619
Short-term leases	**1,305,852**	2,325,263
Total lease cost	**$ 20,682,747**	$ 21,467,787

The Company accounts for all rent holidays, tenant improvement allowances, and escalation clauses by recognizing the total operating leases rent expense on a straight-line basis over the term of each operating lease. The difference between the lease expense recognized and the actual lease payment of approximately $11,693,000 and $11,608,000 as of June 30, 2023 and 2022, respectively, is included in right of use assets – operating.

11. Leases (continued)

Supplemental lease cash flow information for the years ended June 30 follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	**$ 18,305,244**	$ 17,778,778
Operating cash flows for finance leases	**66,534**	66,620
Financing cash flows for finance leases	**1,677,171**	1,614,612

Future minimum rental income to be received under non-cancelable operating leases for office space as of June 30, 2023 follows:

Year ending June 30:	
2024	$ 2,156,778
2025	2,137,249
2026	826,630
2027	799,388
2028	807,594
Thereafter	14,403,457
	$ 21,131,096

12. Income Taxes

Some of the Company's not-for-profit organizations have generated net operating losses (NOL) attributable to revenue-generating activities that are not related to their respective tax-exempt purposes. The Company has unused federal and Hawaiʻi state NOL carryforwards as of June 30, 2023 of approximately $5,476,000 combined. The NOL carryforwards begin to expire in 2023, with NOLs accrued during the 2018 tax year and thereafter never expiring under current law. The deferred tax asset associated with these NOL carryforwards is offset by a full valuation allowance on the consolidated balance sheets, as management has determined it is more likely than not that the NOLs will not be utilized.

The Company has not recorded any expense or accrued for any related expense for any uncertain tax positions. The Company's 2017 through 2023 tax years remain subject to examination for federal income tax purposes, whereas the 2016 through 2023 tax years remain subject to examination for state taxing jurisdictions in which the Company operates.

13. Functional Expenses

The functional classification of expenses by major classes of program services and supporting activities for the years ended June 30 follows:

	2023		
	Patient Services	**Philanthropic and Support Services**	**Total**
Salaries and employee benefits	**$ 777,561,554**	**$ 138,757,489**	**$ 916,319,043**
Services	**216,882,042**	**37,741,240**	**254,623,282**
Supplies	**279,743,189**	**783,025**	**280,526,214**
Other purchases	**83,244,813**	**33,739,487**	**116,984,300**
Depreciation and amortization	**47,349,663**	**9,934,962**	**57,284,625**
Specific purpose projects/donations	**210,684**	**17,307,917**	**17,518,601**
Interest	**17,141,668**	**1,562,363**	**18,704,031**
Other	**9,828,764**	**25,859,683**	**35,688,447**
Total expenses	**$ 1,431,962,377**	**$ 265,686,166**	**$ 1,697,648,543**

	2022		
	Patient Services	**Philanthropic and Support Services**	**Total**
Salaries and employee benefits	$ 744,656,910	$ 132,212,568	$ 876,869,478
Services	199,116,152	38,051,898	237,168,050
Supplies	242,474,802	1,029,057	243,503,859
Other purchases	80,451,045	31,985,137	112,436,182
Depreciation and amortization	45,602,452	9,706,916	55,309,368
Specific purpose projects/donations	4,062,360	11,764,193	15,826,553
Interest	17,786,706	1,588,327	19,375,033
Other	9,014,821	7,014,226	16,029,047
Total expenses	$ 1,343,165,248	$ 233,352,322	$ 1,576,517,570

14. Commitments and Contingencies

Workers' Compensation Claims

The Company is self-insured for workers' compensation claims. The Company has an available letter of credit in favor of the state of Hawaiʻi (as described in Note 9), as required by self-insurance regulations of the state of Hawaiʻi. The Company provides its actuary with estimated claims payments and accrues workers' compensation expense based on an actuarial determined amount. Workers' compensation accruals included in payroll and related liabilities on the consolidated balance sheets totaled approximately $5,630,000 and $5,734,000 as of June 30, 2023 and 2022, respectively, and were recorded using a 1.89% and 1.45% discount factor as of June 30, 2023 and 2022, respectively. The aforementioned amounts include accruals for known and incurred but not reported workers' compensation claims.

Medical Malpractice Insurance

In June 2002, the Company formed PIC, a captive insurance company covering professional (medical malpractice) and general liability risks. PIC is a not-for-profit Hawaiʻi domiciled pure captive whose sole corporate member is HPH. PIC operates under a Certificate of Authority from the state of Hawaiʻi (Insurance Division) and began operations on July 1, 2002. PIC is a regulated insurance company with reserve, investment, reporting and audit requirements. The Company is covered for professional and general liability claims under a combined limit shown below per claim and in aggregate through PIC and purchase of excess insurance coverage. The professional liability coverage from PIC is claims-made and general liability is occurrence-based coverage, with PIC providing tail coverage (with certain limitations) to the Company with claims-made policies prior to July 1, 2002.

14. Commitments and Contingencies (continued)

The PIC risk retention and total coverage amounts, including reinsurance, by policy year are as follows:

Professional Liabilities:

Policy years	PIC Retention	Total Coverage
July 1, 2006 through June 30, 2007	$ 1,000,000	$ 51,000,000
July 1, 2007 through June 30, 2014	1,000,000	76,000,000
July 1, 2014 through June 30, 2016	1,000,000	101,000,000
July 1, 2016 through April 30, 2020	2,000,000	102,000,000
May 1, 2020 through April 30, 2022	3,000,000	103,000,000
May 1, 2022 through April 30, 2023	5,000,000	105,000,000
May 1, 2023 through April 30, 2024	5,000,000	105,000,000

General Liabilities:

Policy years	PIC Retention	Total Coverage
July 1, 2006 through June 30, 2007	$ 1,000,000	$ 51,000,000
July 1, 2007 through June 30, 2014	1,000,000	76,000,000
July 1, 2014 through June 30, 2016	1,000,000	101,000,000
July 1, 2016 through April 30, 2020	2,000,000	102,000,000
May 1, 2020 through April 30, 2022	3,000,000	103,000,000
May 1, 2022 through April 30, 2023	3,000,000	103,000,000
May 1, 2023 through April 30, 2024	3,000,000	103,000,000

Medical malpractice expense totaled approximately $22,678,000 and $24,051,000 in 2023 and 2022, respectively. Medical malpractice accruals, including claims expected to be paid by reinsurance, totaled approximately $77,498,000 and $75,665,000 as of June 30, 2023 and 2022, respectively, and are recorded within accrued expenses and other long-term liabilities on the consolidated balance sheets. Reinsurance recoverable totaled approximately $20,098,000 and $29,075,000 as of June 30, 2023 and 2022, respectively, and is recorded within other assets on the

14. Commitments and Contingencies (continued)

consolidated balance sheets. The medical malpractice accruals have been discounted using a 2.32% and 2.05% factor at June 30, 2023 and 2022, respectively. Undiscounted medical malpractice accruals and reinsurance recoverable totaled approximately $83,453,000 and $21,677,000, respectively, as of June 30, 2023.

Litigation

The Company is involved in legal actions in the normal course of business, some of which seek monetary damages, including punitive damages, which are not covered by insurance. These actions, when finally concluded and determined, will not, in the opinion of management and the Company’s general counsel, have a material adverse effect on the Company’s consolidated financial position, results of operations, or cash flows.

15. Net Assets

The Company receives contributions from individuals and organizations that support certain programs and services. Net assets with donor restrictions as of June 30 follows:

	2023	**2022**
Health and hospital care	**$ 43,805,032**	$ 36,920,220
Plant expansion and equipment replacement	**39,016,007**	36,681,996
Research and grants	**19,998,872**	18,213,891
Education and scholarships	**6,761,150**	3,627,478
	$ 109,581,061	$ 95,443,585

15. Net Assets (continued)

From time to time, the Company's Board of Directors will designate certain unrestricted funds to be used in the future for specific projects. Board-designated funds included in net assets without donor restrictions were maintained for the following purposes as of June 30:

	2023	2022
Health and hospital care	**$ 221,404,410**	$ 174,032,818
Plant expansion and equipment replacement	**155,133,702**	167,208,002
	$ 376,538,112	$ 341,240,820

16. Endowment

The Company's endowment consists of approximately 50 individual funds established for a variety of purposes. The endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

In June 2009, Hawai‘i Revised Statute 517E was signed into law, enacting the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA became effective on July 1, 2009, replacing the Uniform Management of Institutional Funds Act. UPMIFA applies to institutional funds created after July 1, 2009, and to decisions made after July 1, 2009, for existing institutional funds. UPMIFA eliminates the concept of "historic dollar value" and allows an institution to spend or accumulate as the board determines is prudent for the uses, benefits, purposes and duration of the endowment fund unless the gift instrument states a particular rate or formula.

The Company has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Company classifies as permanently restricted net assets: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining

16. Endowment (continued)

portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the Company in a manner consistent with the standard for expenditure prescribed by UPMIFA. In accordance with UPMIFA, the Company considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The general purposes of the Company and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Company
7. The investment policies of the Company

Return Objectives and Risk Parameters

The Company has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that equal or exceed a mix of the Russell 3000, MSCI All Country World, Consumer Price Index plus 5%, Hedge Fund Research, Inc. and Barclays Capital benchmarks. The Company expects its endowment funds to provide an annual real return, net of inflation and management fees, of approximately 5% over long time periods. Actual returns in any given year may vary from this amount.

16. Endowment (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Company relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Company targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Company has a policy of appropriating for distribution each year 4.5% of its donor restricted endowment fund's average fair value using quarter-end values for the preceding three years. The amount of the distribution is subject to a 6.0% cap and 3.0% floor applied to the most recent quarter-end value to account for market volatility. In establishing this policy, the Company considered the long-term expected return on its endowment. Accordingly, the Company expects the current spending policy to allow its endowment to grow over long time periods, which is consistent with the Company's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

The endowment net asset composition by type of fund as of June 30 follows:

	2023		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Donor-restricted endowment	**$ –**	**$ 25,720,931**	**$ 25,720,931**
Board-designated funds	**376,538,112**	**–**	**376,538,112**
	$ 376,538,112	**$ 25,720,931**	**$ 402,259,043**

16. Endowment (continued)

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowments	$ –	$ 21,980,905	$ 21,980,905
Board-designated funds	341,240,820	–	341,240,820
	$ 341,240,820	$ 21,980,905	$ 363,221,725

Changes in board-designated and donor-restricted endowment net assets for the years ended June 30 consist of the following:

	2023		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	**$ 341,240,820**	**$ 21,980,905**	**$ 363,221,725**
Investment income:			
Investment income	**11,324,007**	**355,439**	**11,679,446**
Net investment gains (realized and unrealized)	**23,973,285**	**1,602,131**	**25,575,416**
Total investment income	**35,297,292**	**1,957,570**	**37,254,862**
Contributions	**–**	**2,055,450**	**2,055,450**
Appropriation of endowment assets for expenditure	**–**	**(427,773)**	**(427,773)**
Beneficial interest in perpetual trust	**–**	**242,513**	**242,513**
Transfers	**–**	**(87,734)**	**(87,734)**
Endowment net assets, end of year	**$ 376,538,112**	**$ 25,720,931**	**$ 402,259,043**

16. Endowment (continued)

	2022		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 374,034,004	$ 25,073,276	$ 399,107,280
Investment loss, net:			
Investment income	7,353,225	259,172	7,612,397
Net investment losses (realized and unrealized)	(40,146,409)	(2,067,081)	(42,213,490)
Total investment loss, net	(32,793,184)	(1,807,909)	(34,601,093)
Contributions	–	45,125	45,125
Appropriation of endowment assets for expenditure	–	(342,396)	(342,396)
Beneficial interest in perpetual trust	–	(892,154)	(892,154)
Transfers	–	(95,037)	(95,037)
Endowment net assets, end of year	$ 341,240,820	$ 21,980,905	$ 363,221,725

Supplementary Information

Members of the Hawai‘i Pacific Health Obligated Group

Combined Balance Sheets

	June 30	
	2023	**2022**
Assets		
Current assets:		
Cash and cash equivalents	**$ 164,264,984**	$ 187,571,871
Patient accounts receivable, net	**162,322,358**	167,426,421
Due from third-party payors	**32,615,152**	24,387,986
Other receivables	**14,433,435**	9,380,820
Due from affiliates	**47,740,591**	30,494,180
Inventories	**27,415,075**	22,738,973
Funds held by trustee under bond indenture agreement	**16,363,575**	15,903,482
Prepaid expenses and other	**7,887,171**	7,032,680
Total current assets	**473,042,341**	464,936,413
Assets whose use is limited or restricted:		
Board-designated	**273,774,562**	248,122,526
Restricted by donor or grantor	**95,246,199**	82,995,662
Total assets whose use is limited or restricted	**369,020,761**	331,118,188
Investments	**445,697,842**	402,682,152
Property and equipment, net	**556,999,314**	553,505,006
Right of use assets – operating	**104,693,415**	105,999,281
Right of use assets – finance	**3,909,343**	4,017,038
Prepaid pension	**41,990,612**	45,142,421
Other assets:		
Investment in unconsolidated subsidiaries	**78,238,160**	66,397,118
Investments in business ventures	**25,000**	25,000
Beneficial interest in net assets of foundations	**75,225,281**	70,798,896
Other	**26,794,273**	19,935,757
Total other assets	**180,282,714**	157,156,771
Total assets	**$ 2,175,636,342**	$ 2,064,557,270

See note to supplementary information – Members of the Hawai‘i Pacific Health Obligated Group

	June 30	
	2023	**2022**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 72,455,644**	$ 67,567,094
Payroll and related liabilities	**79,840,586**	88,683,894
Accrued expenses	**14,743,061**	14,913,585
Due to third-party payors	**8,881,747**	32,816,659
Due to affiliates	**5,530,294**	–
Current portion of long-term debt	**12,804,006**	9,793,344
Current portion of operating lease obligations	**11,864,743**	11,873,674
Current portion of finance lease obligations	**1,718,885**	1,570,521
Total current liabilities	**207,838,966**	227,218,771
Long-term debt, less current portion	**395,503,272**	408,307,279
Operating lease obligations, less current portion	**102,437,411**	103,592,528
Finance lease obligations, less current portion	**2,250,908**	2,639,661
Other long-term liabilities	**39,773,019**	25,645,360
Net assets:		
Net assets without donor restrictions	**1,318,276,383**	1,201,734,765
Net assets with donor restrictions	**109,556,383**	95,418,906
Total net assets	**1,427,832,766**	1,297,153,671
Total liabilities and net assets	**$ 2,175,636,342**	$ 2,064,557,270

See note to supplementary information – Members of the Hawai‘i Pacific Health Obligated Group

Members of the Hawaiʻi Pacific Health Obligated Group

Combined Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2023	2022
Revenues		
Net patient service revenue	**$ 1,430,318,106**	$ 1,341,107,684
Premium revenue	**30,104,276**	28,558,426
Other revenues	**218,032,533**	221,778,506
Net assets released from restrictions for operations	**14,583,468**	13,832,658
Total revenues	**1,693,038,383**	1,605,277,274
Expenses		
Salaries and employee benefits	**646,820,991**	629,357,086
Services	**459,825,587**	440,204,647
Supplies	**253,924,677**	226,220,277
Other purchases	**86,777,980**	85,144,355
Depreciation and amortization	**54,438,584**	52,854,622
Specific purpose projects/donations	**14,583,468**	13,832,658
Interest	**18,426,630**	19,117,832
Other	**31,835,658**	12,017,225
Total expenses	**1,566,633,575**	1,478,748,702
Operating income	**126,404,808**	126,528,572
Equity interest in affiliates	**7,639,673**	2,012,200
Investment income (loss)	**67,592,010**	(56,736,822)
Pension non-operating income	**2,229,779**	11,198,924
	77,461,462	(43,525,698)
Excess of revenues over expenses	**203,866,270**	83,002,874
Transfers to affiliates	**(94,748,008)**	(98,917,857)
Change in beneficial interest in net assets of foundations	**4,426,385**	(12,155,391)
Change in net unrealized losses on debt securities	**(402,091)**	(3,834,280)
Net assets released from restrictions for purchase of property and equipment	**1,398,561**	5,529,063
Pension related changes other than net periodic pension costs	**(3,009,911)**	14,981,543
Change in interest rate swap value	**809,045**	859,096
Other changes in net assets	**4,201,367**	12,322,266
Increase in net assets without donor restrictions	**116,541,618**	1,787,314

Continued to next page.

Members of the Hawaiʻi Pacific Health Obligated Group

Combined Statements of Operations and Changes in Net Assets (continued)

	Year Ended June 30	
	2023	**2022**
Net assets with donor restrictions		
Restricted grants and contributions	**$ 17,430,082**	$ 20,626,357
Investment income	**95,953**	220,857
Change in net unrealized gains (losses) on investments	**365,439**	(870,077)
Change in beneficial interest in net assets of foundations	**12,008,023**	20,876,037
Net assets released from restrictions	**(15,982,029)**	(19,361,721)
Change in beneficial interest in perpetual trusts	**242,513**	(892,155)
Other changes in net assets with donor restrictions	**(22,504)**	24,994
Increase in net assets with donor restrictions	**14,137,477**	20,624,292
Increase in net assets	**130,679,095**	22,411,606
Net assets at beginning of year	**1,297,153,671**	1,274,742,065
Net assets at end of year	**$ 1,427,832,766**	$ 1,297,153,671

See note to supplementary information – Members of the Hawaiʻi Pacific Health Obligated Group

Members of the Hawaiʻi Pacific Health Obligated Group

Combined Statements of Cash Flows

	Year Ended June 30 2023	2022
Operating activities		
Increase in net assets	**$ 130,679,095**	$ 22,411,606
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in beneficial interest in net assets of foundations	**(16,434,409)**	(8,720,647)
Depreciation and amortization	**54,438,584**	52,854,622
Equity interest in affiliates	**(7,639,673)**	(2,012,200)
Net (gains) losses on alternative investments	**(36,611,287)**	30,983,096
Net (gains) losses on debt and equity investments	**(19,224,430)**	35,032,621
Restricted contributions	**(17,430,082)**	(20,626,357)
Changes in operating assets and liabilities:		
Patient accounts receivable	**5,104,063**	(6,907,500)
Due to/from third-party payors, net	**(32,162,078)**	(51,924,812)
Other receivables (payables)	**(5,052,615)**	7,447,882
Inventories and other assets	**(12,389,109)**	(75,802)
Accounts payable and accrued expenses	**(5,658,549)**	7,455,749
Other long-term liabilities	**14,127,659**	(8,372,699)
Prepaid pension	**3,151,809**	(33,766,589)
Net cash provided by operating activities	**54,898,978**	23,778,970
Investing activities		
Purchases of property and equipment	**(54,713,330)**	(48,919,539)
Decrease in due to affiliates, net	**9,086,474**	–
Net increase due to unconsolidated subsidiaries	**(4,201,369)**	(12,322,268)
Purchases of investment securities	**(67,377,979)**	(118,276,284)
Sales and maturities of investment securities	**59,376,830**	114,485,521
Increase in funds held by trustee under bond indenture agreements	**(460,093)**	(197,582)
Assets whose use is limited or restricted:		
Purchases of investment securities	**(39,635,787)**	(67,438,029)
Sales and maturities of investment securities	**34,562,414**	68,132,355
Net cash used in investing activities	**(63,362,840)**	(64,535,826)

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Members of the Hawai‘i Pacific Health Obligated Group

Combined Statements of Cash Flows (continued)

	Year Ended June 30	
	2023	**2022**
Financing activities		
Payment of long-term debt	**$ (9,793,345)**	$ (9,485,002)
Payments of finance lease obligations	**(1,677,171)**	(1,593,644)
Note receivable to affiliate	**(20,802,591)**	–
Restricted contributions	**17,430,082**	20,626,357
Net cash (used in) provided by financing activities	**(14,843,025)**	9,547,711
Decrease in cash and cash equivalents	**(23,306,887)**	(31,209,145)
Cash and cash equivalents at beginning of year	**187,571,871**	218,781,016
Cash and cash equivalents at end of year	**$ 164,264,984**	$ 187,571,871
Supplemental disclosures of noncash activity		
Accruals of equipment	**$ 1,673,000**	$ 901,000

See note to supplementary information – Members of the Hawai‘i Pacific Health Obligated Group

Hawaiʻi Pacific Health

Note to Supplementary Information – Members of the
Hawaiʻi Pacific Health Obligated Group

June 30, 2023

1. Combined Financial Statements

The financial statements present the combined balance sheets, statements of operations and changes in net assets, and statements of cash flows of the Obligated Group members.

The members of the Obligated Group are comprised of the following:

- Hawaiʻi Pacific Health (parent company only)
- Kapiʻolani Medical Center for Women and Children
- Pali Momi Medical Center
- Straub Clinic & Hospital
- Wilcox Memorial Hospital

As prescribed in The Hawaiʻi Pacific Health (HPH) Master Trust Indenture, the accompanying combined financial statements include only the Members of the Obligated Group. All significant intercompany transactions within the Obligated Group have been eliminated upon combination. Non-Obligated Group subsidiaries are presented in the combined financial statements using the equity method of accounting. Accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be consolidated and all controlled affiliates be combined with the financial statements of HPH.

Effective January 1, 2020, management created the Hawaiʻi Pacific Health Medical Group (HPHMG), which consolidated the Company's clinical operation service lines into a centralized medical group and is not a member of the Obligated Group. As part of this transition, members of the Obligated Group entered into comprehensive service agreements with HPHMG. These agreements determine that certain Obligated Group members have the sole right to bill for physician services performed by HPHMG at the Obligated Group facilities, of which approximately $191,203,000 and $178,064,000 of net patient service and other revenues have been recognized for the years ended June 30, 2023 and 2022, respectively. As part of the agreements, all such amounts are subsequently remitted to HPHMG as professional services compensation and, accordingly, has been recorded within services expense in the combined statements of operations and changes in net assets for the year ended June 30, 2023. Obligated Group members also paid annual service coverage fees for physician services provided by HPHMG of approximately $49,308,000 and $46,831,000 for the years ended June 30, 2023 and 2022, respectively.

1. Combined Financial Statements (continued)

Additionally, the Obligated Group members are provided with annual compensation by HPHMG in consideration for overhead and other support expenses incurred by the Obligated Group members to operate the various clinical facilities. Such compensation amounted to approximately $106,660,000 and $98,301,000, which has been recorded within other revenues on the combined statements of operations and changes in net assets for the years ended June 30, 2023 and 2022, respectively.

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