

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Hawai'i Pacific Health
Years Ended June 30, 2024 and 2023
With Report of Independent Auditors

Ernst & Young LLP



Hawai‘i Pacific Health
Consolidated Financial Statements and
Supplementary Information
Years Ended June 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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.

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 18, 2024

Hawai'i Pacific Health
Consolidated Balance Sheets
(Dollars in Thousands)

	June 30	
	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 213,981	\$ 264,962
Patient accounts receivable, net	205,152	177,811
Due from third-party payors	28,022	32,894
Other receivables	44,394	23,076
Inventories	37,167	27,415
Funds held by trustee under bond indenture agreement	21,524	16,364
Prepaid expenses and other	43,831	17,234
Total current assets	594,071	559,756
Assets whose use is limited or restricted:		
Project funds held by trustee under bond indenture agreement	182,842	–
Board-designated	417,556	376,538
Restricted by donor or grantor	32,715	26,060
Total assets whose use is limited or restricted	633,113	402,598
Investments	537,372	482,949
Property and equipment, net	592,657	571,639
Right of use assets – operating	112,969	121,004
Right of use assets – finance	3,134	3,909
Due from third-party payors	3,808	–
Prepaid pension	47,466	41,991
Investments in business ventures	17,076	16,364
Goodwill	66,124	66,124
Other	142,731	77,748
Total assets	\$ 2,750,521	\$ 2,344,082

Hawai‘i Pacific Health

Consolidated Balance Sheets (continued)

(Dollars in Thousands)

	June 30	
	2024	2023
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 72,161	\$ 80,154
Payroll and related liabilities	101,204	92,110
Accrued expenses	44,165	38,767
Due to third-party payors	8,145	8,882
Current portion of long-term debt	15,050	12,804
Current portion of operating lease obligations	14,624	14,586
Current portion of finance lease obligations	1,573	1,719
Total current liabilities	256,922	249,022
Long-term debt, less current portion	577,568	395,503
Operating lease obligations, less current portion	109,337	118,111
Finance lease obligations, less current portion	1,772	2,251
Other long-term liabilities	133,643	125,611
Net assets:		
Net assets without donor restrictions:		
Attributable to Hawai‘i Pacific Health	1,525,634	1,326,857
Attributable to noncontrolling interests	18,244	17,146
Net assets without donor restrictions	1,543,878	1,344,003
Net assets with donor restrictions	127,401	109,581
Total net assets	1,671,279	1,453,584
Total liabilities and net assets	\$ 2,750,521	\$ 2,344,082

See accompanying notes.

Hawai‘i Pacific Health

Consolidated Statements of Operations and Changes in Net Assets *(Dollars in Thousands)*

	Year Ended June 30	
	2024	2023
Revenues		
Net patient service revenue	\$ 1,588,916	\$ 1,559,592
Premium revenue	45,023	42,321
Other revenue	232,601	89,697
Net assets released from restrictions for operations	17,583	17,519
Total revenues	1,884,123	1,709,129
Expenses		
Salaries and employee benefits	972,710	916,319
Services	274,891	254,623
Supplies	357,374	280,526
Other purchases	116,607	116,984
Depreciation and amortization	58,899	57,285
Specific purpose projects/donations	17,583	17,519
Interest	19,800	18,704
Other	21,498	35,688
Total expenses	1,839,362	1,697,648
Operating income	44,761	11,481
Business venture investment income	3,698	9,175
Investment income, net	129,108	79,488
Pension nonoperating income	1,873	2,183
	134,679	90,846
Excess of revenues over expenses	179,440	102,327
Less excess of revenues over expenses attributable to noncontrolling interests	(984)	(1,701)
Excess of revenues over expenses attributable to Hawai‘i Pacific Health	\$ 178,456	\$ 100,626

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Hawai‘i Pacific Health

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

	Year Ended June 30	
	2024	2023
Net assets without donor restrictions		
Controlling:		
Excess of revenues over expenses		
attributable to Hawai‘i Pacific Health	\$ 178,456	\$ 100,626
Change in net unrealized gains (losses) on debt securities	3,023	(525)
Net assets released from restrictions for purchase of property and equipment	12,978	1,399
Pension-related changes other than net periodic pension costs	4,293	(3,010)
Change in interest rate swap value	759	809
Other changes in net assets	(732)	704
Transfer of noncontrolling interest	–	(13,566)
Increase in controlling interests	198,777	86,437
Noncontrolling:		
Excess of revenues over expenses attributable to noncontrolling interests	984	1,701
Other changes in net assets attributable to noncontrolling interests	114	1,879
Transfer of noncontrolling interest	–	13,566
Increase in noncontrolling interests	1,098	17,146
Increase in net assets without donor restrictions	199,875	103,583
Net assets with donor restrictions		
Restricted contributions	43,954	30,652
Investment income	2,626	1,652
Change in net unrealized gains on investments	1,209	562
Net assets released from restrictions	(30,561)	(18,917)
Change in beneficial interest in perpetual trusts	550	243
Other changes in net assets with donor restrictions	42	(54)
Increase in net assets with donor restrictions	17,820	14,138
Increase in net assets	217,695	117,721
Net assets at beginning of year	1,453,584	1,335,863
Net assets at end of year	\$ 1,671,279	\$ 1,453,584

See accompanying notes.

Hawai'i Pacific Health

Consolidated Statements of Cash Flows (Dollars in Thousands)

	Year Ended June 30	
	2024	2023
Operating activities		
Increase in net assets	\$ 217,695	\$ 117,721
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	58,899	57,285
Business venture investment income	(3,698)	(9,175)
Net distributions from business venture	2,986	—
Noncontrolling interest in acquired business venture	—	(3,950)
Net realized and unrealized gains on alternative investments	(68,350)	(42,226)
Net realized and unrealized gains on debt and equity investments	(38,232)	(22,483)
Restricted contributions	(43,954)	(30,652)
Changes in operating assets and liabilities:		
Patient accounts receivable	(27,341)	4,175
Due to/from third-party payors	327	(32,308)
Other receivables	(21,318)	(4,383)
Inventories, prepaid expenses and other assets	(101,332)	(11,423)
Restricted pledges receivable	(2,840)	1,068
Prepaid pension	(5,475)	3,152
Accounts payable and accrued expenses	3,226	(2,615)
Other long-term liabilities	8,032	18,315
Net cash (used in) provided by operating activities	(21,375)	42,501
Investing activities		
Purchases of property and equipment	(75,355)	(55,836)
Net distributions from business venture	—	3,489
Acquisitions	—	(21,281)
Purchases of investment securities	(39,326)	(82,020)
Sales of investment securities	44,896	73,534
Increase in funds held by trustee under bond indenture agreement	(5,160)	(460)
Assets whose use is limited or restricted:		
Purchases of investment securities	(33,552)	(56,809)
Sales of investment securities	35,309	48,355
Project funds held by trustee under bond indenture agreement	(182,842)	—
Net cash used in investing activities	(256,030)	(91,028)

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Hawai'i Pacific Health

Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	Year Ended June 30	
	2024	2023
Financing activities		
Payment of long-term debt	\$ (195,706)	\$ (9,793)
Proceeds from long-term debt	380,017	–
Payments of finance lease obligations	(1,841)	(1,677)
Restricted contributions	43,954	30,652
Net cash provided by financing activities	226,424	19,182
Decrease in cash and cash equivalents	(50,981)	(29,345)
Cash and cash equivalents at beginning of year	264,962	294,307
Cash and cash equivalents at end of year	\$ 213,981	\$ 264,962
 Supplemental disclosures of noncash activity		
Noncontrolling interest in acquired business venture	\$ –	\$ 3,950
Equity investment consideration as part of business acquisition	\$ –	\$ 6,000
Accruals of equipment	\$ 2,598	\$ 1,577

See accompanying notes.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (Dollars in Thousands)

June 30, 2024

1. Organization and Summary of Accounting Policies

Hawai'i Pacific Health (HPH) is the sole member of Kapi'olani Medical Center for Women and Children (KMCWC); Pali Momi Medical Center (PMMC); Pali Momi Foundation; Kapi'olani Medical Specialists; Providers Insurance Corporation (PIC); Kapi'olani Health Foundation; Straub Clinic & Hospital (SCH); Straub Foundation; Wilcox Memorial Hospital (WMH); Kauai Medical Clinic; Wilcox Health Foundation; Hawai'i Pacific Health Partners, Inc. (HPHPI); Hawai'i Health Partners; and other smaller health-care-related entities (some of which are for profit) located in Hawai'i. The accompanying consolidated financial statements reflect the consolidated operations of all wholly owned affiliates and business ventures in which HPH, through affiliates, holds a controlling interest. The unrelated investor's ownership interest of the consolidated business ventures is recorded as noncontrolling interest. HPH and the above affiliates are collectively referred to as the Company. All interorganizational 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 Hawai'i 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 bases 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.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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 the 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 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, 2024 and 2023, 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

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Summary of Accounting Policies (continued)

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.

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 of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on debt securities, except for credit losses or other-than-temporary declines in fair value, are excluded from the excess of revenue over expenses for the years ended June 30, 2024 and 2023.

The Company evaluates whether a credit loss allowance should be recorded for debt securities in an unrealized loss position or when there is a decline in the fair market value of debt securities below amortized cost. The Company's credit loss evaluation is based on objective evidence, as well as subjective factors, including knowledge of recent events and assumptions of future events. If a credit loss allowance relating to the debt instruments decline in fair value is recognized, the cost basis of the individual debt security is written down to fair value. There were no credit loss allowances recorded for the years ended June 30, 2024 or 2023.

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 on the consolidated balance sheets.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Summary of Accounting Policies (continued)

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.

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	
	2024	2023
Pacific ASC, LLC	50%	50%
The Cancer Center of Hawaii, LLC	30	30
Pacific Medical Collections, Inc.	33	33

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

	2024	2023
Current assets	\$ 10,697	\$ 9,635
Noncurrent assets	25,626	27,029
Total assets	<u>\$ 36,323</u>	<u>\$ 36,664</u>
Current liabilities	\$ 4,521	\$ 4,420
Noncurrent liabilities	9,364	12,063
Capital	22,438	20,181
Total liabilities and capital	<u>\$ 36,323</u>	<u>\$ 36,664</u>
	2024	2023
Excess of revenues over expenses	<u>\$ 10,400</u>	<u>\$ 10,507</u>

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Summary of Accounting Policies (continued)

Assets Whose Use is Limited

Project funds held by trustee under bond indenture agreement consists of funds received as part of the Series 2023C Special Purpose Revenue Bonds issuance (see Note 10) that are to be used to pay for the SCH campus redevelopment project.

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.

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 follow:

	2024	2023
Receivable in less than one year	\$ 4,371	\$ 4,135
Receivable in one to five years	14,341	5,100
Thereafter	700	260
	19,412	9,495
Less present value discount	2,205	970
Less allowance for uncollectible pledges	1,371	1,393
	\$ 15,836	\$ 7,132

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Summary of Accounting Policies (continued)

Grants

In February 2024, the Company received a \$100.0 million irrevocable grant for the naming rights of the Straub Medical Center. The Straub Medical Center campus is currently under redevelopment and the redeveloped medical center has been named Straub Benioff Medical Center. The grant is to be used for the planning, design, construction and equipment of the Straub Medical Center. The grant contained certain conditions including the Company obtaining financing for the Straub Medical Center, receipt of requisite government approvals, executing construction contracts and commencing construction. As of June 30, 2024, the Company has complied with each of these conditions, or performance obligations, and accordingly has recognized the grant in the consolidated financial statements as of and for the year ended June 30, 2024. The grant will be paid over a 10 year period, and accordingly, the present value of the grant amounting to \$79.0 million has been reported in other revenue on the consolidated statement of operations for the year ended June 30, 2024. The Company has also recorded the grant receivable amounting to \$69.0 million on the consolidated balance sheet as of June 30, 2024, of which \$10.0 million has been included in other current receivables and \$59.0 million has been included in other assets.

Net Assets With Donor Restrictions

Net assets with donor restrictions are used to differentiate resources, the use of which is restricted by donors 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, research and grants and education and scholarships.

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

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Summary of Accounting Policies (continued)

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 were 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 conditions. 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.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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:

	2024	2023
Hospital	\$ 1,295,187	\$ 1,280,045
Clinic	234,710	224,460
Other	59,019	55,087
	\$ 1,588,916	\$ 1,559,592

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

	2024	2023
Medicare	\$ 464,944	\$ 426,117
Medicaid/QUEST integration	316,460	340,286
Commercial	721,195	701,694
Self-pay and other	86,317	91,495
	\$ 1,588,916	\$ 1,559,592

Significant concentrations of patient accounts receivable include Hawaii Medical Service Association – 20% and 18%, Medicaid and QUEST Integration programs – 23% and 26%, and Medicare and Medicare Advantage – 33% and 32% as of June 30, 2024 and 2023, respectively.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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 is 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, is 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 Hawai'i 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 Hawai'i 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 its 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.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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 with levels of uncompensated care measured on a federal fiscal year basis.

For the years ended June 30, 2024 and 2023, the Company recorded approximately \$53.6 million and \$83.0 million, respectively, in net patient service revenues related to HSPA payments and approximately \$22.3 million and \$21.1 million, respectively, in other purchases expense related to provider tax payments.

The Company recorded a change in estimate, for the years ended June 30, 2024 and 2023, of approximately \$(1.2) million and \$22.4 million, respectively, as a (decrease) increase in net patient service revenues relating to the HSPA monies received, relating to prior year program revenues that were final settled during the year.

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 2024 and 2023 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

The Company has several collective bargaining agreements covering approximately 34% of its labor force. As of June 30, 2024, five collective bargaining agreements with four unions, or approximately 8% of the Company's labor force, will expire within one year.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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, 2024 or 2023.

Excess of Revenues Over Expenses

The consolidated financial statements of operations and changes in net assets include the excess of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from the excess of revenues over expenses, include changes in unrealized gains (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, transfers of noncontrolling interests, and other changes in net assets.

Subsequent Events

Subsequent events have been evaluated through November 18, 2024, the date these consolidated financial statements were issued. During this period, the following subsequent event warranted disclosure:

Subsequent to June 30, 2024, the Company drew \$40.0 million of the \$75.0 million line of credit (Note 9).

In August 2024, the Company completed the acquisition of a 60% controlling interest in All Access Ortho O'ahu LLC for \$22.1 million. The difference between the purchase consideration and the fair value of the assets acquired, liabilities assumed and non-controlling interest amounted to approximately \$36.0 million is being recognized as goodwill in fiscal year ending June 30, 2025.

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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 was effective for the Company on July 1, 2023. The adoption of the credit loss standard did not have a material impact to the Company’s consolidated financial statements.

2. Liquidity and Availability

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

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 213,981	\$ 264,962
Patient accounts receivable, net	205,152	177,811
Due from third-party payor receivable	28,022	32,894
Other current receivable	34,394	23,076
Board-designated investments	171,893	176,754
Unrestricted investments	479,392	428,578
Financial assets available to meet general expenditures within one year	<u>\$ 1,132,834</u>	<u>\$ 1,104,075</u>

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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. Private equity funds amounting to approximately \$67.9 million cannot 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 \$75.0 million 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 a 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.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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, 2024 and 2023, the Company's alternative investments, amounting to approximately \$545.7 million and \$477.5 million, 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 \$45.8 million as of June 30, 2024. Capital commitments are determined by fund managers and the unfunded capital commitments can be funded through June 2032.

As of June 30, 2024 and 2023, the Company's investments in cash surrender values of life insurance policies amounting to approximately \$22.0 million and \$21.0 million, 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.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Fair Value (continued)

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

Description	2024				Valuation Technique
	Total	Level 1	Level 2	Level 3	
Board-designated investments:					
Money market funds	\$ 15,090	\$ 15,090	\$ –	\$ –	a
Equity securities mutual funds	119,075	119,075	–	–	a
Debt securities:					
U.S. Treasury obligations	9,830	9,830	–	–	a
Asset-backed securities	4,587	–	4,587	–	a
Corporate and municipal bonds	9,496	–	9,496	–	a
Funds held by trustee under bond indenture agreement:					
Money market funds	21,524	21,524	–	–	a
Project funds held by trustee under bond indenture agreement:					
Debt securities:					
U.S. Treasury obligations	182,843	182,843	–	–	a
Equity securities mutual funds	4,075	4,075	–	–	a
Debt securities:					
Asset-backed securities	126	–	126	–	a
Corporate bonds	387	–	387	–	a
Foreign bonds	3	–	3	–	a
U.S. Treasury obligations	391	391	–	–	a
Charitable remainder trust assets	62	–	62	–	a
Certificate of deposit	600	–	600	–	a
Money market funds	414	414	–	–	a
Beneficial interest in perpetual trusts	5,419	–	–	5,419	c
Unrestricted investments:					
Money market funds	18,819	18,819	–	–	a
Equity securities mutual funds	160,627	160,627	–	–	a
Global equity common stocks	85	85	–	–	a
Debt securities:					
U.S. Treasury obligations	23,492	23,492	–	–	a
Asset-backed securities	5,720	–	5,720	–	a
Corporate bonds	20,929	–	20,929	–	a
Foreign bonds	14	–	14	–	a
Deferred compensation plan assets:					
Cash	995	995	–	–	a
Money market funds	623	623	–	–	a
Mutual funds	45,440	45,440	–	–	a
Equity securities	5,761	5,761	–	–	a
Indexed option	524	–	–	524	c
Collective investment trusts	3,579	–	3,579	–	a
Total investments at fair value	\$ 660,530	\$ 609,084	\$ 45,503	\$ 5,943	
Funds held by trustee under bond indenture agreement	\$ 21,524				
Project funds held by trustee under bond indenture agreement	182,842				
Assets whose use is limited or restricted	450,271				
Investments	537,372				
Deferred compensation plan assets – within other assets	56,921				
Less alternative investments	(545,733)				
Less cash surrender value of life insurance policies	(22,040)				
Less cost investment	(5,971)				
Less restricted pledge receivables, net	(9,056)				
Less cash and cash equivalents	(5,600)				
Total investments at fair value	\$ 660,530				

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Fair Value (continued)

Description	2023				Valuation Technique
	Total	Level 1	Level 2	Level 3	
Board-designated investments:					
Money market funds	\$ 22,342	\$ 22,342	\$ –	\$ –	a
Equity securities mutual funds	103,726	103,726	–	–	a
Debt securities:					
U.S. Treasury obligations	8,257	8,257	–	–	a
Asset-backed securities	4,487	–	4,487	–	a
Corporate and municipal bonds	9,336	–	9,336	–	a
Funds held by trustee under bond indenture agreement:					
Money market funds	16,364	16,364	–	–	a
Investments restricted by donor or grantor:					
Equity securities mutual funds	3,322	3,322	–	–	a
Debt securities:					
Asset-backed securities	113	–	113	–	a
Corporate bonds	380	–	380	–	a
Foreign bonds	3	–	3	–	a
U.S. Treasury obligations	330	330	–	–	a
Charitable remainder trust assets	59	–	59	–	a
Certificate of deposit	600	–	600	–	a
Money market funds	561	561	–	–	a
Beneficial interest in perpetual trusts	4,869	–	–	4,869	c
Unrestricted investments:					
Money market funds	27,763	27,763	–	–	a
Equity securities mutual funds	138,992	138,992	–	–	a
Global equity common stocks	76	76	–	–	a
Debt securities:					
U.S. Treasury obligations	20,393	20,393	–	–	a
Asset-backed securities	5,576	–	5,576	–	a
Corporate bonds	21,383	–	21,383	–	a
Foreign bonds	13	–	13	–	a
Deferred compensation plan assets:					
Cash	1,668	1,668	–	–	a
Money market funds	578	578	–	–	a
Mutual funds	35,400	35,400	–	–	a
Equity securities	7,086	7,086	–	–	a
Indexed option	500	–	–	500	c
Collective investment trusts	3,810	–	3,810	–	a
Total investments at fair value	<u>\$ 437,987</u>	<u>\$ 386,858</u>	<u>\$ 45,760</u>	<u>\$ 5,369</u>	
Funds held by trustee under bond indenture agreement	\$ 16,364				
Assets whose use is limited or restricted	402,598				
Investments	482,949				
Deferred compensation plan assets – within other assets	49,041				
Less alternative investments	(477,489)				
Less cash surrender value of life insurance policies	(20,987)				
Less cost investment	(4,000)				
Less restricted pledge receivables, net	(6,216)				
Less cash and cash equivalents	(4,273)				
Total investments at fair value	<u>\$ 437,987</u>				

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Fair Value (continued)

The Company received restricted pledges and contributions amounting to approximately \$43.9 million and \$30.6 million in 2024 and 2023, 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 0.21% to 4.45%, and allowance for uncollectible pledges were approximately \$15.8 million and \$7.1 million as of June 30, 2024 and 2023, respectively.

4. Property and Equipment

Property and equipment as of June 30 follow:

	2024	2023
Land and land improvements	\$ 45,874	\$ 45,877
Buildings and improvements	811,997	796,684
Equipment	487,853	465,902
Construction-in-progress	75,403	57,559
	1,421,127	1,366,022
Less accumulated depreciation	828,470	794,383
Property and equipment, net	\$ 592,657	\$ 571,639

5. Other Assets

Other assets as of June 30 follow:

	2024	2023
Grant receivable	\$ 58,421	\$ –
Deferred compensation plan assets	56,921	49,041
Reinsurance receivable	14,856	15,476
Other	12,533	13,231
Total other assets	\$ 142,731	\$ 77,748

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Goodwill

Changes in goodwill for the years ended June 30, 2024 and 2023, follow:

Goodwill, July 1, 2022	\$ 37,696
Goodwill from acquisitions	28,428
Goodwill, June 30, 2023	66,124
Goodwill from acquisitions	–
Goodwill, June 30, 2024	\$ 66,124

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 \$9.0 million and \$15.5 million, 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 noncontrolling 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 noncontrolling interest amounting to approximately \$28.4 million is recorded as goodwill.

7. Other Long-Term Liabilities

Other long-term liabilities as of June 30 follow:

	2024	2023
Deferred compensation liability	\$ 54,610	\$ 46,683
Long-term malpractice reserves	38,777	33,544
Reinsurance obligations	14,283	15,475
Other	25,973	29,909
Total other long-term liabilities	\$ 133,643	\$ 125,611

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Employee Benefit Plans

Eligible employees of the Company are covered under the Hawai‘i Pacific Health Retirement Plan (the Plan), a noncontributory 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.

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:

	2024	2023
Projected benefit obligation		
Benefit obligation, at beginning of year	\$ 376,659	\$ 385,534
Service cost	17,682	17,349
Interest cost	19,069	16,555
Actuarial gain	(9,595)	(13,870)
Annuity purchase	(21,535)	–
Benefits paid	(22,412)	(28,909)
Benefit obligation, at end of year	359,868	376,659
Fair value of plan assets		
Fair value of plan assets, at beginning of year	418,650	430,676
Contributions	17,000	15,000
Actual return on plan assets	15,841	1,883
Annuity purchase	(21,745)	–
Benefits paid	(22,412)	(28,909)
Fair value of plan assets, at end of year	407,334	418,650
Prepaid pension, at end of year	\$ 47,466	\$ 41,991
	2024	2023
Unrecognized net actuarial loss	\$ 171,555	\$ 183,256
Unrecognized prior service credit	(34,743)	(42,151)
Accumulated other comprehensive loss	\$ 136,812	\$ 141,105

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Employee Benefit Plans (continued)

The overfunded status of the Plan of approximately \$47.5 million and \$42.0 million at June 30, 2024 and 2023, respectively, is recognized on the accompanying consolidated balance sheets as prepaid pension. The accumulated benefit obligation approximated \$360.0 million and \$376.7 million at June 30, 2024 and 2023, respectively. No plan assets are expected to be returned to the Company during the year ending June 30, 2025.

In June 2024, the Plan completed a noncancelable group annuity purchase with Securian Life Insurance Company (Securian). There were approximately 300 retirees in pay status whose future benefit obligations were sold, and risk was legally transferred, to Securian for a premium of \$21.7 million.

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

	2024	2023
Service cost	\$ 17,682	\$ 17,349
Interest cost	19,069	16,555
Expected return on plan assets	(24,335)	(22,368)
Recognized prior service credit	(7,408)	(7,408)
Recognized net loss	10,801	11,038
Net periodic benefit cost	\$ 15,809	\$ 15,166

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

	2024	2023
Discount rate	5.48%	5.21%

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

	2024	2023
Discount rate	5.21%	4.78%
Expected return on plan assets	6.30	5.25
Rate of compensation increase	4.25	3.50

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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 40% equity securities and 60% 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 6.30% 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, follow:

	Target Allocation 2024	Percentage of Actual Plan Assets	
	2024	2024	2023
Major asset category			
Global equity	23%	26%	27%
Fixed income	60	57	56
Marketable alternative and private investments	15	12	11
Real estate	–	3	3
Cash and cash equivalents	2	2	3
	100%	100%	100%

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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:

	2024				Valuation Technique (Note 3)
	Total	Level 1	Level 2	Level 3	
Equity securities:					
Mutual funds	\$ 67,767	\$ 67,767	\$ –	\$ –	a
Common stock	5,503	5,503	–	–	a
Real estate	12,450	–	12,450	–	a
Common collective funds	106,232	106,232	–	–	a
Limited liability companies	68,854	68,854	–	–	a
Cash and cash equivalents	6,620	6,620	–	–	a
Total investments	267,426	\$ 254,976	\$ 12,450	\$ –	
Alternative investments measured at net asset value:					
Closely held securities	14,516				
Common collective funds	27,217				
Limited partnerships	80,593				
Limited liability companies	17,582				
Total investments at fair value	\$ 407,334				

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Employee Benefit Plans (continued)

	2023				Valuation Technique (Note 3)
	Total	Level 1	Level 2	Level 3	
Equity securities:					
Mutual funds	\$ 35,562	\$ 35,562	\$ –	\$ –	a
Common stock	9,243	9,243	–	–	a
Real estate	12,620	–	12,620	–	a
Common collective funds	132,796	132,796	–	–	a
Limited liability companies	79,069	79,069	–	–	a
Cash and cash equivalents	12,075	12,075	–	–	a
Total investments	281,365	\$ 268,745	\$ 12,620	\$ –	
Alternative investments measured at net asset value:					
Closely held securities	14,311				
Common collective funds	25,915				
Limited partnerships	80,581				
Limited liability companies	16,478				
Total investments at fair value	\$ 418,650				

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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:

	2024			
Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (if Currently Eligible)	Redemption Restrictions and Expiration of Restriction	
Fixed income	\$ 175,086	Daily	2–5 business days	–
Global ex-U.S. equity	14,883	Monthly	10 days	–
U.S. equity ex small-cap	24,044	Monthly	31 days	–
Emerging markets equity	6,588	Monthly	10–32 days	–
Diversified arbitrage/ event driven	4,363	Quarterly	65 days	Side pockets, gates
Distressed	223	Every 24 months, 25% quarterly	65 days	Side pockets, gates
Global long/short equity	33,665	Monthly	3–60 days	Side pockets, gates
U.S. long/short equity	17,582	Quarterly	45 days	–
Global macro	7,741	Monthly, quarterly	14–60 days	–
Private equity	30,812	–	–	–
Opportunistic	7	–	–	Side pockets
	<u>\$ 314,994</u>			

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Employee Benefit Plans (continued)

	2023			
Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (if Currently Eligible)	Redemption Restrictions and Expiration of Restriction	
Fixed income	\$ 200,599	Daily	2–5 business days	–
Global ex-U.S. equity	21,113	Daily, monthly	1 or 10 days	–
U.S. equity ex small-cap	30,945	Daily, monthly	3 or 31 days	–
Emerging markets equity	7,990	Daily, monthly	2, 10, 30 or 32 days	–
Diversified arbitrage/ event driven	4,029	Quarterly Every 24 months,	65 days	Side pockets, gates
Distressed	282	25% quarterly Semimonthly, monthly, quarterly, annually,	60–65 days	Side pockets, gates
Global long/short equity	32,813	semiannually	3–60 days	Side pockets, gates
U.S. long/short equity	16,478	Quarterly	45 days	–
Global macro	6,956	Monthly, quarterly	14–60 days	–
Private equity	27,937	–	–	–
Opportunistic	8	Every 24 months	90 days	Side pockets
	<u>\$ 349,150</u>			

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 indexes 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 ex small-cap: This category has products investing in U.S. equity securities that do not fall in small market cap categories.

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

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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 indexes 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 indexes 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 composed 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 \$24.8 million as of June 30, 2024. 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 \$19.5 million in fiscal year 2025.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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:		
2025	\$	27,715
2026		24,511
2027		26,371
2028		26,804
2029		26,636
Years 2030–2033		149,105
Total	\$	281,142

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 Retirement Plans was approximately \$25.9 million and \$24.2 million in 2024 and 2023, respectively.

9. Line and Letters of Credit

The Company has a \$75.0 million unsecured revolving line of credit available, expiring March 1, 2029. The interest rate on the line is based on the adjusted term Secured Overnight Financial Rate. There were no outstanding draws on this facility as of June 30, 2024 or 2023.

As of June 30, 2024, the Company's available letters of credit were as follows:

Coverage	Amount	Expiration Date	Interest Rate
Malpractice insurance policies:			
PIC	\$2 million	February 15, 2025	*
Workers' compensation insurance policies:			
HPH	\$1 million	February 1, 2025	*

* Interest rate would be determined if drawn upon.

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Line and Letters of Credit (continued)

There were no draws on the above letters of credit as of June 30, 2024 or 2023.

10. Long-Term Debt

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

	2024	2023
Series 2023C Special Purpose Revenue Bonds, interest payable semiannually at rates ranging from 3.47% to 5.33% (4.85% at June 30, 2024), principal payments in varying annual amounts ranging from \$950 to \$14,190 due July 2024 through 2043; term bond of \$31,965 due July 2047 and \$49,780 due July 2052	\$ 198,095	\$ —
Series 2023B Special Purpose Revenue Bonds, interest payable semiannually at rates ranging from 2.20% to 2.90% (2.56% at June 30, 2024), principal payments in varying annual amounts ranging from \$2,030 to \$2,855 due July 2024 through 2032	23,559	—
Series 2023A Special Purpose Revenue Bonds, interest payable semiannually at rates ranging from 2.20% to 3.69% (3.40% at June 30, 2024), principal payments in varying annual amounts ranging from \$1,645 to \$22,770 due July 2024 through 2043	110,236	—
Prudential 3.25% Series A Senior Note due March 2043, semiannual amortizing principal and interest payments due in March and September	48,205	50,000
Series 2019 Special Purpose Revenue Bonds, interest payable monthly at a fixed rate of 2.71%, principal payments in varying annual amounts ranging from \$3,033 to \$4,425 due July 2024 through 2033	35,666	38,684
Series 2018B Taxable Refunding Revenue Bonds, interest payable semiannually at rates ranging from 3.52% to 4.27% (4.13% at June 30, 2024), principal payments in varying annual amounts ranging from \$1,925 to \$2,605 due July 2024 through 2032; \$2,715 to \$3,610 due July 2033 through July 2040	44,999	46,817
Series 2018A Taxable Refunding Revenue Bonds, interest payable semiannually at rates ranging from 3.52% to 4.27% (4.23% at June 30, 2024), principal payments in varying annual amounts ranging from \$645 to \$1,665 due July 2024 through 2032; \$1,210 to \$11,605 due July 2033 through July 2040	84,629	85,112

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Long-Term Debt (continued)

	2024	2023
Prudential 3.81% Series A Senior Note due September 2042 annual amortizing principal payments due in September and semiannual interest payments due in March and September	\$ 47,229	\$ 48,899
Series 2013B Special Purpose Revenue Bonds, interest payable semiannually 4.00%, principal payment of \$2,515 through 2023. 2013B Bonds were paid in full through proceeds received from the Series 2023A and 2023B Special Purpose Revenue Bonds issued July 6, 2023	–	26,490
Series 2013A Special Purpose Revenue Bonds, interest payable semi-annually at 5.00%, principal payment of \$1,505 through 2023. 2013A Bonds were paid in full through proceeds received from the Series 2023A and 2023B Special Purpose Revenue Bonds issued July 6, 2023	–	112,305
Total long-term debt	592,618	408,307
Less current portion	15,050	12,804
Non-current portion	\$ 577,568	\$ 395,503

In August 2022, the Company entered into a commitment to issue approximately \$205.7 million of direct purchase forward delivery bonds (Series 2023C Special Purchase Revenue Bonds) in November 2023. The forward delivery bond agreement was amended in November 2023 to issue approximately \$204.0 million of direct purchase forward delivery bonds in January 2024. The proceeds from the Series 2023C Special Purchase Revenue Bonds were placed in a project fund held by trustee and will be used to finance early phase costs of the SCH campus redevelopment project.

The Company executed a shelf note arrangement (Prudential Note) in September 2017, which allowed the Company to issue senior notes up to an aggregate of \$150.0 million through September 2020. In September 2017, senior notes payable totaling \$56.5 million were issued with interest at 3.81% due September 2042. Principal is payable annually, and interest is payable semiannually. The proceeds from the notes were used to fund additional contributions to the Plan in fiscal year 2018. In June 2020, the Company executed a draw on the Prudential shelf arrangement. Senior notes were issued totaling \$50.0 million, due March 2043. Principal and interest are payable semiannually 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.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Long-Term Debt (continued)

In February 2020, the Company executed a forward delivery bond purchase agreement to issue Series 2023A and 2023B Special Purpose Revenue Bonds amounting to approximately \$105.5 million and \$21.8 million, respectively. The transaction was completed on July 6, 2023. The Series 2023A and 2023B Special Purpose Revenue Bonds were issued at a premium of \$8.9 million. The Series 2023A and 2023B Special Purpose Revenue Bonds have maturity dates from July 1, 2024 through 2043 and are collateralized by a security interest in the gross receipts and pledged assets of the Obligated Group. Upon issuance, the Series 2023A and 2023B Special Purpose Revenue Bonds were used to pay off the outstanding obligation of the Company's Series 2013A and 2013B Special Purpose Revenue Bonds.

In May 2019, the Company issued Series 2019 Bonds in the amount of \$48.1 million. The proceeds of the Series 2019 Bonds were used to refund the Series 2013C variable rate bonds.

In April 2018, the Company issued Series 2018A and 2018B Taxable Refunding Bonds in the amounts of approximately \$93.0 million and \$54.1 million, 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.

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 \$2.7 million to \$3.6 million. The 2018A Bonds are subject to mandatory redemption on or after July 1, 2033, payable in annual sinking fund installments from \$1.2 million to \$11.6 million.

The Prudential Notes, 2018 Series Taxable Refunding Bonds, and 2023, 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 (composed of HPH – parent company only, KMCWC, PMMC, SCH, and WMH), as defined in the Master Indenture.

As of June 30, 2024 and 2023, approximately \$21.5 million and \$16.4 million, respectively, was held by the bond trustee to fund principal maturities and accrued interest payable.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Long-Term Debt (continued)

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, 2024, the Obligated Group was in compliance with all bond covenants.

Long-term debt maturities (including bond premium and bond issuance costs of \$0.7 million) for the years succeeding June 30, 2024, are as follows:

Year ending June 30:	
2025	\$ 15,050
2026	18,061
2027	18,847
2028	19,486
2029	20,163
Thereafter	501,011
	<u>\$ 592,618</u>

Interest paid was approximately \$16.5 million and \$17.6 million in 2024 and 2023, respectively.

11. Leases

Short-term leases, with terms of 12 months or less, are not included in the present value calculations of the right of use assets or 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.

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Leases (continued)

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

	2024	2023
Weighted average remaining term:		
Operating leases	21.7 years	21.2 years
Finance leases	2.8 years	2.8 years
Weighted average discount rate:		
Operating leases	2.82%	2.66%
Finance leases	3.30%	2.23%

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, 2024:

	Operating Leases	Finance Leases
2025	\$ 17,911	\$ 1,662
2026	15,762	784
2027	14,742	625
2028	13,265	426
2029	11,044	37
Thereafter	94,146	–
Total minimum lease payments	166,870	3,534
Less amount of lease payments representing interest	(42,909)	(189)
Present value of future minimum lease payments	123,961	3,345
Less current obligations under leases	(14,624)	(1,573)
Long-term lease obligations	\$ 109,337	\$ 1,772

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Leases (continued)

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

	2024	2023
Finance lease expense:		
Amortization of leased assets	\$ 1,840	\$ 1,547
Interest on lease liabilities	101	67
Operating leases	17,702	17,763
Short-term leases	1,253	1,306
Total lease cost	\$ 20,896	\$ 20,683

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 \$10.9 million and \$11.7 million as of June 30, 2024 and 2023, respectively, is included in right of use assets – operating.

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

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 18,534	\$ 18,305
Operating cash flows for finance leases	101	67
Financing cash flows for finance leases	1,841	1,677

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Leases (continued)

Future minimum rental income to be received under noncancelable operating leases for office space as of June 30, 2024, follows:

Year ending June 30:	
2025	\$ 2,210
2026	856
2027	799
2028	808
2029	824
Thereafter	<u>13,357</u>
	<u>\$ 18,854</u>

12. Income Taxes

Some of the Company's not-for-profit organizations have generated net operating losses (NOLs) attributable to revenue-generating activities that are not related to their respective tax-exempt purposes. The Company has unused federal and Hawai'i state NOL carryforwards as of June 30, 2024 and 2023, of approximately \$4.7 million combined and \$5.5 million combined. The NOL carryforwards begin to expire in 2024, 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 2024 tax years remain subject to examination for federal income tax purposes, whereas the 2016 through 2024 tax years remain subject to examination for state taxing jurisdictions in which the Company operates.

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

13. Functional Expenses

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

	2024		
	Patient Services	Philanthropic and Support Services	Total
Salaries and employee benefits	\$ 830,407	\$ 142,303	\$ 972,710
Services	231,107	43,784	274,891
Supplies	356,512	862	357,374
Other purchases	81,632	34,975	116,607
Depreciation and amortization	48,879	10,020	58,899
Specific purpose projects/donations	1	17,582	17,583
Interest	17,337	2,463	19,800
Other	12,525	8,973	21,498
Total expenses	\$ 1,578,400	\$ 260,962	\$ 1,839,362
	2023		
	Patient Services	Philanthropic and Support Services	Total
Salaries and employee benefits	\$ 777,562	\$ 138,757	\$ 916,319
Services	216,882	37,741	254,623
Supplies	279,743	783	280,526
Other purchases	83,245	33,739	116,984
Depreciation and amortization	47,350	9,935	57,285
Specific purpose projects/donations	211	17,308	17,519
Interest	17,142	1,562	18,704
Other	9,829	25,859	35,688
Total expenses	\$ 1,431,964	\$ 265,684	\$ 1,697,648

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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 Hawai'i (as described in Note 9), as required by self-insurance regulations of the state of Hawai'i. 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 \$5.0 million and \$5.6 million as of June 30, 2024 and 2023, respectively, and were recorded using a 4.69% and 1.89% discount factor as of June 30, 2024 and 2023, 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 Hawai'i domiciled pure captive whose sole corporate member is HPH. PIC operates under a Certificate of Authority from the state of Hawai'i (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.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

14. Commitments and Contingencies (continued)

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

Professional Liabilities

	PIC Retention	Total Coverage
Policy years		
July 1, 2006 through June 30, 2007	\$ 1,000	\$ 51,000
July 1, 2007 through June 30, 2014	1,000	76,000
July 1, 2014 through June 30, 2016	1,000	101,000
July 1, 2016 through April 30, 2020	2,000	102,000
May 1, 2020 through April 30, 2022	3,000	103,000
May 1, 2022 through April 30, 2023	5,000	105,000
May 1, 2023 through April 30, 2024	5,000	105,000
May 1, 2024 through April 30, 2025	5,000	105,000

General Liabilities

	PIC Retention	Total Coverage
Policy years		
July 1, 2006 through June 30, 2007	\$ 1,000	\$ 51,000
July 1, 2007 through June 30, 2014	1,000	76,000
July 1, 2014 through June 30, 2016	1,000	101,000
July 1, 2016 through April 30, 2020	2,000	102,000
May 1, 2020 through April 30, 2022	3,000	103,000
May 1, 2022 through April 30, 2023	3,000	103,000
May 1, 2023 through April 30, 2024	3,000	103,000
May 1, 2024 through April 30, 2025	3,000	103,000

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

14. Commitments and Contingencies (continued)

Medical malpractice expense totaled approximately \$23.9 million and \$22.7 million in 2024 and 2023, respectively. Medical malpractice accruals, including claims expected to be paid by reinsurance, totaled approximately \$82.0 million and \$77.5 million as of June 30, 2024 and 2023, respectively, and are recorded within accrued expenses and other long-term liabilities on the consolidated balance sheets. Reinsurance recoverable totaled approximately \$18.8 million and \$20.1 million as of June 30, 2024 and 2023, respectively, and is recorded within other receivables and other assets on the consolidated balance sheets. The medical malpractice accruals have been discounted using a 3.59% and 2.32% factor at June 30, 2024 and 2023, respectively. Undiscounted medical malpractice accruals and reinsurance recoverable totaled approximately \$91.6 million and \$21.1 million, respectively, as of June 30, 2024.

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.

Other

The Company has outstanding construction commitments, primarily related to the Straub Medical Center redevelopment, of approximately \$178.9 million as of June 30, 2024.

Hawai‘i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

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 follow:

	2024	2023
Health and hospital care	\$ 48,964	\$ 43,805
Plant expansion and equipment replacement	42,053	39,016
Research and grants	22,226	19,999
Education and scholarships	14,158	6,761
	\$ 127,401	\$ 109,581

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:

	2024	2023
Health and hospital care	\$ 221,305	\$ 221,404
Plant expansion and equipment replacement	196,251	155,134
	\$ 417,556	\$ 376,538

16. Endowment

The Company’s endowment consists of approximately 52 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.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

16. Endowment (continued)

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 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

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

16. Endowment (continued)

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 which 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.

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

For the Company's donor restricted endowment funds, the Company has a policy of appropriating for distribution each year 4.5% of the 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.

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

16. Endowment (continued)

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

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment	\$ –	\$ 29,319	\$ 29,319
Board-designated funds	417,556	–	417,556
	<u>\$ 417,556</u>	<u>\$ 29,319</u>	<u>\$ 446,875</u>
	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment	\$ –	\$ 25,721	\$ 25,721
Board-designated funds	376,538	–	376,538
	<u>\$ 376,538</u>	<u>\$ 25,721</u>	<u>\$ 402,259</u>

Hawai'i Pacific Health

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

16. Endowment (continued)

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

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 376,538	\$ 25,721	\$ 402,259
Investment income:			
Investment income	13,617	421	14,038
Net investment gains (realized and unrealized)	27,401	2,878	30,279
Total investment income	41,018	3,299	44,317
Contributions	–	135	135
Appropriation of endowment assets for expenditure	–	(291)	(291)
Beneficial interest in perpetual trust	–	550	550
Transfers	–	(95)	(95)
Endowment net assets, end of year	\$ 417,556	\$ 29,319	\$ 446,875
	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 341,241	\$ 21,982	\$ 363,223
Investment income:			
Investment income	11,324	355	11,679
Net investment gains (realized and unrealized)	23,973	1,602	25,575
Total investment income	35,297	1,957	37,254
Contributions	–	2,055	2,055
Appropriation of endowment assets for expenditure	–	(428)	(428)
Beneficial interest in perpetual trust	–	243	243
Transfers	–	(88)	(88)
Endowment net assets, end of year	\$ 376,538	\$ 25,721	\$ 402,259

Supplementary Information

Members of the Hawai‘i Pacific Health Obligated Group

Combined Balance Sheets (Dollars in Thousands)

	June 30	
	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 100,097	\$ 164,265
Patient accounts receivable, net	188,501	162,322
Due from third-party payors	28,071	32,615
Other receivables	31,754	14,433
Due from affiliates	69,881	47,741
Inventories	37,167	27,415
Funds held by trustee under bond indenture agreement	21,524	16,364
Prepaid expenses and other	12,912	7,887
Total current assets	489,907	473,042
Assets whose use is limited or restricted:		
Project funds held by trustee under bond indenture agreement	182,842	–
Board-designated	303,494	273,775
Restricted by donor or grantor	109,453	95,246
Total assets whose use is limited or restricted	595,789	369,021
Investments	496,624	445,698
Property and equipment, net	577,658	556,999
Right of use assets – operating	94,723	104,693
Right of use assets – finance	2,575	3,909
Due from third-party payors	3,808	–
Prepaid pension	47,466	41,991
Other assets:		
Investment in unconsolidated subsidiaries	76,101	78,238
Investments in business ventures	25	25
Beneficial interest in net assets of foundations	88,269	75,225
Other	82,945	26,794
Total other assets	247,340	180,282
Total assets	\$ 2,555,890	\$ 2,175,635

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

Members of the Hawai‘i Pacific Health Obligated Group

Combined Balance Sheets (continued)

(Dollars in Thousands)

	June 30	
	2024	2023
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 63,577	\$ 72,455
Payroll and related liabilities	83,261	79,841
Accrued expenses	18,586	14,743
Due to third-party payors	8,145	8,882
Due to affiliates	3,872	5,530
Current portion of long-term debt	15,050	12,804
Current portion of operating lease obligations	11,870	11,865
Current portion of finance lease obligations	1,450	1,719
Total current liabilities	<u>205,811</u>	<u>207,839</u>
Long-term debt, less current portion	577,568	395,503
Operating lease obligations, less current portion	91,949	102,437
Finance lease obligations, less current portion	1,325	2,251
Other long-term liabilities	34,137	39,773
Net assets:		
Net assets without donor restrictions	1,517,724	1,318,276
Net assets with donor restrictions	127,376	109,556
Total net assets	<u>1,645,100</u>	<u>1,427,832</u>

Total liabilities and net assets	<u><u>\$ 2,555,890</u></u>	<u><u>\$ 2,175,635</u></u>
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See note to supplementary information – Members of the Hawai‘i Pacific Health Obligated Group

Members of the Hawai‘i Pacific Health Obligated Group

Combined Statements of Operations and Changes in Net Assets *(Dollars in Thousands)*

	Year Ended June 30	
	2024	2023
Revenues		
Net patient service revenue	\$ 1,452,505	\$ 1,430,318
Premium revenue	31,409	30,104
Other revenues	359,353	218,033
Net assets released from restrictions for operations	14,701	14,583
Total revenues	1,857,968	1,693,038
Expenses		
Salaries and employee benefits	676,607	646,821
Services	487,755	459,826
Supplies	327,558	253,925
Other purchases	87,008	86,778
Depreciation and amortization	55,622	54,439
Specific purpose projects/donations	14,701	14,583
Interest	19,502	18,427
Other	2,848	31,836
Total expenses	1,671,601	1,566,635
Operating income	186,367	126,403
Equity interest in affiliates	(2,591)	7,640
Investment income	108,497	67,592
Pension nonoperating income	2,024	2,230
	107,930	77,462
Excess of revenues over expenses	294,297	203,865
Transfers to affiliates	(129,067)	(94,748)
Change in beneficial interest in net assets of foundations	13,044	4,426
Change in net unrealized gains (losses) on debt securities	2,691	(402)
Net assets released from restrictions for purchase of property and equipment	12,978	1,399
Pension-related changes other than net periodic pension costs	4,293	(3,009)
Change in interest rate swap value	759	809
Other changes in net assets	453	4,201
Increase in net assets without donor restrictions	199,448	116,541

Continued to next page.

Members of the Hawai‘i Pacific Health Obligated Group

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

(Dollars in Thousands)

	Year Ended June 30	
	2024	2023
Net assets with donor restrictions		
Restricted grants and contributions	\$ 30,236	\$ 17,430
Investment income	298	96
Change in net unrealized gains on investments	728	365
Change in beneficial interest in net assets of foundations	13,657	12,008
Net assets released from restrictions	(27,679)	(15,982)
Change in beneficial interest in perpetual trusts	550	243
Other changes in net assets with donor restrictions	30	(23)
Increase in net assets with donor restrictions	<u>17,820</u>	<u>14,137</u>
Increase in net assets	217,268	130,678
Net assets at beginning of year	1,427,832	1,297,154
Net assets at end of year	<u>\$ 1,645,100</u>	<u>\$ 1,427,832</u>

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

Members of the Hawai'i Pacific Health Obligated Group

Combined Statements of Cash Flows (Dollars in Thousands)

	Year Ended June 30	
	2024	2023
Operating activities		
Increase in net assets	\$ 217,268	\$ 130,678
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Change in beneficial interest in net assets of foundations	(26,701)	(16,434)
Depreciation and amortization	55,622	54,439
Equity interest in affiliates	2,591	(7,640)
Net gains on alternative investments	(59,262)	(36,611)
Net gains on debt and equity investments	(32,856)	(19,224)
Restricted contributions	(30,236)	(17,430)
Changes in operating assets and liabilities:		
Patient accounts receivable	(26,179)	5,104
Due to/from third-party payors, net	(1)	(32,162)
Other payables	(17,321)	(5,053)
Inventories and other assets	(70,928)	(12,389)
Accounts payable and accrued expenses	(4,636)	(5,659)
Other long-term liabilities	(5,636)	14,128
Prepaid pension	(5,475)	3,152
Net cash (used in) provided by operating activities	(3,750)	54,899
Investing activities		
Purchases of property and equipment	(71,881)	(54,713)
Net change in due to affiliates	(1,658)	9,086
Net change in unconsolidated subsidiaries	(454)	(4,201)
Purchases of investment securities	(36,565)	(67,378)
Sales and maturities of investment securities	44,737	59,377
Increase in funds held by trustee under bond indenture agreements	(5,160)	(460)
Assets whose use is limited or restricted:		
Purchases of investment securities	(22,053)	(39,636)
Sales and maturities of investment securities	24,804	34,562
Project funds held by trustee under bond indenture agreement	(182,842)	—
Net cash used in investing activities	(251,072)	(63,363)

Continued to next page.

Members of the Hawai‘i Pacific Health Obligated Group

Combined Statements of Cash Flows (continued)

(Dollars in Thousands)

	Year Ended June 30	
	2024	2023
Financing activities		
Payment of long-term debt	\$ (195,706)	\$ (9,793)
Proceeds from long-term debt	380,017	–
Payments of finance lease obligations	(1,753)	(1,677)
Note receivable to affiliate	(22,140)	(20,803)
Restricted contributions	30,236	17,430
Net cash provided by (used in) financing activities	<u>190,654</u>	<u>(14,843)</u>
Decrease in cash and cash equivalents	(64,168)	(23,307)
Cash and cash equivalents at beginning of year	164,265	187,572
Cash and cash equivalents at end of year	<u>\$ 100,097</u>	<u>\$ 164,265</u>
Supplemental disclosures of noncash activity		
Accruals of equipment	\$ 2,534	\$ 1,673

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

Hawai‘i Pacific Health

Note to Supplementary Information – Members of the Hawai‘i Pacific Health Obligated Group

June 30, 2024

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 composed of the following:

- Hawai‘i Pacific Health (parent company only)
- Kapi‘olani Medical Center for Women and Children
- Pali Momi Medical Center
- Straub Clinic & Hospital
- Wilcox Memorial Hospital

As prescribed in The Hawai‘i 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 Hawai‘i 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 \$197.0 million and \$191.2 million of net patient service and other revenues have been recognized for the years ended June 30, 2024 and 2023, respectively. As part of the agreements, all such amounts are subsequently remitted to HPHMG as professional services compensation and, accordingly, have been recorded within services expense on the combined statement of operations and changes in net assets for the year ended June 30, 2024. Obligated

Hawai'i Pacific Health

Note to Supplementary Information – Members of the Hawai'i Pacific Health Obligated Group (continued)

1. Combined Financial Statements (continued)

Group members also paid annual service coverage fees for physician services provided by HPHMG of approximately \$56.9 million and \$49.3 million for the years ended June 30, 2024 and 2023, respectively.

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 \$105.5 million and \$106.7 million, which has been recorded within other revenues on the combined statements of operations and changes in net assets for the years ended June 30, 2024 and 2023, respectively.

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