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Form 990

Department of the Treasury  
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 07-01-2011 and ending 06-30-2012

B Check if applicable

☐ Address change

☐ Name change

☐ Initial return

☐ Terminated

☐ Amended return

☐ Application pending

C Name of organization

MOLOKAI GENERAL HOSPITAL

Doing Business As

Number and street (or P O box if mail is not delivered to street address)

PO BOX 408

Room/suite

City or town, state or country, and ZIP + 4

KAUNAKAKAI MOLOKAI, HI 96748

F Name and address of principal officer

Janice Kalanihua

PO BOX 408

KAUNAKAKAI MOLOKAI, HI 96748

H(a) Is this a group return for affiliates?

☐ Yes ☒ No

H(b) Are all affiliates included?

☐ Yes ☐ No

If "No," attach a list (see instructions)

H(c) Group exemption number

I Tax-exempt status

☒ 501(c)(3) ☐ 501(c) ( ) ☐ (insert no ) ☐ 4947(a)(1) or ☐ 527

J Website:

www.molokaigeneralhospital.org

K Form of organization

☒ Corporation ☐ Trust ☐ Association ☐ Other

L Year of formation

1987

M State of legal domicile

HI

Part I

Summary

Activities & Governance	1	Briefly describe the organization's mission or most significant activities To provide quality healthcare services to the island of Molokai		
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets		
	3	Number of voting members of the governing body (Part VI, line 1a)	3	7
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4	4
Revenue	5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	102
	6	Total number of volunteers (estimate if necessary)	6	121
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a	-2,088
	b	Net unrelated business taxable income from Form 990-T, line 34	7b	-2,398
	8	Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9	Program service revenue (Part VIII, line 2g)	4,228,503	2,460,646
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	7,370,473	7,823,430
Expenses	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	15,434	99,569
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	506,841	590,292
	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	12,121,251	10,973,937
	14	Benefits paid to or for members (Part IX, column (A), line 4)	0	0
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	0	0
	16a	Professional fundraising fees (Part IX, column (A), line 11e)	5,769,055	5,716,662
	b	Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0	0	0
Net Assets or Fund Balances	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	0	0
	18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	6,400,710	6,525,720
	19	Revenue less expenses Subtract line 18 from line 12	12,169,765	12,242,382
			-48,514	-1,268,445
			Beginning of Current Year	End of Year
	20	Total assets (Part X, line 16)	20,778,135	19,322,477
	21	Total liabilities (Part X, line 26)	2,684,188	2,930,807
	22	Net assets or fund balances Subtract line 21 from line 20	18,093,947	16,391,670

Part II

Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

\*\*\*\*\*

Signature of officer

2013-05-07

Date

RICHARD KEENE TREASURER

Type or print name and title

Paid Preparer's Use Only

Preparer's signature

Date

Check if self-employed ☐

Preparer's taxpayer identification number (see instructions)

Firm's name (or yours if self-employed), address, and ZIP + 4

ERNST & YOUNG US LLP

4370 LA JOLLA VILLAGE DR STE 500

SAN DIEGO, CA 92122

EIN

Phone no

(858) 535-7200

May the IRS discuss this return with the preparer shown above? (see instructions)

☐ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2011)

Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

1

Briefly describe the organization’s mission

To provide quality healthcare services to the island of Molokai

2

Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

If “Yes,” describe these new services on Schedule O

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services?

If “Yes,” describe these changes on Schedule O

4

Describe the organization’s program service accomplishments for each of its three largest program services, as measured by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a

(Code ) (Expenses \$ 8,150,101 including grants of \$ ) (Revenue \$ 7,986,423 )

MOLOKAI GENERAL HOSPITAL (MGH) IS A RURAL HEALTH CARE FACILITY WITH A CRITICAL ACCESS HOSPITAL DESIGNATION IT PROVIDES THE ONLY EMERGENCY ROOM SERVICES FOR RESIDENTS AND VISITORS ON THE ISLAND OF MOLOKAI, AND PROVIDES ACUTE CARE, INPATIENT HOSPICE, SKILLED NURSING, AND LOW-RISK OBSTETRICAL SERVICES MGH ALSO OFFERS CHEMOTHERAPY, LIMITED SPECIAL PROCEDURES, DIABETES MANAGEMENT, PREVENTIVE HEALTH SERVICES, HIGH-RISK WEIGHT MANAGEMENT, MIDWIFERY, FAMILY PLANNING, AND PRIMARY CARE IN ITS RURAL HEALTH CLINIC SEE SCHEDULE O FOR MORE INFORMATION

4b

(Code ) (Expenses \$ including grants of \$ ) (Revenue \$ )

4c

(Code ) (Expenses \$ including grants of \$ ) (Revenue \$ )

4d

Other program services (Describe in Schedule O )





















(Expenses \$ including grants of \$ ) (Revenue \$ )

4e

Total program service expenses \$ 8,150,101

Part IV

Checklist of Required Schedules

		Yes	No	
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A.</i> 	1	Yes	
2	Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)? 	2	Yes	
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I.</i> 	3		No
4	<b>Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II.</i> 	4	Yes	
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III.</i> 	5		No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I.</i> 	6		No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? <i>If "Yes," complete Schedule D, Part II.</i> 	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III.</i> 	8		No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV.</i> 	9		No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i> 	10		No
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI.</i> 	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII.</i> 	11b		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII.</i> 	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX.</i> 	11d		No
e	Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X.</i> 	11e	Yes	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X.</i> 	11f	Yes	
12a	Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII.</i> 	12a		No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional.</i> 	12b	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i>	13		No
14a	Did the organization maintain an office, employees, or agents outside of the United States? . . . . .	14a		No
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Part I.</i> . . . . .	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? <i>If "Yes," complete Schedule F, Part II and IV.</i> . . . . .	15		No
16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? <i>If "Yes," complete Schedule F, Part III and IV.</i> . . . . .	16		No
17	Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I.</i>	17		No
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II.</i> . . . . .	18		No
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III.</i> . . . . .	19		No
20a	Did the organization operate one or more hospitals? <i>If "Yes," complete Schedule H.</i> . . . . . 	20a	Yes	
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? <b>Note.</b> All Form 990 filers that operated one or more hospitals must attach audited financial statements . . . . . 	20b	Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .	21		No
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .	22		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer questions 24b–24d and complete Schedule K. If "No," go to line 25</i> . . . . .	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? . . . .	24b		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? . . . . .	24c		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? . . . .	24d		
25a	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i> . . . . .	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i> . . . . .	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . . .	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> . . . . .	33		No
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i> . . . . .	34	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35a	Yes	
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	35b	Yes	
36	<b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i> . . . . .	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? <b>Note.</b> All Form 990 filers are required to complete Schedule O . . . . .	38	Yes	

<div>Part V</div> <div>Statements Regarding Other IRS Filings and Tax Compliance</div>			
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>			
		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable. . . . . .	1a40	
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b0	
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners? . . . . .	1c	Yes
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements filed for the calendar year ending with or within the year covered by this return . . . . .	2a102	
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?  Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year? . . . . .	3a	Yes
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O . . . . .	3b	Yes
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)? . . . . .	4a	No
b	If "Yes," enter the name of the foreign country <input type="text"/> See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . . .	5a	No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T? . . . . .	5c	
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible? . . . . .	6a	No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible? . . . . .	6b	
7	Organizations that may receive deductible contributions under section 170(c).		
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor? . . . . .	7a	No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided? . . . . .	7b	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282? . . . . .	7c	No
d	If "Yes," indicate the number of Forms 8282 filed during the year . . . . .	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? . . . . .	7e	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . . .	7f	No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required? . . . . .	7g	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C? . . . . .	7h	
8	Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year? . . . . .	8	
9	Sponsoring organizations maintaining donor advised funds.		
a	Did the organization make any taxable distributions under section 4966? . . . . .	9a	
b	Did the organization make a distribution to a donor, donor advisor, or related person? . . . . .	9b	
10	Section 501(c)(7) organizations. Enter		
a	Initiation fees and capital contributions included on Part VIII, line 12 . . . . .	10a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b	
11	Section 501(c)(12) organizations. Enter		
a	Gross income from members or shareholders . . . . .	11a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them ) . . . . .	11b	
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b	
13	Section 501(c)(29) qualified nonprofit health insurance issuers.		
a	Is the organization licensed to issue qualified health plans in more than one state? Note. All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state.	13a	
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b	
c	Enter the aggregate amount of reserves on hand	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year? . . . . .	14a	No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O . . .	14b	

Part VI

**Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.  
Check if Schedule O contains a response to any question in this Part VI ☒

Section A. Governing Body and Management

		Yes	No
<b>1a</b>	Enter the number of voting members of the governing body at the end of the tax year . . . . .		
<b>1b</b>	Enter the number of voting members included in line 1a, above, who are independent . . . . .		
<b>2</b>	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? . . . . .		No
<b>3</b>	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? . . . . .		No
<b>4</b>	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? . . . . .		No
<b>5</b>	Did the organization become aware during the year of a significant diversion of the organization's assets? . . . . .		No
<b>6</b>	Did the organization have members or stockholders? . . . . .	Yes	
<b>7a</b>	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body? . . . . .	Yes	
<b>7b</b>	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body? . . . . .	Yes	
<b>8</b>	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following . . . . .		
<b>8a</b>	The governing body? . . . . .	Yes	
<b>8b</b>	Each committee with authority to act on behalf of the governing body? . . . . .	Yes	
<b>9</b>	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O . . . . .		No

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

		Yes	No
<b>10a</b>	Did the organization have local chapters, branches, or affiliates? . . . . .		No
<b>10b</b>	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes? . . . . .		
<b>11a</b>	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form? . . . . .	Yes	
<b>11b</b>	Describe in Schedule O the process, if any, used by the organization to review the Form 990 . . . . .		
<b>12a</b>	Did the organization have a written conflict of interest policy? If "No," go to line 13 . . . . .		No
<b>12b</b>	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts? . . . . .		
<b>12c</b>	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done . . . . .		
<b>13</b>	Did the organization have a written whistleblower policy? . . . . .		No
<b>14</b>	Did the organization have a written document retention and destruction policy? . . . . .		No
<b>15</b>	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision? . . . . .		
<b>15a</b>	The organization's CEO, Executive Director, or top management official . . . . .	Yes	
<b>15b</b>	Other officers or key employees of the organization . . . . .	Yes	
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions) . . . . .		
<b>16a</b>	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year? . . . . .		No
<b>16b</b>	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements? . . . . .		

Section C. Disclosure

<b>17</b>	List the States with which a copy of this Form 990 is required to be filed ▶
<b>18</b>	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request
<b>19</b>	Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.
<b>20</b>	State the name, physical address, and telephone number of the person who possesses the books and records of the organization ▶ ZESSICA APIKI PO BOX 408 KAUNAKAKAI, HI 96748 (808) 553-3125

Part VII

Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

- 1a** Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.
- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
  - List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
  - List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
  - List all of the organization's **former** officers, key employees, or highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
  - List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.
- List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

Check this box if neither the organization nor any related organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) ARTHUR A USHDJIMA CHAIR/TRUSTEE	1 0	X		X				0	835,524	621,099
(2) LANCE DUNBAR VICE CHAIR/TRUSTEE	1 0	X		X				0	0	0
(3) NEIL J HANNAHS TRUSTEE	1 0	X						0	0	0
(4) STEPHEN PETRO TRUSTEE	1 0	X						0	0	0
(5) PAUL STEVENS MD TRUSTEE	1 0	X						0	0	0
(6) NALEEN N ANDRADE MD TRUSTEE - PART YEAR	1 0	X						0	0	0
(7) JUDY EGUSA TRUSTEE - PART YEAR	1 0	X						0	0	0
(8) ERIC YEAMAN TRUSTEE	1 0	X						0	0	0
(9) PUNAHELE ALCON ADMIN ASSISTANT/SECRETARY	40 0			X				66,534	0	13,993
(10) JANICE KALANIHUIA PRESIDENT	54 0			X				0	223,211	53,563
(11) RANDY LITE VICE PRESIDENT	55 0			X				90,018	0	24,479
(12) RICHARD C KEENE TREASURER	2 0			X				0	492,932	65,337
(13) WILLIAM L THOMAS JR MD INTERNAL MEDICINE	55 0					X		222,448	0	24,901
(14) SANDRA BRAZZEL MD INTERNAL MEDICINE	55 0					X		164,166	0	26,454
(15) DINO FONTES DIRECTOR OF NURSING	40 0					X		151,724	0	21,563



## Part VII

<b>1b</b>	<b>Sub-Total . . . . .</b>			
<b>c</b>	<b>Total from continuation sheets to Part VII, Section A . . . . .</b>			
<b>d</b>	<b>Total (add lines 1b and 1c) . . . . .</b>	694,890	1,551,667	851,389

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization ▶3

		Yes	No
<b>3</b>	Did the organization list any <b>former</b> officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i> . . . . .	<b>3</b>	No
<b>4</b>	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i> . . . . .	<b>4</b>	Yes
<b>5</b>	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i> . . . . .	<b>5</b>	No

## Section B. Independent Contractors

**1** Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. Report compensation for the calendar year ending with or within the organization's tax year.

(A) Name and business address	(B) Description of services	(C) Compensation
JT POWER MD PO BOX 682 KAPAA, HI 96755	EMERGENCY PHYSICIAN	107,192

**2** Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ▶1

Part VIII

Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns . . .	1a				
	b	Membership dues . . . . .	1b				
	c	Fundraising events . . . . .	1c				
	d	Related organizations . . . .	1d	322,790			
	e	Government grants (contributions)	1e	2,085,756			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	52,100			
	g	Noncash contributions included in lines 1a-1f \$ _____					
	h	Total. Add lines 1a-1f . . . . .		2,460,646			
Program Service Revenue	2a	NET PATIENT SERVICE REVENUES	Business Code 623000	7,823,430	7,823,430		
	b						
	c						
	d						
	e						
	f	All other program service revenue					
	g	Total. Add lines 2a-2f . . . . .		7,823,430			
	Other Revenue	3	Investment income (including dividends, interest and other similar amounts) . . . . .		55,933		-2,088
4		Income from investment of tax-exempt bond proceeds . .		0			
5		Royalties . . . . .		0			
6a		Gross rents	(i) Real 156,635	(ii) Personal			
b		Less rental expenses					
c		Rental income or (loss)	156,635				
d		Net rental income or (loss) . . . . .		156,635			156,635
7a		Gross amount from sales of assets other than inventory	(i) Securities 77,296	(ii) Other 3,175			
b		Less cost or other basis and sales expenses	36,835				
c		Gain or (loss)	40,461	3,175			
d		Net gain or (loss) . . . . .		43,636			43,636
8a		Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18 . . . . .	a				
b		Less direct expenses . . . . .	b				
c		Net income or (loss) from fundraising events . .		0			
9a		Gross income from gaming activities See Part IV, line 19 . . . . .	a				
b		Less direct expenses . . . . .	b				
c		Net income or (loss) from gaming activities . .		0			
10a		Gross sales of inventory, less returns and allowances . . . . .	a				
b		Less cost of goods sold . . . . .	b				
c		Net income or (loss) from sales of inventory . .		0			
Miscellaneous Revenue		Business Code					
11a	Cafeteria Revenue	624200	73,040			73,040	
b	Meals on Wheels	624200	109,467	109,467			
c	Alu Like Program	624200	53,526	53,526			
d	All other revenue . . . . .		197,624			197,624	
e	Total. Add lines 11a-11d . . . . .		433,657				
12	Total revenue. See Instructions . . . . .		10,973,937	7,986,423	-2,088	528,956	

Part IX

Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)

Check if Schedule O contains a response to any question in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21	0			
2	Grants and other assistance to individuals in the United States See Part IV, line 22	0			
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16	0			
4	Benefits paid to or for members	0			
5	Compensation of current officers, directors, trustees, and key employees . . . . .	440,168		440,168	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) . . . . .	0			
7	Other salaries and wages	4,086,823	2,879,118	1,207,705	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions) . . . . .	235,717	207,586	28,131	
9	Other employee benefits . . . . .	648,709	330,287	318,422	
10	Payroll taxes . . . . .	305,245	201,224	104,021	
11	Fees for services (non-employees)				
a	Management . . . . .	0			
b	Legal . . . . .	199,031		199,031	
c	Accounting . . . . .	25,530		25,530	
d	Lobbying . . . . .	549		549	
e	Professional fundraising See Part IV, line 17 . . . . .	0			
f	Investment management fees . . . . .	0			
g	Other . . . . .	1,456,112	962,070	494,042	
12	Advertising and promotion . . . . .	11,624	7,876	3,748	
13	Office expenses . . . . .	365,158	165,832	199,326	
14	Information technology . . . . .	28,211	6,468	21,743	
15	Royalties . . . . .	0			
16	Occupancy . . . . .	434,070	35,991	398,079	
17	Travel . . . . .	136,178	99,771	36,407	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials . . . . .	0			
19	Conferences, conventions, and meetings . . . . .	4,238	267	3,971	
20	Interest . . . . .	0			
21	Payments to affiliates . . . . .	0			
22	Depreciation, depletion, and amortization . . . . .	1,161,563	1,134,975	26,588	
23	Insurance . . . . .	153,444	144,986	8,458	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O )				
a	INTERCOMPANY CHARGES	1,345,472	1,340,515	4,957	
b	MEDICAL SUPPLIES	406,016	406,016		
c	BAD DEBT EXPENSE	142,145	142,145		
d	GRANT EXPENSE	21,135	21,135		
e					
f	All other expenses	635,244	63,839	571,405	
25	Total functional expenses. Add lines 1 through 24f	12,242,382	8,150,101	4,092,281	0
26	Joint costs. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing . . . . .			700	1	650
	2	Savings and temporary cash investments . . . . .			3,195,754	2	1,407,222
	3	Pledges and grants receivable, net . . . . .			0	3	0
	4	Accounts receivable, net . . . . .			911,269	4	1,192,344
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L . . . . .			0	5	0
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L . . . . .			0	6	0
	7	Notes and loans receivable, net . . . . .			0	7	0
	8	Inventories for sale or use . . . . .			110,195	8	101,113
	9	Prepaid expenses and deferred charges . . . . .			78,658	9	77,355
	10a	Land, buildings, and equipment, cost or other basis. Complete Part VI of Schedule D . . . . .	10a	23,659,420			
	b	Less: accumulated depreciation . . . . .	10b	10,226,797	13,421,326	10c	13,432,623
	11	Investments—publicly traded securities . . . . .			3,060,233	11	3,111,170
	12	Investments—other securities. See Part IV, line 11 . . . . .			0	12	0
	13	Investments—program-related. See Part IV, line 11 . . . . .			0	13	0
	14	Intangible assets . . . . .			0	14	0
	15	Other assets. See Part IV, line 11 . . . . .			0	15	0
16	Total assets. Add lines 1 through 15 (must equal line 34) . . . . .			20,778,135	16	19,322,477	
Liabilities	17	Accounts payable and accrued expenses . . . . .			805,158	17	836,353
	18	Grants payable . . . . .			0	18	0
	19	Deferred revenue . . . . .			8,712	19	39,378
	20	Tax-exempt bond liabilities . . . . .			0	20	0
	21	Escrow or custodial account liability. Complete Part IV of Schedule D . . . . .			0	21	0
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L . . . . .			0	22	0
	23	Secured mortgages and notes payable to unrelated third parties . . . . .			0	23	0
	24	Unsecured notes and loans payable to unrelated third parties . . . . .			0	24	0
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D . . . . .			1,870,318	25	2,055,076
	26	Total liabilities. Add lines 17 through 25 . . . . .			2,684,188	26	2,930,807
	Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.					
27		Unrestricted net assets . . . . .			18,093,947	27	16,391,670
28		Temporarily restricted net assets . . . . .			0	28	0
29		Permanently restricted net assets . . . . .			0	29	0
Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.							
30		Capital stock or trust principal, or current funds . . . . .				30	
31		Paid-in or capital surplus, or land, building or equipment fund . . . . .				31	
32		Retained earnings, endowment, accumulated income, or other funds . . . . .				32	
33		Total net assets or fund balances . . . . .			18,093,947	33	16,391,670
34	Total liabilities and net assets/fund balances . . . . .			20,778,135	34	19,322,477	

**Part XI Reconciliation of Net Assets**

Check if Schedule O contains a response to any question in this Part XI ☒

<b>1</b>	Total revenue (must equal Part VIII, column (A), line 12)	<b>1</b>	10,973,937
<b>2</b>	Total expenses (must equal Part IX, column (A), line 25)	<b>2</b>	12,242,382
<b>3</b>	Revenue less expenses Subtract line 2 from line 1	<b>3</b>	-1,268,445
<b>4</b>	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	<b>4</b>	18,093,947
<b>5</b>	Other changes in net assets or fund balances (explain in Schedule O)	<b>5</b>	-433,832
<b>6</b>	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	<b>6</b>	16,391,670

**Part XII Financial Statements and Reporting**

Check if Schedule O contains a response to any question in this Part XII ☐

		Yes	No
<b>1</b>	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
<b>2a</b>	Were the organization's financial statements compiled or reviewed by an independent accountant?		No
<b>b</b>	Were the organization's financial statements audited by an independent accountant?	Yes	
<b>c</b>	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
<b>d</b>	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis		
<b>3a</b>	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	Yes	
<b>b</b>	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	Yes	

SCHEDULE A  
(Form 990 or 990EZ)

Department of the Treasury  
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public  
Inspection

Name of the organization MOLOKAI GENERAL HOSPITAL	Employer identification number 99-0251372
--	--

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box )

1

☐

A church, convention of churches, or association of churches **section 170(b)(1)(A)(i).**

2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E )

3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II )

6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II )

8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II )

9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III )

10

☐

An organization organized and operated exclusively to test for public safety Se**section 509(a)(4).**

11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h  

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box

g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?  

(i)

a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?

(ii)

a family member of a person described in (i) above?

(iii)

a 35% controlled entity of a person described in (i) or (ii) above?

h

☐

Provide the following information about the supported organization(s)

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support?
			Yes	No	Yes	No	Yes	No	
Total									

Part II

Support Schedule for Organizations Described in IRC 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)  
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public Support. Subtract line 5 from line 4						

Section B. Total Support							
Calendar year (or fiscal year beginning in)		(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7	Amounts from line 4						
8	Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9	Net income from unrelated business activities, whether or not the business is regularly carried on						
10	Other income (Explain in Part IV ) Do not include gain or loss from the sale of capital assets						
11	Total support (Add lines 7 through 10)						
12	Gross receipts from related activities, etc (See instructions )					12	
13	First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here						

Section C. Computation of Public Support Percentage			
14	Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f))	14	
15	Public Support Percentage for 2010 Schedule A, Part II, line 14	15	
16a	<b>33 1/3% support test—2011.</b> If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization 		
b	<b>33 1/3% support test—2010.</b> If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization 		
17a	<b>10%-facts-and-circumstances test—2011.</b> If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and <b>stop here.</b> Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization 		
b	<b>10%-facts-and-circumstances test—2010.</b> If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and <b>stop here.</b> Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization 		
18	<b>Private Foundation</b> If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions 		

Part IIIPart III

Support Schedule for Organizations Described in IRC 509(a)(2)  
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6 )						

Section B. Total Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support (Add lines 9, 10c, 11 and 12.)						
14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and <b>stop here</b>						

Section C. Computation of Public Support Percentage			
15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15		
16 Public support percentage from 2010 Schedule A, Part III, line 15	16		

Section D. Computation of Investment Income Percentage			
17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17		
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18		
19a 33 1/3% support tests—2011. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization			
b 33 1/3% support tests—2010. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization			
20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions			



**Part IV** **Supplemental Information.** Supplemental Information. Complete this part to provide the explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

SCHEDULE C  
(Form 990 or 990-EZ)

Department of the Treasury  
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527

▶ Complete if the organization is described below.  
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

If the organization answered “Yes,” to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered “Yes,” to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered “Yes,” to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, line 35c (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization MOLOKAI GENERAL HOSPITAL	Employer identification number 99-0251372
--	--

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1	Provide a description of the organization's direct and indirect political campaign activities on behalf of or in opposition to candidates for public office in Part IV	
2	Political expenditures	▶ \$
3	Volunteer hours	

Part I-B Complete if the organization is exempt under section 501(c)(3).

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b	If "Yes," describe in Part IV	

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

1	Enter the amount directly expended by the filing organization for section 527 exempt function activities	▶ \$
2	Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt funtion activities	▶ \$
3	Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b	▶ \$
4	Did the filing organization file Form 1120-POL for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5	Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV	

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-


Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

- A

Check

☒

if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures) 
- B

Check

☐

if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing Organization's Totals	(b) Affiliated Group Totals												
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)		0	0												
b Total lobbying expenditures to influence a legislative body (direct lobbying)		549	55,188												
c Total lobbying expenditures (add lines 1a and 1b)		549	55,188												
d Other exempt purpose expenditures		12,241,833	780,940,655												
e Total exempt purpose expenditures (add lines 1c and 1d)		12,242,382	780,995,843												
f Lobbying nontaxable amount Enter the amount from the following table in both columns		762,119	1,000,000												
<table><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g Grassroots nontaxable amount (enter 25% of line 1f)		190,530	250,000												
h Subtract line 1g from line 1a If zero or less, enter -0-															
i Subtract line 1f from line 1c If zero or less, enter -0-															
j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No													

4-Year Averaging Period Under Section 501(h)  
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) Total
2a Lobbying non-taxable amount	1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
b Lobbying ceiling amount (150% of line 2a, column(e))					6,000,000
c Total lobbying expenditures	134,730	31,942	46,088	55,188	267,948
d Grassroots non-taxable amount	250,000	250,000	250,000	250,000	1,000,000
e Grassroots ceiling amount (150% of line 2d, column (e))					1,500,000
f Grassroots lobbying expenditures	0	0	0	0	0

Part II-B

Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a	Volunteers?			
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?			
c	Media advertisements?			
d	Mailings to members, legislators, or the public?			
e	Publications, or published or broadcast statements?			
f	Grants to other organizations for lobbying purposes?			
g	Direct contact with legislators, their staffs, government officials, or a legislative body?			
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?			
i	Other activities? If "Yes," describe in Part IV			
j	Total lines 1c through 1i			
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?			
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

			Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1		
2	Did the organization make only in-house lobbying expenditures of \$2,000 or less?	2		
3	Did the organization agree to carryover lobbying and political expenditures from the prior year?	3		

Part III-B

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).	2a	
a	Current year		
b	Carryover from last year		
c	Total		
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV

Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
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SCHEDULE D  
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2011

Open to Public Inspection

Department of the Treasury  
Internal Revenue Service

Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b  
Attach to Form 990. See separate instructions.

Name of the organization  
MOLOKAI GENERAL HOSPITAL

Employer identification number  
99-0251372

Part I

Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year	
2	Aggregate contributions to (during year)	
3	Aggregate grants from (during year)	
4	Aggregate value at end of year	
5	Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control?	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit	
	<input type="checkbox"/> Yes <input type="checkbox"/> No	

Part II

Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply)  
☐ Preservation of land for public use (e g , recreation or pleasure) ☐ Preservation of an historically importantly land area  
☐ Protection of natural habitat ☐ Preservation of a certified historic structure  
☐ Preservation of open space

2 Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶ \_\_\_\_\_

4 Number of states where property subject to conservation easement is located ▶ \_\_\_\_\_

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

6 Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶ \_\_\_\_\_

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ \$ \_\_\_\_\_

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1 ▶ \$ \_\_\_\_\_

(ii) Assets included in Form 990, Part X ▶ \$ \_\_\_\_\_

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a Revenues included in Form 990, Part VIII, line 1 ▶ \$ \_\_\_\_\_

b Assets included in Form 990, Part X ▶ \$ \_\_\_\_\_

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

3

Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5

During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?

☐ Yes

☐ No

Part IV

Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a

Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	

2a

Did the organization include an amount on Form 990, Part X, line 21?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

Part V

Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance . . . . .				
b	Contributions . . . . .				
c	Investment earnings or losses . . . . .				
d	Grants or scholarships . . . . .				
e	Other expenditures for facilities and programs . . . . .				
f	Administrative expenses . . . . .				
g	End of year balance . . . . .				

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶

c

Term endowment ▶

3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by

(i)

unrelated organizations . . . . .

(ii)

related organizations . . . . .

b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R? . . . . .

	Yes	No
3a(i)		
3a(ii)		
3b		

4

Describe in Part XIV the intended uses of the organization's endowment funds

Part VI

Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land . . . . .				
b Buildings . . . . .		17,240,920	800,818	10,958,210
c Leasehold improvements . . . . .				
d Equipment . . . . .		5,928,305	320,094	2,212,062
e Other . . . . .		490,195	40,651	262,351
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) . . . . . ▶				13,432,623

Schedule D (Form 990) 2011



**Part XI    Reconciliation of Change in Net Assets from Form 990 to Financial Statements**

<b>1</b>	Total revenue (Form 990, Part VIII, column (A), line 12)	<b>1</b>	
<b>2</b>	Total expenses (Form 990, Part IX, column (A), line 25)	<b>2</b>	
<b>3</b>	Excess or (deficit) for the year Subtract line 2 from line 1	<b>3</b>	
<b>4</b>	Net unrealized gains (losses) on investments	<b>4</b>	
<b>5</b>	Donated services and use of facilities	<b>5</b>	
<b>6</b>	Investment expenses	<b>6</b>	
<b>7</b>	Prior period adjustments	<b>7</b>	
<b>8</b>	Other (Describe in Part XIV)	<b>8</b>	
<b>9</b>	Total adjustments (net) Add lines 4 - 8	<b>9</b>	
<b>10</b>	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	<b>10</b>	

**Part XII    Reconciliation of Revenue per Audited Financial Statements With Revenue per Return**

<b>1</b>	Total revenue, gains, and other support per audited financial statements . . . . .	<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
<b>a</b>	Net unrealized gains on investments . . . . .	<b>2a</b>	
<b>b</b>	Donated services and use of facilities . . . . .	<b>2b</b>	
<b>c</b>	Recoveries of prior year grants . . . . .	<b>2c</b>	
<b>d</b>	Other (Describe in Part XIV) . . . . .	<b>2d</b>	
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .	<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .	<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part VIII, line 12, but not on line <b>1</b>		
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>	
<b>b</b>	Other (Describe in Part XIV) . . . . .	<b>4b</b>	
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .	<b>4c</b>	
<b>5</b>	Total Revenue Add lines <b>3</b> and <b>4c</b> . (This should equal Form 990, Part I, line 12 ) . . . . .	<b>5</b>	

**Part XIII    Reconciliation of Expenses per Audited Financial Statements With Expenses per Return**

<b>1</b>	Total expenses and losses per audited financial statements . . . . .	<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part IX, line 25		
<b>a</b>	Donated services and use of facilities . . . . .	<b>2a</b>	
<b>b</b>	Prior year adjustments . . . . .	<b>2b</b>	
<b>c</b>	Other losses . . . . .	<b>2c</b>	
<b>d</b>	Other (Describe in Part XIV) . . . . .	<b>2d</b>	
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .	<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .	<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part IX, line 25, but not on line <b>1</b> :		
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>	
<b>b</b>	Other (Describe in Part XIV) . . . . .	<b>4b</b>	
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .	<b>4c</b>	
<b>5</b>	Total expenses Add lines <b>3</b> and <b>4c</b> . (This should equal Form 990, Part I, line 18 ) . . . . .	<b>5</b>	

**Part XIV    Supplemental Information**

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
ASC 740 Footnote	SCHEDULE D, PART X, LINE 2	MGH EVALUATES ITS UNCERTAIN TAX POSITIONS AND HAS NO MATERIAL UNRECOGNIZED TAX BENEFITS AS OF JUNE 30, 2012



SCHEDULE H  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Hospitals

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**  
▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

**Name of the organization**  
MOLOKAI GENERAL HOSPITAL

**Employer identification number**  
99-0251372

Part I

Charity Care and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a charity care policy? If "No," skip to question 6a . . . . .	1a	Yes	
b	If "Yes," is it a written policy? . . . . .	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals <div><input checked="" type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Generally tailored to individual hospitals</div> <div><input type="checkbox"/> Applied uniformly to most hospitals</div>			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year			
a	Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <div><input checked="" type="checkbox"/> 100%<input type="checkbox"/> 150%<input type="checkbox"/> 200%<input type="checkbox"/> Other _____%</div>	3a	Yes	
b	Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care . . . . . <div><input type="checkbox"/> 200%<input checked="" type="checkbox"/> 250%<input type="checkbox"/> 300%<input type="checkbox"/> 350%<input type="checkbox"/> 400%<input type="checkbox"/> Other _____%</div>	3b	Yes	
c	If the organization did not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care. Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care			
4	Did the organization's policy provide free or discounted care to the "medically indigent"? . . . . .	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? . . . . .	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount? . . . . .	5b	Yes	
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care? . . . . .	5c		No
6a	Did the organization prepare a community benefit report during the tax year? . . . . .	6a	Yes	
6b	If "Yes," did the organization make it available to the public? . . . . .	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions. Do not submit these worksheets with the Schedule H			

7 Charity Care and Certain Other Community Benefits at Cost						
Charity Care and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Charity care at cost (from Worksheet 1) . . . . .			75,290	0	75,290	0 620 %
b Medicaid (from Worksheet 3, column a) . . . . .			3,568,735	1,984,386	1,584,349	13 090 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . . . . .			0	0	0	
d Total Charity Care and Means-Tested Government Programs . . . . .			3,644,025	1,984,386	1,659,639	13 710 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4) . . . . .			27,417	0	27,417	0 230 %
f Health professions education (from Worksheet 5) . . . . .			0	0	0	
g Subsidized health services (from Worksheet 6) . . . . .			441,911	371,547	70,364	0 580 %
h Research (from Worksheet 7) . . . . .			0	0	0	
i Cash and in-kind contributions for community benefit (from Worksheet 8) . . . . .			36,000	0	36,000	0 300 %
j Total Other Benefits . . . . .			505,328	371,547	133,781	1 110 %
k Total. Add lines 7d and 7j . . . . .			4,149,353	2,355,933	1,793,420	14 820 %

Part IICommunity Building Activities

Complete this table if the organization conducted any community building activities.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1Physical improvements and housing						
2Economic development						
3Community support						
4Environmental improvements						
5Leadership development and training for community members						
6Coalition building						
7Community health improvement advocacy						
8Workforce development						
9Other						
10Total						

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?	1Yes	
2	Enter the amount of the organization's bad debt expense	2139,302	
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	30	
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit.		

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	51,785,444	
6	Enter Medicare allowable costs of care relating to payments on line 5	61,743,961	
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	741,483	
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other		

Section C. Collection Practices

9a	Did the organization have a written debt collection policy during the tax year?	9aYes	
b	If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI.	9bYes	

Part IVManagement Companies and Joint Ventures (see instructions)

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

## Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 1

## Name and address

**Schedule H (Form 990) 2011**

Part V

Facility Information (continued)

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

MOLOKAI GENERAL HOSPITAL

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A):1

		Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)			
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 . . . . . If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1		
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____			
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3		
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI . . . . .	4		
5 Did the hospital facility make its Needs Assessment widely available to the public? . . . . . If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5		
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input type="checkbox"/> Participation in community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> Other (describe in Part VI)			
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7		
Financial Assistance Policy			
Did the hospital facility have in place during the tax year a written financial assistance policy that			
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes	
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for free care 100% If "No," explain in Part VI the criteria the hospital facility used	9	Yes	

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>250</u> % If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? . . . . . If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input type="checkbox"/> Income level b <input type="checkbox"/> Asset level c <input type="checkbox"/> Medical indigency d <input type="checkbox"/> Insurance status e <input type="checkbox"/> Uninsured discount f <input checked="" type="checkbox"/> Medicaid/Medicare g <input type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes	
12	Explained the method for applying for financial assistance? . . . . .	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility? . . . . . If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input type="checkbox"/> The policy was attached to all billing invoices c <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input type="checkbox"/> The policy was available upon request g <input type="checkbox"/> Other (describe in Part VI)	13		No

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment? . . . . .	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input type="checkbox"/> Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? . . . . . If "Yes," check all actions in which the hospital facility or a third party engaged a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input type="checkbox"/> Other (describe in Part VI)			

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
18	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? . . . . . If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input checked="" type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> Other (describe in Part VI)		
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? . . . . . If "Yes," explain in Part VI	20	No
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient? . . . . . If "Yes," explain in Part VI	21	No

Part V

Facility Information (continued)

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? \_\_\_\_\_

Name and address		Type of Facility (Describe)
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

Part VI

Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6l, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc )
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
SCHEDULE H, PART I, LINE 6A		COMMUNITY BENEFITS ARE REPORTED ANNUALLY AS PART OF FORM 990 THIS IS NOT SEPARATELY AVAILABLE TO THE PUBLIC A FORMAL REPORT ISSUED BY THE PARENT COMPANY, THE QUEEN'S HEALTH SYSTEMS, INCLUDES THE COMMUNITY BENEFITS OF MOLOKAI GENERAL HOSPITAL (MGH) THIS REPORT IS PUBLISHED PERIODICALLY AND IS SEPARATELY AVAILABLE TO THE PUBLIC



Identifier	ReturnReference	Explanation
SCHEDULE H, PART I, LINE 7, COLUMN (F)		BAD DEBT EXPENSE OF \$142,145 WAS EXCLUDED FOR THE CALCULATION OF THE NET COMMUNITY BENEFIT PERCENTAGES IN PART I, LINE 7, COLUMN F

Identifier	ReturnReference	Explanation
SCHEDULE H, PART I, LINE 7		THE COSTING METHODOLOGY USED INCLUDES ALL PATIENT SEGMENTS THE COST TO CHARGE RATIO OF 982% WAS DERIVED FROM THE FISCAL YEAR ENDED JUNE 30, 2012 COST REPORT

Identifier	ReturnReference	Explanation
SCHEDULE H, PART III, LINE 4		MGH PROVIDES FOR AN ALLOWANCE AGAINST ACCOUNTS RECEIVABLE THAT COULD BECOME UNCOLLECTIBLE BY ESTABLISHING AN ALLOWANCE TO REDUCE THE CARRYING VALUE OF SUCH RECEIVABLES TO THEIR ESTIMATED NET REALIZABLE VALUE MGH ESTIMATES THE ALLOWANCE BASED ON THE AGING OF THE ACCOUNTS RECEIVABLE, HISTORICAL COLLECTION EXPERIENCE BY PAYOR, AND OTHER RELEVANT FACTORS MGH provides medical services to patients who do not have the ability to pay (patients are not billed - charity care) and patients who refuse to pay (bad debts) The amount of bad debt expense attributable to patients eligible under MGH's financial assistance policy is calculated based on the cost-to-charge ratio

Identifier	ReturnReference	Explanation
SCHEDULE H, PART III, LINE 8		THE MEDICARE AMOUNTS ABOVE ARE CALCULATED WITH DATA FROM THE JUNE 30, 2012 COST REPORT, BASED ON A RATIO OF TOTAL PATIENT REVENUES TO TOTAL PATIENT COSTS CALCULATED BY COST CENTERS MGH IS THE ISLAND OF MOLOKAI'S ONLY HOSPITAL, PROVIDING 24 HOUR SERVICE TO ALL MEMBERS OF THE PUBLIC

Identifier	ReturnReference	Explanation
SCHEDULE H, PART III, LINE 9B		MGH PROVIDES FULL OR PARTIAL DISCOUNTS FOR ELIGIBLE PATIENTS WHO ARE KNOWN TO QUALIFY FOR CHARITY CARE OR FINANCIAL ASSISTANCE. ELIGIBILITY CONTINUES FOR SIX MONTHS OR UPON CHANGE IN PATIENT'S INCOME AND ASSETS PER GUIDELINES. PATIENTS MAY RECERTIFY EVERY SIX MONTHS.

Identifier	ReturnReference	Explanation
NEEDS ASSESSMENT	SCHEDULE H, PART VI, LINE 2	EVALUATION AND SURVEYS ARE COMPLETED AS NEEDED BY COST CENTERS OR DEPARTMENTS

Identifier	ReturnReference	Explanation
PATIENT EDUCATION AND ELIGIBILITY FOR ASSISTANCE	SCHEDULE H, PART VI, LINE 3	MGH HAS AN ON-STAFF SOCIAL WORKER WHO ASSISTS PATIENTS AND THEIR FAMILIES BY PROVIDING EDUCATION AND ASSISTANCE IN APPLYING FOR ASSISTANCE UNDER FEDERAL, STATE AND LOCAL PROGRAMS, INCLUDING MGH'S CHARITY CARE POLICY ADDITIONALLY, THE REGISTRATION STAFF AND BUSINESS OFFICE STAFF PROVIDE WRITTEN AND VERBAL INFORMATION REGARDING THE HOSPITAL'S CHARITY CARE POLICIES DURING INTAKE AND DISCHARGE

Identifier	ReturnReference	Explanation
COMMUNITY INFORMATION	SCHEDULE H, PART VI, LINE 4	MGH, PART OF THE QUEEN'S HEALTH SYSTEMS, IS THE ONLY HOSPITAL ON THE ISLAND OF MOLOKA'I, PROVIDING 24-HOUR CARE SERVICES FOR A POPULATION OF 7,400 MOLOKA'I IS DESIGNATED AS A HEALTH PROFESSIONAL SHORTAGE AREA IN PRIMARY CARE, DENTAL AND MENTAL HEALTH SERVICES ADDITIONALLY, THE ISLAND IS LISTED AS A FEDERAL MEDICALLY UNDER-SERVED AREA (MUA) THE AVERAGE HOUSEHOLD INCOME IS \$46,000 WITH 63% OF THE POPULATION REPORTING THEY ARE OF NATIVE HAWAIIAN ANCESTRY (MULTIPLE RACE) IN 2010 ON AVERAGE, THIRTY PERCENT (30%) OF FAMILY HOUSEHOLDS REPORT RECEIVING SOME FORM OF GOVERNMENT ASSISTANCE MGH SPONSORS AN ANNUAL HEALTH FAIR(S) AND OTHER HEALTH-RELATED EVENTS FOR THE COMMUNITY'S BENEFIT MGH PROVIDES FREE FLU CLINICS IN AREAS OUTSIDE OF THE MAIN TOWN MGH EXTENDS MEDICAL STAFF PRIVILEGES TO ALL QUALIFIED PHYSICIANS IN THE COMMUNITY AND IS DESIGNATED AS A CRITICAL ACCESS HOSPITAL (CAH)



Identifier	ReturnReference	Explanation
PROMOTION OF COMMUNITY HEALTH	SCHEDULE H, PART VI, LINE 5	SEE EXPLANATION OF "COMMUNITY INFORMATION"

Identifier	ReturnReference	Explanation
AFFILIATED HEALTH CARE SYSTEM	SCHEDULE H, PART VI, LINE 6	MGH is a member of the Queen's Health Systems ("QHS") affiliated group. The group includes Queen's Medical Center ("QMC"), Queen Emma Land Company ("QEL"), Queen's Insurance Exchange ("QIE") and Queen's Development Corporation ("QDC"). Through June 30, 2012, QEL funded MGH's operations and capital expenses. In addition, QHS provided legal, accounting and administrative support services to MGH and QIE provided medical malpractice insurance to MGH. In return, MGH assisted QMC in fulfilling its mission to provide in perpetuity quality health care services to improve the well-being of Native Hawaiians and all of the people of Hawaii.

Identifier	ReturnReference	Explanation
STATE FILING OF COMMUNITY BENEFIT REPORT	SCHEDULE H, PART VI, LINE 7	N/A

Schedule J  
(Form 990)

Compensation Information

OMB No 1545-0047

2011

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization  
MOLOKAI GENERAL HOSPITAL

Employer identification number  
99-0251372

Part I

Questions Regarding Compensation

	Yes	No
<div>1a</div> <div>Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items</div> <div><div><div><input type="checkbox"/> First-class or charter travel</div><div><input type="checkbox"/> Travel for companions</div><div><input type="checkbox"/> Tax idemnification and gross-up payments</div><div><input type="checkbox"/> Discretionary spending account</div></div><div><div><input type="checkbox"/> Housing allowance or residence for personal use</div><div><input type="checkbox"/> Payments for business use of personal residence</div><div><input type="checkbox"/> Health or social club dues or initiation fees</div><div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div></div></div>		
<div>1b</div> <div>If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain</div>		
<div>2</div> <div>Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?</div>		
<div>3</div> <div>Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply</div> <div><div><div><input type="checkbox"/> Compensation committee</div><div><input type="checkbox"/> Independent compensation consultant</div><div><input type="checkbox"/> Form 990 of other organizations</div></div><div><div><input type="checkbox"/> Written employment contract</div><div><input type="checkbox"/> Compensation survey or study</div><div><input type="checkbox"/> Approval by the board or compensation committee</div></div></div>		
<div>4</div> <div>During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization</div>		
<div>4a</div> <div>Receive a severance payment or change-of-control payment?</div>		No
<div>4b</div> <div>Participate in, or receive payment from, a supplemental nonqualified retirement plan?</div>	Yes	
<div>4c</div> <div>Participate in, or receive payment from, an equity-based compensation arrangement?</div>		No
<div></div> <div>If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III</div>		
<div></div> <div>Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.</div>		
<div>5</div> <div>For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of</div>		
<div>5a</div> <div>The organization?</div>		No
<div>5b</div> <div>Any related organization?</div>		No
<div></div> <div>If "Yes," to line 5a or 5b, describe in Part III</div>		
<div>6</div> <div>For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of</div>		
<div>6a</div> <div>The organization?</div>		No
<div>6b</div> <div>Any related organization?</div>		No
<div></div> <div>If "Yes," to line 6a or 6b, describe in Part III</div>		
<div>7</div> <div>For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III</div>		No
<div>8</div> <div>Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III</div>		No
<div>9</div> <div>If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?</div>		

**Part II** **Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use Schedule J-1 if additional space needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

**Note.** The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) ARTHUR A USHIJIMA	(i)	0	0	0	0	0	0	0
	(ii)	631,103	52,045	152,376	608,467	12,632	1,456,623	0
(2) JANICE KALANIHUIA	(i)	0	0	0	0	0	0	0
	(ii)	171,577	12,623	39,011	41,962	11,601	276,774	0
(3) RICHARD C KEENE	(i)	0	0	0	0	0	0	0
	(ii)	394,315	26,852	71,765	58,892	6,445	558,269	0
(4) WILLIAM L THOMAS JR MD	(i)	207,449	13,757	1,242	18,774	6,127	247,349	0
	(ii)	0	0	0	0	0	0	0
(5) SANDRA BRAZZEL MD	(i)	156,852	5,500	1,814	15,881	10,573	190,620	0
	(ii)	0	0	0	0	0	0	0
(6) DINO FONTES	(i)	105,767	41,600	4,357	6,363	15,200	173,287	0
	(ii)	0	0	0	0	0	0	0
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							

**Part III**   **Supplemental Information**

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
FORM 990, SCHEDULE J, PART I, LINE 3		THE ORGANIZATION RELIED ON THE QUEEN'S HEALTH SYSTEM (QHS) TO DETERMINE COMPENSATION OF THE TOP MANAGEMENT OFFICIAL. QHS USED A COMPENSATION COMMITTEE, INDEPENDENT COMPENSATION CONSULTANT, COMPENSATION SURVEY OR STUDY, FORM 990 OF OTHER ORGANIZATIONS, AND APPROVAL BY THE BOARD OR COMPENSATION COMMITTEE.
FORM 990, SCHEDULE J, PART I, LINE 4B		THE SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP) PROVIDES FOR AN UMBRELLA BENEFIT EQUAL TO A LIFE ANNUITY OF 60% OF FINAL AVERAGE SALARY AT NORMAL RETIREMENT AGE (WHICH BENEFIT IS OFFSET HOWEVER BY THE BENEFIT PROVIDED TO THE CEO UNDER THE QHS PENSION PLAN, THE QHS 401(K) PLAN FOR MATCHING CONTRIBUTIONS ONLY, THE QHS PENSION RESTORATION PLAN, AND 50% OF ESTIMATED SOCIAL SECURITY RETIREMENT BENEFITS). NORMAL RETIREMENT AGE IS DEFINED AS AGE 65 AND THE BENEFIT VESTS AND IS PAID OUT AS A LUMP SUM AT THAT POINT REGARDLESS IF EMPLOYMENT IS CONTINUED PAST AGE 65. THERE WERE NO PAYOUTS DURING 2011.
COMPENSATION PAID FOR SERVICES	SCHEDULE J, PART II	JANICE KALANIHUIA MS. KALANIHUIA SERVES AS VP FOR THE QUEEN'S HEALTH SYSTEMS (PARENT COMPANY) AND PRESIDENT OF MGH. SHE IS NOT SEPARATELY COMPENSATED FOR THESE VARIOUS SERVICES. THE COMPENSATION LISTED IS HER TOTAL COMPENSATION FOR ALL HER SERVICES. ARTHUR A. USHIJIMA MR. USHIJIMA SERVES AS A TRUSTEE FOR THE QUEEN'S HEALTH SYSTEMS AND SEVERAL OTHER QUEEN'S RELATED AFFILIATES. HE IS A VOLUNTEER TRUSTEE AND IS NOT COMPENSATED FOR THESE SERVICES. HIS HOURS SERVED AS A TRUSTEE FOR MGH IS 1 HOUR PER WEEK. MR. USHIJIMA ALSO SERVES AS PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE QUEEN'S HEALTH SYSTEMS (PARENT COMPANY) AND AS PRESIDENT OF QMC. THE COMPENSATION LISTED IS HIS TOTAL COMPENSATION FOR ALL HIS SERVICES. RICHARD C. KEENE MR. KEENE SERVES AS QMC TREASURER, SVP/CFO AND TREASURER FOR THE QUEEN'S HEALTH SYSTEMS (PARENT COMPANY), TREASURER OF QEL AND TREASURER OF MGH. HE IS NOT SEPARATELY COMPENSATED FOR THESE VARIOUS SERVICES. THE COMPENSATION LISTED IS HIS TOTAL COMPENSATION FOR ALL HIS SERVICES.

**SCHEDULE O**  
(Form 990 or 990-EZ)Department of the Treasury  
Internal Revenue Service**Supplemental Information to Form 990 or 990-EZ****Complete to provide information for responses to specific questions on  
Form 990 or to provide any additional information.**  
► **Attach to Form 990 or 990-EZ.**

OMB No 1545-0047

**2011****Open to Public  
Inspection**Name of the organization  
MOLOKAI GENERAL HOSPITAL**Employer identification number**

99-0251372

Identifier	Return Reference	Explanation
PROGRAM SERVICE ACCOMPLISHMENTS	FORM 990, PART III, LINE 4A	TO SUPPORT MGH'S MISSION AND TO FULFILL ITS TAX EXEMPT PURPOSE AS A CHARITABLE HOSPITAL, MGH PROVIDED COMMUNITY BENEFITS TOTALING APPROXIMATELY \$1.9M FOR THE YEAR ENDED JUNE 30, 2012. 1 UNCOMPENSATED CARE - MGH PROVIDES MEDICAL SERVICES TO PATIENTS WHO DO NOT HAVE THE ABILITY TO PAY (CHARITY CARE) AND PATIENTS WHO REFUSE TO PAY (BAD DEBTS). FOR THE YEAR ENDED JUNE 30, 2012, THE ESTIMATED LOSSES FROM PROVIDING CHARITY CARE, AS WELL AS THE ESTIMATE OF CHARITY CARE CURRENTLY CLASSIFIED AS BAD DEBTS, WAS \$75,290 AND \$139,302 RESPECTIVELY. 2 WOMEN'S HEALTH CLINIC - MGH PROVIDES OUTPATIENT SERVICES TO INDIGENT PATIENTS AND OTHERS THROUGH THE WOMEN'S HEALTH CLINIC. SERVICES INCLUDE PERINATAL, OBSTETRICIAN AND MIDWIFERY. THE LOSSES FROM CLINIC OPERATIONS WERE APPROXIMATELY \$70,364 FOR THE YEAR ENDED JUNE 30, 2012. 3 HEALTH AND WELLNESS EDUCATION - MGH PROVIDES HEALTH AND WELLNESS EDUCATION TO THE COMMUNITY IN AN EFFORT TO PROMOTE HEALTHY LIFESTYLES. FOR THE YEAR ENDED JUNE 30, 2012, LOSSES RELATED TO PROVIDING HEALTH AND WELLNESS EDUCATION WERE \$27,417. 4 CHARITABLE CONTRIBUTIONS - MGH PROVIDED IN-KIND CONTRIBUTIONS (HOSPITAL SPACE) TO OUTSIDE CHARITABLE ORGANIZATIONS. FOR THE YEAR ENDED JUNE 30, 2012, THE FAIR MARKET VALUE OF RENT PROVIDED TO OUTSIDE CHARITABLE ORGANIZATIONS WAS \$36,000. 5 MEDICAID SHORTFALL IN PAYMENTS - MGH PROVIDES INPATIENT AND OUTPATIENT SERVICES TO MEDICAID PATIENTS IN THE STATE OF HAWAII. MGH INCURRED COSTS IN EXCESS OF REIMBURSEMENT OF APPROXIMATELY \$1,584,349 DURING THE YEAR ENDED JUNE 30, 2012.

Identifier	Return Reference	Explanation
DESCRIPTION OF CLASSES OF MEMBERS OR STOCKHOLDERS	FORM 990, PART VI, LINE 6	MGH HAS A SOLE MEMBER, WHICH IS THE QUEEN'S HEALTH SYSTEMS, A HAWAII NONPROFIT CORPORATION ("QHS")



Identifier	Return Reference	Explanation
DESCRIPTION OF CLASSES OF PERSONS AND THE NATURE OF THEIR RIGHTS	FORM 990, PART VI, LINE 7A	QHS ELECTS ALL OF THE BOARD MEMBERS OF THE MGH BOARD OF TRUSTEES

Identifier	Return Reference	Explanation
DESCR CLASSES OF PERSONS, DECISIONS REQUIRING APPR & TYPE OF VOTING RIGHTS	FORM 990, PART VI, LINE 7B	CERTAIN MAJOR DECISIONS APPROVED BY THE MGH BOARD OF TRUSTEES MUST ALSO BE APPROVED BY QHS SUCH DECISIONS INCLUDE 1 A CHANGE TO THE PURPOSE OF THE COMPANY , 2 A FINANCING TRANSACTION IN EXCESS OF \$50,000, 3 A LEASE TRANSACTION THAT HAS A TERM THAT IS LONGER THAN 3 YEARS OR HAS A RENT OBLIGATION IN EXCESS OF \$1,000,000 OVER THE LEASE TERM, 4 A TRANSACTION INVOLVING THE SALE, LEASE, DISPOSITION OR HYPOTHECATION OF REAL PROPERTY , 5 ANNUAL OPERATIONAL AND CAPITAL BUDGETS, 6 STRATEGIC PLANS, 7 MERGER OR MAJOR ACQUISITIONS, 8 CREATION OF A NEW ENTITY OR JOINT VENTURE, 9 SALE OR DISPOSITION OF ALL OR SUBSTANTIALLY ALL OF ITS ASSETS, 10 DISSOLUTION, 11 AMENDMENT OF BYLAWS, 12 ADOPTION, AMENDMENT OR RESCISSION OF A BOARD POLICY , 13 CAPITAL EXPENDITURES IN EXCESS OF \$1,000,000 FOR MGH

Identifier	Return Reference	Explanation
DESCRIBE THE PROCESS USED BY MANAGEMENT &/OR GOVERNING BODY TO REVIEW 990	FORM 990, PART VI, LINE 11B	THE FORM 990 FOR THE QUEEN'S HEALTH SY STEMS (QHS) AND THE SEPARATE FORMS FOR EACH OF THE NOT-FOR-PROFIT SUBSIDIARIES OF QHS WERE REVIEWED BY THE GOVERNING BODY OF QHS PRIOR TO THE FILING OF THE RETURNS THE QHS FINANCE COMMITTEE, WHICH IS COMPRISED OF MEMBERS OF THE QHS BOARD OF TRUSTEES, WAS DELEGATED THE RESPONSIBILITY TO REVIEW THE RETURNS PRIOR TO THEIR FILING THE RETURNS WERE PRESENTED TO THE COMMITTEE BY MANAGEMENT AND BY THE INDEPENDENT PUBLIC ACCOUNTING FIRM THAT PREPARED THE RETURNS IN ADDITION, COMPENSATION RELATED DISCLOSURES IN THE RETURNS WERE REVIEWED BY THE CHAIRPERSON OF THE QHS COMPENSATION COMMITTEE PRIOR TO FILING THE RETURNS ALSO, A COPY OF THE MOLOKAI GENERAL HOSPITAL (MGH) RETURNS WERE MADE AVAILABLE TO EACH OF THE MEMBERS OF THE MGH BOARD OF TRUSTEES PRIOR TO THE RETURNS BEING FILED WITH THE INTERNAL REVENUE SERVICE

Identifier	Return Reference	Explanation
APPROVED POLICIES	FORM 990, PART VI, LINE 12, 13, & 14	THE CONFLICT OF INTEREST, WHISTLEBLOWER AND DOCUMENT RETENTION POLICIES HAVE BEEN APPROVED BY QHS ON BEHALF OF THE MGH BOARD BUT HAVE NOT BEEN SEPARATELY APPROVED BY THE MGH BOARD AS SUCH, LINES 12, 13 AND 14 HAVE BEEN CHECKED 'NO'

Identifier	Return Reference	Explanation
DESCRIPTION OF PROCESS TO MONITOR TRANSACTIONS FOR CONFLICTS OF INTEREST	FORM 990, PART VI, LINE 12C	ALL QHS COMPANIES ARE SUBJECT TO A WRITTEN CONFLICT OF INTEREST POLICY. ALL TRUSTEES, OFFICERS, DESIGNATED EMPLOYEES AND CONTRACTORS ARE REQUIRED TO COMPLETE AN ANNUAL DISCLOSURE FORM. THE DESIGNATED EMPLOYEES ARE THOSE SELECTED BY EXECUTIVES IN THE ORGANIZATION WHO IDENTIFY THOSE EMPLOYEES (TYPICALLY MANAGER LEVEL OR ABOVE) WHO MAY BE IN A POSITION TO SELECT OR INFLUENCE THE SELECTION OF A VENDOR. DISCLOSURES ARE SUMMARIZED AND MAINTAINED BY EACH COMPANY'S CORPORATE SECRETARY. THE CONTRACT MANAGEMENT DIVISION AND LEGAL DEPARTMENT HAVE THE CONFLICT SUMMARIES AND CHECK FOR CONFLICTS OF INTEREST AT THE BEGINNING OF THE CONTRACT PROCESS. ANY CONFLICTS OF INTEREST INVOLVING A TRUSTEE IS PRESENTED TO THE BOARD OF TRUSTEES. ANY TRANSACTION INVOLVING A DISQUALIFIED PERSON IS SUBJECT TO THE PROCESS OF ESTABLISHING A REBUTTABLE PRESUMPTION OF REASONABLENESS. ANY TRUSTEE WITH A CONFLICT OF INTEREST IS EXCUSED FOR THE PORTION OF THE MEETING WHERE THE SUBJECT MATTER IS DISCUSSED AND VOTED ON.

Identifier	Return Reference	Explanation
OFFICES & POSITIONS FOR WHICH PROCESS WAS USED, & YEAR PROCESS WAS BEGUN	FORM 990, PART VI, LINES 15A AND 15B	A COMMITTEE OF THE BOARD OF TRUSTEES CALLED THE COMPENSATION COMMITTEE MEETS REGULARLY TO REVIEW THE COMPENSATION OF ALL COMPANIES WITHIN QHS' MGH'S EXECUTIVE COMPENSATION IS REVIEWED ANNUALLY FOR ITS PRESIDENT. ALL DECISIONS REGARDING EXECUTIVE COMPENSATION ARE MADE IN CONFORMITY WITH THE PROCEDURES REQUIRED TO ESTABLISH A REBUTTABLE PRESUMPTION OF REASONABLENESS. ANY ADJUSTMENT TO COMPENSATION IS SUBJECT TO THE PROCESS OF PERFORMANCE REVIEWS AND COMPARISON TO COMPARABLE COMPENSATION DATA PREPARED BY A NATIONALLY RECOGNIZED INDEPENDENT COMPENSATION CONSULTANT. OUTSIDE COUNSEL ASSISTS WITH THE REVIEW PROCESS AND DOCUMENTS THE DECISIONS OF THE COMMITTEE.

Identifier	Return Reference	Explanation
AVAIL OF GOV DOCS, CONFLICT OF INTEREST POLICY, & FIN STMTS TO GEN PUBLIC	FORM 990, PART VI, LINE 19	MGH'S GOVERNING DOCUMENTS ARE AVAILABLE UPON REQUEST AND THE QHS' CONSOLIDATED AUDITED FINANCIAL STATEMENTS ARE ATTACHED TO THIS RETURN, AS REQUIRED MGH DOES NOT MAKE ITS CONFLICT OF INTEREST POLICY AVAILABLE TO THE PUBLIC

Identifier	Return Reference	Explanation
RELATED HOURS	Form 990, Part VII	LANCE DUNBAR DEVOTES 2 HOURS PER WEEK TO RELATED ORGANIZATIONS NEIL J HANNAHS DEVOTES 2 HOURS PER WEEK TO RELATED ORGANIZATIONS ERIC YEAMAN DEVOTES 5 HOURS PER WEEK TO RELATED ORGANIZATIONS JANICE KALANIHUIA DEVOTES 1 HOUR PER WEEK TO RELATED ORGANIZATIONS ARTHUR A USHIJIMA DEVOTES 64 HOURS PER WEEK TO RELATED ORGANIZATIONS RICHARD C KEENE DEVOTES 53 HOURS PER WEEK TO RELATED ORGANIZATIONS WILLIAM L THOMAS JR , MD DEVOTES 1 HOUR PER WEEK TO RELATED ORGANIZATIONS NALEEN N ANDRADE DEVOTES 3 HOURS PER WEEK TO RELATED ORGANIZATIONS



Identifier	Return Reference	Explanation
OTHER CHANGES IN NET ASSETS OR FUND BALANCES	Form 990, Part XI, Line 5	PENSION ADJUSTMENT \$(390,394) UNREALIZED LOSS ON INVESTMENTS \$ (43,203) FUND TRANSFER \$ (235) ----- \$(433,832)

SCHEDULE R  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.  
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization  
MOLOKAI GENERAL HOSPITAL

Employer identification number  
99-0251372

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
(1) THE QUEEN'S HEALTH SYSTEMS  1301 Punchbowl Street  Honolulu, HI 96813 99-0238120	Admin Service	HI	501(c)(3)	11 Type II	NA		No
(2) THE QUEEN'S MEDICAL CENTER  1301 PUNCHBOWL STREET  HONOLULU, HI 96813 99-0073524	MEDICAL SVCS	HI	501(C)(3)	3	QHS	Yes	
(3) QUEEN EMMA LAND COMPANY  1301 PUNCHBOWL STREET  HONOLULU, HI 96813 99-0183769	MEDICAL SVCS	HI	501(C)(3)	11 TYPE II	QHS	Yes	

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of- year assets	(h) Disproporionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) HAMAMATSUPET 1301 PUNCHBOWL STREET HONOLULU, HI 96813 94-3266916	PET IMAGING	HI	NA									

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) THE QUEEN'S DEVELOPMENT CORPORATION 1301 PUNCHBOWL STREET HONOLULU, HI 96813 99-0240109	DEVELOPMENT	HI	NA	C CORP			
(2) QUEEN'S INSURANCE EXCHANGE INC 1301 Punchbowl Street Honolulu, HI 96813 91-1913839	INSURANCE	HI	NA	C CORP			
(3) DIAGNOSTIC LABORATORY SERVICES INC 99-859 Iwaiwa Street Aiea, HI 96701 99-0240499	MEDICAL LAB SVCS	HI	NA	C CORP			

## Part V Transactions With Related Organizations

Yes	No
-----	----

--	--	--

- |           |            |           |
|-----------|------------|-----------|
| <b>1a</b> |            | <b>No</b> |
| <b>1b</b> |            | <b>No</b> |
| <b>1c</b> | <b>Yes</b> |           |
| <b>1d</b> |            | <b>No</b> |
| <b>1e</b> |            | <b>No</b> |

- |    |     |    |
|----|-----|----|
| 1f |     | No |
| 1g |     | No |
| 1h |     | No |
| 1i |     | No |
|    |     |    |
| 1j |     | No |
| 1k |     | No |
| 1l |     | No |
| 1m |     | No |
| 1n |     | No |
|    |     |    |
| 1o | Yes |    |
| 1p | Yes |    |
|    |     |    |
| 1q |     |    |
| 1r |     | No |

**Schedule R (Form 990) 2011**

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Part VII

Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation
IDENTIFICATION OF RELATED ORGANIZATIONS TAXABLE AS A PARTNERSHIP	SCHEDULE R, PART III	HAMAMATSU/QUEEN'S PET IMAGING CENTER, LLC EIN 94-3266916 ADDRESS 1301 PUNCHBOWL STREET HONOLULU, HI 96813

**TY 2011 AffiliatedGroupAttachment**

**Name:** MOLOKAI GENERAL HOSPITAL

**EIN:** 99-0251372

**Explanation:** Name: Queen Emma Land Company Address: 1301 Punchbowl Street Honolulu, HI 96813 EIN: 99-0183769 Expenses: \$66,083,431 Share of excess Lobbying Expenditures: \$0 Name: The Queen's Health Systems Address: 1301 Punchbowl Street Honolulu, HI 96813 EIN: 99-0238120 Expenses: 23,818,992 Share of excess Lobbying Expenditures: \$0 Name: The Queen's Medical Center Address: 1301 Punchbowl Street Honolulu, HI 96813 EIN: 99-0073524 Expenses: \$702,093,291 Share of excess Lobbying Expenditures: \$0 Name: Molokai General Hospital Address: P.O. Box 408 Kaunakakai, HI 96748 EIN: 99-0251372 Expenses: \$12,242,382 Share of excess Lobbying Expenditures: \$0



**THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES**

Consolidated Financial Statements  
and Supplemental Consolidating Schedules

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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KPMG LLP  
PO Box 4150  
Honolulu, HI 96812-4150

## Independent Auditors' Report

The Board of Trustees  
The Queen's Health Systems and Subsidiaries

We have audited the accompanying consolidated balance sheet of The Queen's Health Systems and subsidiaries (QHS) as of June 30, 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of QHS's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of QHS as of June 30, 2011, and the year then ended, were audited by other auditors whose report thereon dated October 7, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of QHS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 consolidated financial statements referred to above present fairly, in all material respects, the financial position of QHS as of June 30, 2012, and the results of their operations and changes in net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of QHS management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the



underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

KPMG LLP

October 5, 2012

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Consolidated Balance Sheets

June 30, 2012 and 2011

(In thousands)

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Current assets		
Cash and cash equivalents	\$ 74,284	68,461
Receivables – less allowances for uncollectible accounts of \$55,698 in 2012 and \$50,968 in 2011	102,606	86,617
Inventories	11,246	10,078
Investments – current	708,540	658,400
Assets whose use is limited or restricted – current	12,952	12,742
Deferred income tax asset – current	1,724	480
Prepaid expenses and other assets	8,490	9,572
Total current assets	919,842	846,350
Investments – less current portion	80,085	87,857
Assets whose use is limited or restricted – less current portion	20,130	19,794
Land, buildings, and equipment, net	510,589	523,902
Goodwill	7,619	7,619
Deferred financing fees, net	4,667	6,391
Deferred income tax asset – less current portion	10,431	7,911
Straight-line rents receivable	26,924	24,922
Other assets	10,705	8,804
Total	\$ 1,590,992	1,533,550
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 46,496	40,797
Accrued salaries and benefits	44,073	42,572
Other current liabilities	19,488	14,436
Due to government reimbursement programs – current	8,457	7,651
Long-term debt – current	15,495	15,342
Total current liabilities	134,009	120,798
Due to government reimbursement programs – less current portion	17,812	17,659
Long-term debt – less current portion	324,785	340,331
Pension and postretirement liabilities	163,729	114,029
Other long-term liabilities	69,327	51,675
Total liabilities	709,662	644,492
Net assets		
Unrestricted	868,119	876,724
Temporarily restricted	7,260	6,383
Permanently restricted	5,951	5,951
Total net assets	881,330	889,058
Total	\$ 1,590,992	1,533,550

See accompanying notes to consolidated financial statements

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Unrestricted operating revenues		
Net patient service revenues	\$ 757,890	699,282
Rental revenues	95,232	89,072
Other	30,708	32,804
Total unrestricted operating revenues	883,830	821,158
Net assets released from restrictions	4,572	4,930
Total operating revenues and other support	888,402	826,088
Unrestricted operating expenses		
Salaries, wages, and employee benefits	426,546	406,570
Supplies	131,174	127,107
Purchased services	84,312	75,223
Depreciation and amortization	51,221	51,060
Professional fees	37,865	33,869
Rent and utilities	29,305	26,106
Provision for bad debts	26,866	32,075
Taxes – other than income taxes	16,387	16,023
Interest	9,396	10,143
Other	30,186	27,629
Total unrestricted operating expenses	843,258	805,805
Operating income	45,144	20,283
Nonoperating income (expense)		
Investment income, net	26,399	54,309
Income tax expense	(355)	(312)
(Loss) gain on interest rate swap	(14,833)	4,679
Other expense	(2,451)	(4,257)
Total nonoperating income, net	8,760	54,419
Excess of revenues over expenses, carried forward	53,904	74,702

**THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES**  
Consolidated Statements of Operations and Changes in Net Assets  
Years ended June 30, 2012 and 2011  
(In thousands)

	<u><b>2012</b></u>	<u><b>2011</b></u>
Excess of revenues over expenses, brought forward	\$ 53,904	74,702
Other changes		
Net assets released from restrictions used for capital expenditures	392	3,045
Net unrealized (losses) gains on investments	(12,208)	44,178
Pension related changes other than net periodic pension cost	(50,693)	17,881
Other changes, net	—	552
Total other changes	<u>(62,509)</u>	<u>65,656</u>
(Decrease) increase in unrestricted net assets	<u>(8,605)</u>	<u>140,358</u>
Temporarily restricted net assets		
Gifts and grants	5,572	4,851
Investment gains, net	182	1,216
Net assets released from restrictions used for capital expenditures	(392)	(3,045)
Net assets released from restrictions used for operating expenses	(4,572)	(4,930)
Other changes, net	<u>87</u>	<u>(124)</u>
Increase (decrease) in temporarily restricted net assets	<u>877</u>	<u>(2,032)</u>
(Decrease) increase in net assets	<u>(7,728)</u>	<u>138,326</u>
Net assets – beginning of year	<u>889,058</u>	<u>750,732</u>
Net assets – end of year	<u><u>\$ 881,330</u></u>	<u><u>889,058</u></u>

See accompanying notes to consolidated financial statements

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
Operating activities		
(Decrease) increase in net assets	\$ (7,728)	138,326
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Net realized and unrealized losses (gains) on investments	1,176	(88,867)
Loss (gain) on interest rate swap	14,833	(4,679)
Depreciation and amortization	51,221	51,060
Provision for bad debts	26,866	32,075
Loss on disposition of land, buildings, and equipment	166	155
Loss on investment in subsidiary	37	56
Pension related changes other than net periodic pension cost	50,693	(17,881)
Deferred income taxes	(967)	776
Changes in operating assets and liabilities		
Receivables	(42,855)	(23,908)
Due to government reimbursement programs	959	6,529
Accounts payable and accrued salaries, benefits, and other liabilities	5,972	1,094
Other assets and liabilities	2,925	(1,456)
Net cash provided by operating activities	<u>103,298</u>	<u>93,280</u>
Investing activities		
Purchases of investments and assets whose use is limited or restricted	(255,980)	(304,878)
Proceeds from sales of investments and assets whose use is limited or restricted	212,999	241,791
Purchases of land, buildings, and equipment	(37,982)	(36,354)
Proceeds from sales of land, buildings, and equipment	136	1,220
Other	(655)	(541)
Net cash used in investing activities	<u>(81,482)</u>	<u>(98,762)</u>
Financing activities		
Repayment of long-term debt	(15,393)	(13,305)
Dividend distribution to minority interest holder	(600)	(1,400)
Payment of deferred financing costs	—	(446)
Net cash used in financing activities	<u>(15,993)</u>	<u>(15,151)</u>
Increase (decrease) in cash and cash equivalents	5,823	(20,633)
Cash and cash equivalents – beginning of year	<u>68,461</u>	<u>89,094</u>
Cash and cash equivalents – end of year	<u>\$ 74,284</u>	<u>68,461</u>
Supplemental cash flow information		
Interest paid – net of amounts capitalized	\$ 9,624	10,925
Income taxes paid	2,100	4,408
Supplemental disclosures of noncash investing and financing activities		
Purchase of buildings and equipment included in accounts payable and other accrued liabilities at year-end	\$ 4,027	5,862
Debt and capital lease obligations assumed in exchange for equipment and leasehold improvements	—	3,769

See accompanying notes to consolidated financial statements

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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(Dollars in thousands)

#### (1) Organization and Summary of Significant Accounting Policies

##### *Organization and Mission*

The Queen's Health Systems (the Parent Company) is a tax-exempt support organization as described in Sections 501(c)(3) and 509(a)(3) of the Internal Revenue Code. The Parent Company's mission is to serve the health care needs of the people of Hawaii. The Parent Company is the sole member of The Queen's Medical Center (QMC), Queen Emma Land Company (QEL), and Molokai General Hospital (MGH). The Parent Company is also the parent of Queen's Development Corporation (QDC) and Queen's Insurance Exchange, Inc. (QIE).

QMC operates a 505-bed acute care and 28-bed subacute care hospital located on the island of Oahu. MGH operates a 15-bed hospital on the island of Molokai. QMC and MGH provide services to patients, substantially all of whom are Hawaii residents, under unsecured credit terms. QDC owns and manages income-producing, health care-related real estate and is engaged in other health-related business activities. QEL owns land and buildings, most of which produce rental income. QIE is a Hawaii-domiciled, pure captive insurance company.

QMC, the Parent Company, and QDC are members of The Queen's Health Systems Obligated Group (the Obligated Group). Diagnostic Laboratory Services, Inc. (DLS), a 90% owned QDC subsidiary, is also a member of the Obligated Group.

##### *Significant Accounting Policies*

###### *(a) Principles of Consolidation*

These consolidated financial statements include the accounts of all entities for which the Parent Company is the sole member or stockholder (collectively, QHS) and conform with accounting principles generally accepted in the United States of America (generally accepted accounting principles). Intercompany balances and transactions have been eliminated in the consolidated financial statements.

###### *(b) Use of Estimates*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions based on available information that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

###### *(c) Cash and Cash Equivalents*

Cash equivalents include money market funds and short-term, highly liquid investments with maturities of three months or less at date of purchase, and are stated at cost, which approximates fair value. Excluded are amounts whose use is limited or restricted by board designations or other arrangements under trust agreements.



## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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*(d) Allowance for Uncollectible Accounts*

QHS provides for accounts receivable that could become uncollectible by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. QHS estimates the allowance based on the aging of the accounts receivable, historical collection experience by payor, and other relevant factors.

*(e) Inventories*

Inventories, consisting principally of medical drugs and supplies, are valued at the lower of cost (average cost method) or market value.

*(f) Investments*

Investments, including assets limited or restricted as to use, include money market funds, debt and equity securities, mutual funds, and common trust funds. Investments in money market funds, debt and equity securities, and mutual funds with readily determinable market values are measured at fair value based on quoted market prices. Investments also include limited liability entities (hedge funds, equity funds, real estate investments, and private equities) accounted for under the equity method of accounting. Management determines the appropriate classification of all investments at the date of purchase and evaluates such designations at each balance sheet date. QHS classifies its investments in debt and equity securities that are managed in "separate accounts" by fund managers as trading securities. Investments that are available for current operations are classified as current assets. Investments that cannot be sold within a year due to restrictions contained in the agreements are classified as noncurrent assets.

Investment income, which is presented within the performance indicator, includes all dividends and interest, unrestricted realized gains and losses, other-than-temporary impairment (OTTI), unrealized gains and losses on trading securities, and equity in earnings and losses of limited liability entities. Investment management fees are netted against investment income.

QHS assesses whether OTTI has occurred based upon a case-by-case evaluation of the underlying reasons for the decline in estimated fair value of its investment. All securities with a gross unrealized loss at each reporting period are subjected to a process for identifying OTTI. QHS considers a wide range of factors, as described below, about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in the evaluation of each security are assumptions and estimates about the operations of the issuer and its future earnings potential.

Considerations used by QHS in the impairment evaluation process include, but are not limited to, the following:

- Duration and extent that the estimated fair value has been below net carrying amount
- Ability and intent to hold the investment for a period of time to allow for a recovery of value
- Fundamental analysis of the liquidity and financial condition of the specific issues

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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- Industry factors or conditions related to a geographic area that are negatively affecting the security
- Underlying valuation of assets specifically pledged to support the credit
- Past due interest or principal payments or other violations of covenants
- Deterioration of the overall financial condition of the specific issuer
- Downgrades by a rating agency

The cost basis of securities that are deemed to be other-than-temporarily impaired is written down to estimated fair value in the period the other-than-temporary impairment is deemed to have occurred

**(g) *Assets Whose Use is Limited or Restricted***

Assets whose use is limited or restricted include assets restricted by the donors and assets held by trustees for the repayment of bonds and purchase of capital assets. Amounts required to meet current liabilities of QHS have been reflected as current assets in the consolidated balance sheets as of June 30, 2012 and 2011.

**(h) *Land, Buildings, and Equipment***

Land, buildings, and equipment are recorded on the basis of cost or fair market value at the date of acquisition or donation, respectively. Buildings and equipment, including amounts recorded under capital lease obligations, are depreciated by the straight-line method over their estimated useful lives ranging from 3 to 40 years. Leasehold improvements are amortized using the straight-line method over the lesser of their estimated useful lives or the remaining term of the related leases. Development and interest costs are capitalized during the construction period of major capital projects.

**(i) *Goodwill***

Goodwill is not amortized and is tested for impairment on an annual basis.

**(j) *Deferred Financing Fees***

Costs of issuing long-term debt are deferred and amortized to expense using the straight-line method, which approximates the effective interest method, over the term of the debt.

**(k) *Other Assets***

Other assets include investments in affiliates. Investments in which QHS owns 20% or more and exercises significant influence, but which QHS does not control, are accounted for under the equity method. The carrying values of these investments were \$1,544 and \$1,581 at June 30, 2012 and 2011, respectively.

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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(Dollars in thousands)

**(l) Long-Lived Assets**

Long-lived assets held and used by QHS are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such events or changes occur, an estimate of the future cash flows expected to result from the use of the assets and their eventual disposition is made. If the sum of such expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, an impairment loss is recognized in an amount by which the assets' net book values exceed fair values.

**(m) Insurance Claims and Related Insurance Recoveries**

QHS estimates its insurance reserves without consideration of insurance recoveries and therefore records estimated recoveries separately from its reserves.

**(n) Derivative Financial Instruments**

QHS periodically uses derivative financial instruments, such as interest rate hedging products to mitigate risk. The use of derivative instruments is limited to reducing its risk exposure by utilizing interest rate swap agreements. The swaps are not designated as hedges for accounting purposes. Accordingly, QHS records the value of its swaps as other assets or long-term liabilities in its consolidated balance sheets and records the change in the fair value of the swaps as nonoperating income or expense.

**(o) Income Taxes**

QDC and its subsidiary, DLS, file consolidated income tax returns. QIE files separate income tax returns. Deferred tax assets and liabilities are recorded for differences between the financial statement and income tax bases for assets and liabilities. Deferred tax assets are reduced by a valuation allowance, if it is more-likely-than-not that some portion or all of the net deferred tax assets will not be realized. A valuation allowance has been recorded to reduce certain future net deferred tax assets to the amount that will more likely than not be realized.

All other consolidated affiliates are not-for-profit organizations that are exempt from federal and state income taxes pursuant to Section 501(a) of the Internal Revenue Code and related Hawaii Revised Statutes. QHS, QEL, QMC, and MGH are subject to federal and state income taxes solely on their unrelated business taxable income. Unrelated business taxable income is not material to the consolidated financial statements. QHS evaluates its uncertain tax positions and has no material unrecognized tax benefits as of June 30, 2012.

**(p) Temporarily and Permanently Restricted Net Assets**

Restricted net assets consist of donations and other funds where restrictions have been imposed by donors as to the use of the funds. Temporarily restricted net assets consist of those net assets whose use by QHS has been limited by donors to a specific purpose or time period. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Permanently restricted net assets consist of the principal of

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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net assets whose use by QHS has been restricted in perpetuity by the donors. Earnings on restricted net assets are considered unrestricted, unless otherwise restricted by the donor.

#### **(q) Net Patient Service Revenue**

Net patient service revenue is recognized and patient accounts receivable is recorded as services are provided and are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Significant concentrations of patient accounts receivable at June 30, 2012 and 2011, included the following:

	<b>2012</b>	<b>2011</b>
Medicare	29%	25%
Medicaid	18	15
Hawaii Medical Service Association	13	14

#### **(r) Government Reimbursement Programs**

QHS renders services to patients under contractual agreements with the Medicare and Medicaid programs. The percentage of patient service revenue attributable to the Medicare and Medicaid programs, respectively, approximated 39% and 18% in 2012 and 39% and 18% in 2011. Medicare acute inpatient services are reimbursed based on clinical, diagnostic, and other factors, and for Medicaid, a per diem rate for routine services and a per discharge rate for ancillary services. Outpatient services related to Medicare and Medicaid beneficiaries are paid based upon a prospective payment system, fee schedules, percentage of charges, or a cost reimbursement method. Prospectively determined reimbursements are paid to QHS based on claims submitted, however, certain items, such as medical education costs, capital costs, bad debts, and disproportionate share hospital (DSH) payment adjustments are reimbursed based upon estimated interim rates with final settlement determined after annual cost reports submitted by QHS are audited by the fiscal intermediary. Estimation differences between final settlements and amounts accrued in previous years due to audit adjustments recorded by the fiscal intermediary are reported as current year increases to revenues and excess of revenues over expenses and amounted to \$2,197 and \$1,470 for the years ended June 30, 2012 and 2011, respectively. QHS has the ability to appeal the adjustments based on a process established by Medicare and Medicaid.

QHS recognized \$3,936 and \$7,276 relating to DSH payments received from the State of Hawaii Department of Human Services for the years ended June 30, 2012 and 2011, respectively. Amounts received from the State of Hawaii under this program are subject to annual determination.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable probability that recorded estimates will change by a material amount in the near term. QHS believes that it is in compliance with applicable laws and

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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regulations and actively resolves issues as identified. Compliance with such laws and regulations can be subject to future government review and interpretation, and noncompliance could result in significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**(s) Charity Care**

QHS provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because collection of amounts determined to qualify as charity care is not pursued, they are not reported as net patient service revenues.

The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges forgone associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under the QHS charity care policy and that do not otherwise qualify for reimbursement from a governmental program. The estimated costs and expenses incurred to provide charity care were \$2,096 and \$2,444 for the years ended June 30, 2012 and 2011, respectively.

**(t) Contributions**

Unconditional promises by donors of cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

**(u) Rental Revenues**

QHS recognizes revenues when delivery has occurred, persuasive evidence of an agreement exists, the fee is fixed or determinable, and collectibility is reasonably assured. QHS (as lessor) has lease agreements that provide for scheduled rent increases over the terms of certain leases. For such leases, rental income is recognized on a straight-line basis over the terms of the leases. The difference between the straight-line amount and the rent received each period is recorded as straight-line rents receivable. Also included in rental revenues are certain percentage rents determined in accordance with the terms of the leases. Rental revenues arising from tenant rents that are contingent upon the tenant sales exceeding a defined threshold are recognized only after the contingency has been resolved (e.g., sales thresholds have been achieved).

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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**(v) Expenses by Functional Classification**

Expenses incurred during the years ended June 30, 2012 and 2011, were for the following programs and support services

	<u>2012</u>	<u>2011</u>
Patient services	\$ 586,605	567,098
Administrative and general	115,064	101,886
Other health care-related activities	83,132	81,957
Real property investment and management	58,457	54,864
Total	<u>\$ 843,258</u>	<u>805,805</u>

**(w) Performance Indicator**

The QHS performance indicator is the excess of revenues over expenses. The indicator excludes net unrealized gains (losses) on other-than-trading securities, net assets released from restrictions used for capital expenditures, and pension related changes other than net periodic pension cost.

**(x) Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements* (ASU 2010-06), which amended Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, to require new disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements, including reasons for the transfers, and to require new disclosures related to activity in Level 3 fair value measurements. In addition, ASU 2010-06 clarifies existing disclosure requirements related to the level of disaggregation of classes of assets and liabilities and provides further detail about inputs and valuation techniques used for fair value measurement. The adoption of ASU 2010-06 did not have a material impact on the notes to the consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS)* (ASU 2011-04). The amendments in this ASU result in common fair value measurement and disclosure requirements in GAAP and IFRS. ASU 2011-04 also provides for certain changes in current GAAP disclosure requirements, for example with respect to the measurement of Level 3 assets and for measuring the fair value of an instrument classified in a reporting entity's net assets. The amendments in ASU 2011-04 are to be applied prospectively, and are effective for the fiscal years beginning after December 15, 2011. Management is evaluating the effect that this guidance will have on the consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful*

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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*Accounts for Certain Health Care Entities* (ASU 2011-07) ASU 2011-07 requires QHS to present its provision for bad debts related to patient service revenue as a deduction from revenue, similar to contractual discounts. Accordingly, QHS's revenues will be required to be reported net of both contractual discounts as well as its provision for bad debts related to patient service revenues. Additionally, ASU 2011-07 will require QHS to make certain additional disclosures designed to help users understand how contractual discounts and bad debts affect recorded revenue in consolidated financial statements. For public companies, the amendments in ASU 2011-07 are to be applied retrospectively and are effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance will not have an impact to the consolidated financial statements' performance indicator.

### (2) Investments and Assets Whose Use is Limited or Restricted and Fair Value Measurements

Investments including assets whose use is limited or restricted at June 30, 2012 and 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Investments at fair value		
Money market funds	\$ 47,581	57,860
U.S. government obligations and corporate debt securities	6,329	6,205
Equity securities	74,117	68,410
Mutual funds	506,232	456,747
Common trust funds	35,752	20,590
Total investments at fair value	<u>670,011</u>	<u>609,812</u>
Investments using equity method		
Equity funds	30,647	29,826
Hedge funds	72,234	87,973
Private equities	32,853	37,158
Real estate	15,962	14,024
Total investments using equity method	<u>151,696</u>	<u>168,981</u>
Total investments and assets whose use is limited or restricted	<u>\$ 821,707</u>	<u>778,793</u>

Hedge funds may include investments in equities, equity-related instruments, fixed income/structured credit and other debt-related instruments, private investments, distressed public investments, and asset-based lending businesses (ownership percentages range from less than 1% to 3%). Private equities may include, but are not limited to, investments in undervalued debt, real estate-related equity securities, and investments in energy, telecommunications, media, and health care industries (ownership percentages range from less than 1% to 7%).

At June 30, 2012, QHS was committed to invest approximately \$2.266 of additional capital in various private equity investments.

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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The classification of investments in the consolidated balance sheets as of June 30, 2012 and 2011, was as follows

	<u>2012</u>	<u>2011</u>
Total investments	\$ 821,707	778,793
Less assets whose use is limited or restricted	<u>(33,082)</u>	<u>(32,536)</u>
Total unrestricted investments	788,625	746,257
Less current portion	<u>(708,540)</u>	<u>(658,400)</u>
Noncurrent portion	<u>\$ 80,085</u>	<u>87,857</u>

QHS maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The hierarchy places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and assigns the lowest priority to unobservable inputs (Level 3 measurements). The three levels of inputs within the hierarchy are defined as follows:

Level 1 – Quoted (unadjusted) prices for identical assets or liabilities in active markets

Level 2 – Other observable inputs, either directly or indirectly, including

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.)
- Inputs other-than-quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

Level 3 – Unobservable inputs that cannot be corroborated by observable market data

Fair values of other-than-trading and trading securities are based on quoted market prices, where available. The Bank of New York Mellon, as custodian for QHS, obtains one price for each security primarily from a third-party pricing service (pricing service), which generally uses Level 1 or Level 2 inputs for the determination of fair value. The pricing service normally derives the security prices from recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. In the absence of a vendor, system trade/cost, or broker price for debt instruments, the pricing staff will price the security using the investment manager's price or the last known price. As QHS is responsible for the determination of fair value, it performs periodic analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. As a result of the reviews, QHS has not historically adjusted the prices obtained from the pricing service.



## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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In the instances in which the inputs used to measure the fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

QHS permits investments in cash and cash equivalents, fixed income securities, equity securities, real return assets, tactical assets, hedge funds, and private equities. The QHS investment strategy is to generate a return that is sufficient to meet its current and expected future financial requirements, with an acceptable level of risk. QHS has engaged a number of investment managers to implement various investment strategies to achieve the desired asset class mix, liquidity, and risk diversification objectives.

The following tables present information about the fair value of the QHS financial assets as of June 30, 2012 and 2011, according to the valuation techniques QHS used to determine their fair values.

<b>Fair value measurements at June 30, 2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents – money market funds	\$ —	9,745	—	9,745
Investments and assets whose use is limited or restricted				
Trading securities				
Money market funds	\$ —	30,844	—	30,844
Foreign currency	—	770	—	770
U S government obligations	270	4,705	—	4,975
Corporate debt securities	—	1,354	—	1,354
Equity securities				
Domestic large-cap	45,288	—	—	45,288
Global	28,829	—	—	28,829
Total trading securities	74,387	37,673	—	112,060

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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Fair value measurements at June 30, 2012				
	Level 1	Level 2	Level 3	Total
Other-than-trading securities				
Money market funds	\$ 75	15,892	—	15,967
Mutual funds				
Fixed income	205,120	—	—	205,120
Global equities	126,620	—	—	126,620
Mid-cap equities	25,046	—	—	25,046
Real return	82,978	—	—	82,978
Tactical	66,468	—	—	66,468
Common trust funds	—	35,752	—	35,752
Total other-than-trading securities	506,307	51,644	—	557,951
Total investments and assets whose use is limited or restricted	\$ 580,694	89,317	—	670,011
Liabilities				
Other long-term liabilities – interest rate swap liabilities	\$ —	38,158	—	38,158
Fair value measurements at June 30, 2011				
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents – money market funds	\$ 8,312	—	—	8,312
Investments and assets whose use is limited or restricted				
Trading securities				
Money market funds	\$ 138	30,054	—	30,192
Foreign currency	3,075	—	—	3,075
U S government obligations	185	2,621	—	2,806
Corporate debt securities	—	2,995	—	2,995
Equity securities				
Domestic large-cap	41,709	—	—	41,709
Domestic mid-cap	26,623	—	—	26,623
Global	78	—	—	78
Total trading securities	71,808	35,670	—	107,478

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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Fair value measurements at June 30, 2011				
	Level 1	Level 2	Level 3	Total
Other-than-trading securities				
Money market funds	\$ 24,593	—	—	24,593
Mutual funds				
Fixed income	167,752	—	—	167,752
Global equities	128,782	—	—	128,782
Mid-cap equities	24,430	—	—	24,430
Real return	68,486	—	—	68,486
Tactical	67,297	—	—	67,297
U S government obligations and corporate debt securities	—	404	—	404
Common trust funds	—	20,590	—	20,590
Total other-than-trading securities	481,340	20,994	—	502,334
Total investments and assets whose use is limited or restricted	\$ 553,148	56,664	—	609,812
Liabilities				
Other long-term liabilities – interest rate swap liabilities	\$ —	23,325	—	23,325

There were no significant reclassifications between Level 1 and Level 2 investments in 2012 and 2011

The following methods and assumptions were used to estimate the fair value of each class of financial instrument

*Money Market Funds* – Fair value estimates for money market funds are based on quoted market prices and/or market data for comparable funds in establishing the prices

*U S Government Obligations and Corporate Debt Securities* – This category includes investments in U S government and corporate bond securities. U S dollar- and non-U S dollar-denominated securities, and money market instruments. The estimated fair values of U S government obligations and corporate debt securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing prices. Due to the nature of pricing fixed income securities, management has classified debt securities as Level 2

*Equity Securities* – This category includes investments in both domestic equity securities of large-cap and mid-cap companies as well as domestic and foreign equities in developed and developing countries. Fair value estimates for publicly traded securities are based on quoted market prices

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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*Mutual Funds* – This category includes investments in real estate, inflation-protected bonds, global equities, and commodities. The estimated fair values of mutual funds are based on quoted market prices.

*Common Trust Funds* – This category includes both taxable and tax-exempt assets. The investments reported as common trust funds consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. The net asset value reported by each fund is used as a practical expedient to estimate the fair value of the QHS interest therein. The fund has a monthly redemption frequency with a redemption notice required by the 22nd calendar day of the preceding month.

*Interest Rate Swap Liabilities* – The fair values of interest rate swaps is estimated using the terms of the swaps and publicly available market yield curves. Because the swaps are unique and are not actively traded, the fair values are classified as Level 2 estimates.

Investments and assets whose use is limited or restricted classified as other-than-trading securities at June 30, 2012 and 2011, consisted of the following:

	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
2012				
Money market funds	\$ 15,967	—	—	15,967
Mutual funds	469,427	36,805	—	506,232
Common trust funds	35,860	—	(108)	35,752
Total investments	<u>\$ 521,254</u>	<u>36,805</u>	<u>(108)</u>	<u>557,951</u>
2011				
Money market funds	\$ 24,593	—	—	24,593
Mutual funds	412,524	44,223	—	456,747
U.S. government obligations and corporate debt securities	404	—	—	404
Common trust funds	15,559	5,031	—	20,590
Total investments	<u>\$ 453,080</u>	<u>49,254</u>	<u>—</u>	<u>502,334</u>

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

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The total return on the investment portfolios for the years ended June 30, 2012 and 2011, was comprised of the following

	<u>2012</u>	<u>2011</u>
Total investment income, net		
Interest and dividend income	\$ 15,292	10,857
Realized gain – net of expenses	3,659	11,229
Unrealized (loss) gain on trading securities	(280)	11,302
Equity in earnings of limited liability entities	7,728	20,921
Total unrestricted investment income, net	<u>\$ 26,399</u>	<u>54,309</u>
Other changes in unrestricted net assets – net unrealized (loss) gain on unrestricted investments	<u>\$ (12,208)</u>	<u>44,178</u>
Other changes in temporarily restricted net assets		
Investment gain (loss)	\$ 257	(21)
Net unrealized (loss) gain on investments	(75)	1,237
Total temporarily restricted investment gain, net	<u>\$ 182</u>	<u>1,216</u>

There were no sales of other-than-trading investments for the year ended June 30, 2012. Gross proceeds from sales of other-than-trading investments for the year ended June 30, 2011, were \$7,509 resulting in no significant gross realized gains or losses. QHS uses the average cost method to determine the cost basis for securities sold.

Assets whose use is limited or restricted at June 30, 2012 and 2011, consisted of the following

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 15,892	14,737
Investments	17,190	17,799
Total assets whose use is limited or restricted	33,082	32,536
Less current portion	(12,952)	(12,742)
Noncurrent portion	<u>\$ 20,130</u>	<u>19,794</u>

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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(Dollars in thousands)

### (3) Land, Buildings, and Equipment

Property at June 30, 2012 and 2011, consisted of the following

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 80.121	75.903
Buildings and leasehold improvements	501.160	497.883
Equipment and furnishings	466.468	436.035
Equipment under capital leases	8.070	8.070
Construction in progress	13.909	19.023
Total	1,069.728	1,036.914
Less accumulated depreciation and amortization	(559.139)	(513.012)
Land, buildings, and equipment, net	<u>\$ 510.589</u>	<u>523.902</u>

Depreciation expense was \$49,303 and \$50,371 for the years ended June 30, 2012 and 2011, respectively

### (4) Long-Term Debt

Long-term debt at June 30, 2012 and 2011, consisted of the following

	<u>2012</u>	<u>2011</u>
Special Purpose Revenue Refunding Bonds 2009 Series A, variable interest rates (average interest rate of 0.2%), with final maturity in July 2029	\$ 36.115	37.640
Special Purpose Revenue Refunding Bonds 2009 Series B, variable interest rates (average interest rate of 0.2%), with final maturity in July 2029	36.115	37.640
Special Purpose Revenue Refunding Bonds 2006 Series A, variable interest rates (average interest rate of 0.3%), with final maturity in July 2025	47.950	50.225
Special Purpose Revenue Refunding Bonds 2006 Series B, variable interest rates (average interest rate of 0.3%), with final maturity in July 2024	71.175	75.750
Special Purpose Revenue Refunding Bonds 2003 Series A, variable interest rates (average interest rate of 0.4%), with final maturity in July 2029	35.600	36.900
Special Purpose Revenue Refunding Bonds 2003 Series B, variable interest rates (average interest rate of 0.4%), with final maturity in July 2029	34.875	36.175

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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	<b>2012</b>	<b>2011</b>
Commercial paper	\$ 75.130	75.130
Capital lease and other obligations	3.320	6.213
Total	340.280	355.673
Less current portion	(15.495)	(15.342)
Total noncurrent portion	\$ 324.785	340.331

The Series 2009A and 2009B Bonds are variable rate demand obligations issued by the Obligated Group Principal is due in annual installments ranging from \$1.840 to \$5.130 The Series 2009A and 2009B Bonds are supported by a letter of credit agreement that provides financing in the event that remarketing efforts fail for bonds tendered The letter of credit agreement expires in 2015, thus, Series 2009A and 2009B Bonds are classified as noncurrent as of June 30, 2012

The Series 2006A and 2006B Bonds are auction rate securities which bear a variable rate of interest Principal on the Series 2006A and 2006B Bonds is due in annual installments ranging from \$7.000 to \$10.425 The Obligated Group entered into interest rate swap agreements to pay a fixed interest rate of 3.453% on the Series 2006B Bonds and a fixed interest rate of 3.58% on the previously extinguished Series 2006C Bonds The interest rate differential paid or received is recognized during the term of the agreements The interest rate swap agreements for the Series 2006B Bonds expire in 2024 and for the previously extinguished Series 2006C Bonds expire in 2028 or earlier if the Obligated Group exercises early termination provisions The notional amount of \$111.000 at June 30, 2012 decreases annually based on the originally scheduled principal payments of the Series 2006B and previously extinguished 2006C Bonds

The Series 2003A and 2003B Bonds are auction rate securities, which bear a variable rate of interest Principal on the Series 2003A and 2003B Bonds is due in annual installments ranging from \$2.675 to \$5.050 The Obligated Group entered into an interest rate swap agreement to pay a fixed interest rate of 3.521% on all of its Series 2003A, 2003B, and previously extinguished 2003C Bonds The interest rate differential paid or received is recognized during the term of the agreements The interest rate swap agreement expires in 2029 or earlier if the Obligated Group exercises early termination provisions The notional amount of \$101.540 at June 30, 2012 decreases annually based on the originally scheduled principal payments of the Series 2003A, 2003B, and previously extinguished 2003C Bonds

The 2003 and 2006 swaps are separate contracts between QHS and the swap counterparties They were not terminated as part of the Series 2003C and 2006C bond refunding that occurred in prior years due to unfavorable market conditions As such, QHS is still required to fulfill its contractual obligations under these agreements by paying the preestablished fixed interest rates to the respective swap counterparties

During the years ended June 30, 2012 and 2011, the change in the market value of the liabilities associated with the swap agreements discussed above, resulted in losses and gains of \$(14.833) and \$4.679, respectively, which were recognized in total nonoperating expense The market value of liabilities

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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(Dollars in thousands)

associated with the swaps as of June 30, 2012 and 2011, was \$38,158 and \$23,325, respectively, and was included in other long-term liabilities

During fiscal years 2012 and 2011, QHS experienced failed auctions related to its auction rate securities. In the event of failed auctions, QHS is required to pay interest at a preestablished rate that is a multiple of London InterBank Offered Rate (LIBOR). At June 30, 2012, the rate being paid on these securities was 175% of LIBOR.

The Obligated Group has commercial paper outstanding of \$75,130 at June 30, 2012, under its \$90,000 loan agreement. Each member of the Obligated Group is jointly and severally liable for this debt. The loan agreement expires on January 24, 2014, however, it allows for the refinancing of the commercial paper outstanding to a term loan with a maturity period of up to one year after 2014. Accordingly, amounts outstanding have been classified as noncurrent liabilities as of June 30, 2012.

The terms of the Series 2003A, 2003B, 2006A, 2006B, 2009A, and 2009B Bonds Master Trust Indenture (MTI) require the Obligated Group to make payments solely from amounts held in funds and accounts established pursuant to the indenture, which are pledged to secure payment of the principal and interest on the Series 2003A, 2003B, 2006A, 2006B, 2009A, and 2009B Bonds. The commercial paper is also secured under the MTI. The MTI limits the ability of the Obligated Group to incur additional indebtedness, make certain other commitments, or dispose of certain assets. The Obligated Group is subject to various financial ratio covenants. Management is not aware of any instances of noncompliance with such financial covenants.

QHS has equipment leases that are accounted for as capital leases. The cost of such equipment was \$8,070 for each year and accumulated depreciation was \$4,130 and \$2,127, at June 30, 2012 and 2011, respectively.

QHS incurred total interest costs of \$9,606 and \$10,280 during 2012 and 2011, respectively, of which \$210 and \$137 was capitalized in construction in progress in 2012 and 2011, respectively.



# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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At June 30, 2012, long-term debt matures as follows

	<b>Revenue bonds and commercial paper</b>	<b>Capital leases and other obligations</b>	<b>Less capital lease interest</b>	<b>Total</b>
Year ending June 30				
2013	\$ 12,935	2,663	(103)	15,495
2014	33,148	772	(12)	33,908
2015	131,652	—	—	131,652
2016	10,850	—	—	10,850
2017	11,225	—	—	11,225
Thereafter	137,150	—	—	137,150
Total	<u>\$ 336,960</u>	<u>3,435</u>	<u>(115)</u>	<u>340,280</u>

QMC calculated the above maturities of long-term debt as if the Series 2009A and 2009B variable rate demand obligations were put by the holders and not successfully remarketed or refinanced and were required to be repaid under an accelerated schedule in accordance with the terms of the related bank letter of credit agreement. If the bonds are put by the investors, the bonds are immediately redeemed by the bank for the benefit of the investors, and if the remarketing agent is unable to remarket the bonds, or if Obligated Group is unable to refinance the bonds, then Obligated Group is required to repay the bank under the terms of the letter of credit agreement.

The carrying values of the bonds, commercial paper, and capital leases approximated their fair values at June 30, 2012 and 2011.

At June 30, 2012, QHS had a line of credit of \$7,500, of which \$1,000 supports a standby letter of credit related to QHS's self-insured workers' compensation program. The line of credit expires on January 24, 2014 and there were no outstanding borrowings under this agreement as of June 30, 2012.

## (5) Self-Insurance Programs

### (a) General and Professional Liability Reserve

QHS maintains a funded self-insurance program for its general and professional liability exposure. This self-insured program is funded through QIE. Premiums are determined based on the QHS loss experience, as well as insurance industry data.

QHS recorded a reserve for losses and loss adjustment expenses for the estimated reported and unreported losses incurred through June 30, 2012 and 2011. The reserve for unpaid losses and loss adjustment expenses was determined by QHS using estimates from independent consulting actuaries, based on industry and hospital-specific data. The general and professional liability reserve was \$16,093 and \$12,451 at June 30, 2012 and 2011, respectively, and was recorded in other long-term liabilities at June 30, 2012 and 2011.

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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(Dollars in thousands)

QHS has excess general and professional insurance coverage through reinsurance agreements with unrelated insurers for amounts exceeding \$2,000 per occurrence. The reinsurance agreements do not relieve QHS from its obligations should the third-party reinsurers not be able to meet the obligations assumed under the reinsurance agreements.

**(b) Workers' Compensation Reserve**

QHS is self-insured for workers' compensation losses up to \$400 per occurrence. Losses above this amount are insured with an independent excess carrier. QHS had workers' compensation reserves of \$3,969 and \$3,135 at June 30, 2012 and 2011, respectively, which were discounted at a rate of 5.4% and 5.65% as of June 30, 2012 and 2011, respectively. The workers' compensation reserves were recorded in other current liabilities at June 30, 2012 and 2011.

**(c) Medical Reserve**

QHS has a self-funded medical benefits plan covering substantially all of its employees. The medical reserve was \$3,194 and \$3,582 at June 30, 2012 and 2011, respectively, and was included in other current liabilities at June 30, 2012 and 2011.

**(6) Net Assets**

Temporarily restricted net assets at June 30, 2012 and 2011, were available only for the following purposes:

	<u>2012</u>	<u>2011</u>
Education and research	\$ 3,548	3,932
Facility replacement and expansion	566	323
Indigent care and other	3,146	2,128
Total	<u>\$ 7,260</u>	<u>6,383</u>

Permanently restricted net assets at June 30, 2012 and 2011, were restricted to investment in perpetuity, the income from which is expendable to support the following purposes:

	<u>2012</u>	<u>2011</u>
Indigent care	\$ 3,787	3,787
Education and research	1,334	1,334
Other	830	830
Total	<u>\$ 5,951</u>	<u>5,951</u>

In accordance with the Uniform Prudent Management Institutional Funds Act (UPMIFA), QHS considers only permanently restricted net assets as donor-restricted endowment funds. In accordance with UPMIFA and when applicable, QHS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: a) the duration and preservation of the fund, b) the

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

purposes of QHS and the endowment fund, c) general economic conditions, d) the possible effect of inflation and deflation, e) the expected total return from income and the appreciation of investments, f) other resources of QHS, and g) the investment policies of QHS. Amounts relating to investment income, net appreciation/depreciation and amounts appropriated for expenditure were not material during 2012 and 2011.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires QHS to retain as a fund of perpetual duration. Deficiencies of this nature are reported as adjustments in unrestricted net assets.

#### **(7) Employee Benefit Plans**

Eligible employees of QHS are covered by The Queen's Health Systems Pension Plan (the Plan), which is a noncontributory defined benefit pension plan. Pension benefits are provided to participants under several types of retirement options based upon years of continuous service, age, and compensation. Retirement benefits are paid to pensioners or beneficiaries in various forms of joint and survivor annuities, including a lump-sum payment option. The funding policy is to contribute amounts as deemed necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to Plan members.

QHS has three unfunded, postretirement welfare plans, covering substantially all of its employees, that provide medical benefits (until age 65), drug and vision benefits, and life insurance benefits. The postretirement medical and drug and vision plans are contributory and also contain other cost-sharing features, such as deductibles and coinsurance.

Certain executives also participate in a nonqualified, unfunded pension plan. At June 30, 2012 and 2011, the benefit liability related to this plan was \$1.253 and \$1.029, respectively. Benefit expense related to this plan was \$130 and \$126 for the years ended June 30, 2012 and 2011, respectively.

Certain key executives are also covered by a nonqualified, unfunded supplemental executive retirement plan. At June 30, 2012 and 2011, the benefit liability related to this plan was \$6.854 and \$6.252, respectively. Benefit expense related to this plan was \$555 and \$524 for the years ended June 30, 2012 and 2011, respectively.

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

The changes in benefit obligations, changes in plan assets, and funded status of the pension and postretirement plans with the amounts recognized in the consolidated balance sheets as of June 30, 2012 and 2011, were as follows

	<b>Pension benefits</b>		<b>Other postretirement benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Change in benefit obligations				
Benefit obligations – beginning of year	\$ 287,126	266,681	27,712	25,926
Service cost	12,900	12,228	850	851
Interest cost	16,132	14,438	1,564	1,415
Actuarial loss	39,420	3,708	3,187	58
Benefits paid	(10,969)	(9,929)	(539)	(538)
Benefit obligation – end of year	<u>344,609</u>	<u>287,126</u>	<u>32,774</u>	<u>27,712</u>
Change in plan assets				
Fair value of plan assets – beginning of year	206,974	165,110	—	—
Actual return on plan assets	2,374	29,625	—	—
Employer contributions	18,362	22,168	539	538
Benefits paid	(10,969)	(9,929)	(539)	(538)
Fair value of plan assets – end of year	<u>216,741</u>	<u>206,974</u>	<u>—</u>	<u>—</u>
Funded status	<u>\$ (127,868)</u>	<u>(80,152)</u>	<u>(32,774)</u>	<u>(27,712)</u>
Amounts recognized in the balance sheets consisted of				
Other current liabilities	\$ —	—	(758)	(771)
Pension and other postretirement benefits	<u>(127,868)</u>	<u>(80,152)</u>	<u>(32,016)</u>	<u>(26,941)</u>
Net amounts recognized	<u>\$ (127,868)</u>	<u>(80,152)</u>	<u>(32,774)</u>	<u>(27,712)</u>

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

Amounts recognized in unrestricted net assets at June 30, 2012 and 2011, were as follows

	<b>Pension benefits</b>		<b>Other postretirement benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net transition asset	\$ —	—	33	55
Prior service cost	45	(61)	1,891	2,384
Net loss	132,632	83,680	6,116	2,952
Total	<u>\$ 132,677</u>	<u>83,619</u>	<u>8,040</u>	<u>5,391</u>

Amounts recognized in unrestricted net assets in June 30, 2012, that are expected to be recognized as components of benefit cost in the year ending June 30, 2013, were as follows

	<b>Pension benefits</b>	<b>Other postretirement benefits</b>
Net transition obligation	\$ —	22
Prior service cost	(64)	484
Net loss	9,341	225
Total	<u>\$ 9,277</u>	<u>731</u>

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

Components of net periodic pension cost and amounts recognized in other changes in unrestricted net assets, but not yet included in net periodic benefit costs were as follows

	<b>Pension benefits</b>		<b>Other postretirement benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net periodic pension costs				
Service cost	\$ 12,900	12,227	850	851
Interest cost	16,132	14,438	1,564	1,415
Expected return on plan assets	(17,515)	(14,963)	—	—
Amortization of obligation	—	—	22	22
Amortization of prior service cost	(106)	(106)	493	493
Recognized net actuarial loss	5,609	7,612	23	43
Net periodic pension costs	<u>\$ 17,020</u>	<u>19,208</u>	<u>2,952</u>	<u>2,824</u>
Other changes in plan assets and benefit obligations recognized in other changes in unrestricted net assets				
Net actuarial loss (gain)	\$ 54,561	(10,953)	3,187	58
Prior service cost (credit)	106	106	(493)	(493)
Recognized gain	(5,609)	(7,612)	(23)	(43)
Recognized obligation	—	—	(22)	(22)
Total recognized in other changes in unrestricted net assets	<u>\$ 49,058</u>	<u>(18,459)</u>	<u>2,649</u>	<u>(500)</u>

Weighted average assumptions used to determine the benefit obligation and net periodic benefit cost at June 30, 2012 and 2011, were as follows

	<b>Pension benefits</b>		<b>Other postretirement benefits</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Benefit obligation				
Discount rate	4.68%	5.68%	4.68%	5.68%
Rate of compensation increase	4.00	4.00	—	—
Net periodic benefit cost				
Discount rate	5.68	5.47	5.68	5.47
Expected return on plan assets	8.25	8.50	—	—
Rate of compensation increase	4.00	4.00	—	—

# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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(Dollars in thousands)

The accumulated benefit obligation for the Plan was \$296,946 and \$257,047 at June 30, 2012 and 2011, respectively

The long-term rate of return of the Plan is management's estimate of the return on the plan assets over a long-time horizon. Based upon the current policy allocations and historical returns, expected long-term rate of return for fiscal year 2012 was projected to be 8.25%

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) was assumed to be 7.75% in 2012, declining by 0.25% per year through 2016, declining by 0.5% per year through 2019, and then remaining at 5% thereafter. A one-percentage point increase or decrease in this rate would increase or decrease the Plan's accumulated postretirement benefit obligation by \$366 and \$323, respectively, as of June 30, 2012, and the Plan's service cost and interest cost component of net periodic postretirement benefit cost for the year ended June 30, 2012, by \$31 and \$26, respectively. QHS anticipates making contributions of \$18,700 to the pension plan and \$776 to the postretirement benefit plan during fiscal year 2013. The future estimated benefit payments for each plan are as follows:

	<b>Pension benefits</b>	<b>Other postretirement benefits</b>
Year ending June 30		
2013	\$ 13.758	776
2014	17.645	902
2015	19.732	1,026
2016	20.392	1,151
2017	20.495	1,276
2018 – 2022	112.023	8,371

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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(Dollars in thousands)

The primary objective of the Plan investments is to prudently fund the liabilities for benefits under the Plan. The Plan's investment strategy is to structure an investment program that most efficiently matches investment risks and return characteristics with the Plan's objectives. Volatility and uncertainty of investment results are managed through asset allocation and diversification. The Plan expects its investment fund managers to outperform their assigned benchmark indices and rank in the top one-third of all investment managers using a similar style over a three-year period. The Plan's investment policy permits investments in cash and cash equivalents, fixed income securities, equity securities, real return assets, tactical assets, hedge funds, and private equities. The Plan's asset allocation at June 30, 2012 and 2011, and the target allocations were as follows:

	<b>Target range</b>	<b>2012 actual</b>	<b>2011 actual</b>
Cash and cash equivalents	—%	2.9%	2.0%
Fixed income securities (a)	17 – 33	25.4	23.3
Domestic equities (b)	10 – 20	18.4	18.8
Global equities (c)	15 – 30	18.7	21.1
Real return investments (d)	10 – 20	16.4	14.1
Hedge fund investments (e)	10 – 20	10.3	12.0
Private equity investments (f)	0 – 10	2.5	3.2
Tactical investments (g)	0 – 10	5.4	5.5
Total		<u>100.0%</u>	<u>100.0%</u>

- (a) This category includes investments in U.S. government and corporate bond securities, mortgage and other asset-backed securities, U.S. dollar- and non-U.S. dollar-denominated securities, and money market instruments.
- (b) This category includes investments primarily in domestic equity securities of large-cap and mid-cap companies.
- (c) This category includes investments in domestic and foreign equities in developed and developing countries.
- (d) This category includes investments in real estate, inflation protected bonds, global equities, and commodities.
- (e) This category includes investments in direct hedge funds or hedge funds of funds that employ various strategies, consisting of, but not limited to, long/short equity, opportunistic/macro, distressed securities, merger arbitrage/event driven, short selling, credit investing, real estate, restructuring, and value strategies.
- (f) This category includes, but is not limited to, equity securities and equity-related investments, purchase or provision of subordinated debt securities/loans, and mezzanine investments.
- (g) This category includes investments in cash, fixed income, and global equity securities.



# THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

The following tables present information about the fair value of the QHS pension plan assets as of June 30, 2012 and 2011, according to the valuation techniques QHS used to determine their fair values

Asset category	Fair value measurements at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents, primarily money market funds \$	—	7,897	—	7,897
Mutual funds				
Fixed income	55,068	—	—	55,068
Domestic equities	8,819	—	—	8,819
Global equities	40,613	—	—	40,613
Real return	16,604	—	—	16,604
Tactical	11,613	—	—	11,613
Domestic equity securities	29,569	—	—	29,569
Real return, hedge funds, and private equity investments	—	6,460	40,098	46,558
Total	\$ 162,286	14,357	40,098	216,741

Asset category	Fair value measurements at June 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents, primarily money market funds \$	5,461	69	—	5,530
Mutual funds				
Fixed income	48,198	—	—	48,198
Domestic equities	9,339	—	—	9,339
Global equities	43,342	—	—	43,342
Real return	13,275	—	—	13,275
Tactical	11,754	—	—	11,754
Domestic equity securities	28,141	—	—	28,141
Real return, hedge funds, and private equity investments	—	4,847	42,548	47,395
Total	\$ 159,510	4,916	42,548	206,974

There were no significant reclassifications between Level 1 and Level 2 investments in 2012 and 2011

See note 2 for the definition of the three levels within the fair value hierarchy and the methods and assumptions used to estimate the fair value of cash and cash equivalents, money market funds, mutual funds, and equity securities. Real return, hedge funds, and private equity investments are valued at estimated fair values based on their proportionate share of the respective entities' fair value as recorded in the respective entities' financial statements

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

The table below presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011, respectively

Beginning balance – July 1, 2010	\$	43,329
Realized gains		2,115
Unrealized gains		2,418
Purchases, sales, and settlements		<u>(5,314)</u>
Balance – June 30, 2011		42,548
Realized gains		1,246
Unrealized gains		1,299
Purchases		300
Sales		<u>(5,295)</u>
Ending balance – June 30, 2012	\$	<u><u>40,098</u></u>

QHS has defined contribution retirement plans (the Retirement Plans) that cover substantially all employees and provide participants the ability to make pretax deduction contributions for deposit into retirement savings accounts. The participants' contributions are matched at a percentage of their total contributions and up to annual dollar limits per participant as defined by the Retirement Plans. The QHS expense relating to the above Retirement Plans was approximately \$9,718 and \$9,231 for the years ended June 30, 2012 and 2011, respectively.

#### (8) Income Taxes

QIE, QDC, and DLS are subject to federal and state income taxes. At June 30, 2012, these companies had operating loss carry forwards for income tax purposes of approximately \$18,677 that expire through 2032. At June 30, 2012, QHS had net operating loss carry forwards of \$3,091 related to its unrelated business income. The net operating loss carry forwards expire through 2032.

The components of income tax expense for the years ended June 30, 2012 and 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Current income tax expense (benefit)	\$ 1,322	(464)
Deferred income tax (benefit) expense	<u>(967)</u>	<u>776</u>
Total	<u><u>\$ 355</u></u>	<u><u>312</u></u>

For the years ended June 30, 2012 and 2011, the effective tax rate differed from the statutory rate primarily due to tax credits and changes in the valuation allowance in deferred tax assets for QIE and a valuation allowance established for net operating losses of QDC.

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

At June 30, 2012 and 2011, deferred income tax assets and liabilities resulted principally from operating loss carryforwards and from temporary differences for fixed assets, intangible assets, allowance for uncollectible accounts, pension costs, and accrued vacation. Deferred income tax assets and liabilities as of June 30, 2012 and 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Deferred income tax assets	\$ 18,705	16,278
Deferred income tax liabilities	(419)	(337)
	<u>18,286</u>	<u>15,941</u>
Less valuation allowance	(6,131)	(7,550)
	<u>12,155</u>	<u>8,391</u>
Less current	(1,724)	(480)
Noncurrent	<u>\$ 10,431</u>	<u>7,911</u>

In assessing the deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more-likely-than-not that the benefits of these deductible differences will be realized, net of the existing valuation allowances at June 30, 2012. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

### (9) Operating Leases

#### (a) As Lessor

Rental revenues are received from operating leases. The lease terms range from monthly tenancy to 38 remaining years and provide for periodic rent escalation and renegotiation, reimbursement of certain operating costs, and contingent rents based on the lessee's sales or production. Contingent rental revenues of \$4,248 and \$2,376 were recognized in 2012 and 2011, respectively.

Office space in buildings owned by QHS is leased to physicians and other tenants under operating leases. Lease rent under most of these leases includes the basic rent with periodic rent escalation and reimbursement of certain building operating costs. Approximately 11% of the leases in physicians' office buildings are nontransferable and generally have terms for the duration of the physicians' practice. The lease terms provide for a fixed rent, plus reimbursement of certain operating costs. The remaining leases in the physicians' office buildings are for a four-year period renewable at the physicians' option for two additional periods of four years each. QHS also maintains operating leases

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

for land and leasehold interests. At June 30, 2012 and 2011, the basis for land, leasehold interests, and buildings under operating leases was approximately \$216,610 and \$216,564, respectively, and the related accumulated depreciation was approximately \$60,814 and \$53,924, respectively.

Future minimum rental income under noncancelable operating leases at June 30, 2012, is as follows:

Year ending June 30	
2013	\$ 46,347
2014	41,234
2015	35,257
2016	26,419
2017	23,016
Thereafter	<u>468,432</u>
Total	<u>\$ 640,705</u>

**(b) As Lessee**

QHS leases office space, land, and equipment under operating leases expiring through 2042. Future minimum lease payments under noncancelable operating leases at June 30, 2012, are as follows:

Year ending June 30	
2013	\$ 3,342
2014	2,671
2015	2,245
2016	1,770
2017	1,014
Thereafter	<u>5,172</u>
Total	<u>\$ 16,214</u>

QHS also pays additional amounts for common area maintenance charges, real property taxes, and certain building operating costs. Rent expense during 2012 and 2011 under these leases was approximately \$4,454 and \$4,221, respectively.

**(10) Computer Operations Outsourcing**

QHS has a contract with Xerox Business Services (Xerox) to outsource a substantial portion of its computer operations, which includes providing services to certain affiliates, as well as providing QHS with implementation services, hardware, software, and application support. Under this agreement, Xerox provides services as specified in the contract and the payments to Xerox are expensed in purchased services. In fiscal year 2012, QHS and Xerox extended the service agreement to expire on December 31, 2015. Total expenses under the contract in 2012 and 2011 were \$10,556 and \$10,227, respectively. The contract provides for termination of the entire contract or portions of the contract under certain

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

circumstances Should QHS terminate the agreement, QHS may be liable for early termination charges as calculated in the contract

Future payments at June 30, 2012, under the contract are as follows

Year ending June 30	
2013	\$ 9,151
2014	8,995
2015	8,995
2016	<u>4,498</u>
Total	<u>\$ 31,639</u>

#### (11) Commitments and Contingencies

At June 30, 2012, there were several legal actions pending against QHS that arose in the normal course of business. The ultimate resolution of such actions cannot presently be determined. In the opinion of management, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the consolidated financial statements. There were also certain actions alleging malpractice. These actions were covered under the QHS self-insurance program for general and professional liability exposure (note 5).

In April 2009, QMC entered into a settlement agreement with various governmental agencies. As part of the settlement agreement, QMC and the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services entered into a Corporate Integrity Agreement (CIA) to promote compliance with the statutes, regulations, and written directives of Medicare, Medicaid, and all other federal health care programs. The CIA imposes a number of obligations on QMC, including additional compliance training, auditing, and periodic reporting to the OIG. The term of the CIA is five years.

QMC entered into a consortium membership agreement with the University of Hawaii (UH) and two other Hawaii hospital members to maintain and expand the level of cancer research and care in Hawaii. The agreement's total remaining commitment was \$2,800 as of June 30, 2012. The agreement expires on January 31, 2015 and is renewable for additional five-year terms by written agreement of UH and at least two hospital members.

QHS entered into an agreement with UH to help support the university's Department of Native Hawaiian Health. QHS will participate in the funding of research, medical education, and community engagement initiatives. The agreement expires on June 30, 2015 and its total remaining commitment was \$1,400 as of June 30, 2012.

## **THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

**June 30, 2012 and 2011**

**(Dollars in thousands)**

At June 30, 2012, QHS had commitments for facilities construction and equipment purchases for approximately \$23.043. QMC has a commitment to improve traffic congestion around the QMC facility based on conditions imposed by the City and County of Honolulu for their approval of the Plan Review Use and Special District Permits. As of June 30, 2012, QMC had a standby letter of credit in the amount of \$1.200 related to the aforementioned obligation that expires on June 30, 2013.

QMC has collective bargaining agreements with the Hawaii Nurses Association and the Teamsters Union. The Hawaii Nurses Association agreement expires in November 2014 and the Teamsters Union agreement expires in June 2013.

In 2010, QEL entered into a five-year management agreement at one of its investment properties to help manage the day-to-day activities. Management fees under this agreement amount to 3% of the property's gross revenues and 7% of its gross operating profit, provided that the sum of the two shall not exceed 5% of gross revenues in a fiscal year.

In August 2012, QMC entered into a definitive agreement to purchase land and buildings associated with a nonoperating hospital located in Ewa Beach, Hawaii. The transaction is expected to close in October 2012. The project cost is anticipated to be approximately \$73,000, including an expansion and modernization of emergency, surgical and imaging services.

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2012

(In thousands)

Assets	Parent Company	The Queen's Medical Center and Subsidiary	Queen's Development Corporation and Subsidiaries	Queen Emma Land Company	Molokai General Hospital	Queen's Insurance Exchange	Eliminations	Consolidated
Current assets								
Cash and cash equivalents	\$ 6,067	24,287	18,912	10,601	1,408	13,009	—	74,284
Receivables – net	118	83,016	8,918	2,368	1,184	5,375	1,627	102,606
Due from affiliates	7,173	600	1,219	—	8	7,899	(16,899)	—
Inventories	—	9,378	1,767	—	101	—	—	11,246
Investments – current	45,419	490,666	—	169,708	2,747	—	—	708,540
Assets whose use is limited or restricted – current	—	12,952	—	—	—	—	—	12,952
Deferred income tax asset – current	—	—	480	—	—	1,244	—	1,724
Prepaid expenses and other assets	89	8,307	1,040	791	77	1,306	(3,120)	8,490
Total current assets	58,866	629,206	32,336	183,468	5,525	28,833	(18,392)	919,842
Investments – less current portion	5,130	55,422	—	19,169	364	—	—	80,085
Assets whose use is limited or restricted – less current portion	—	20,130	—	—	—	—	—	20,130
Land, buildings, and equipment – net	1,670	235,821	64,033	195,628	13,433	4	—	510,589
Goodwill	—	—	7,619	—	—	—	—	7,619
Deferred financing fees – net	4	4,663	—	—	—	—	—	4,667
Deferred income tax asset – less current portion	—	—	10,431	—	—	—	—	10,431
Straight-line rents receivable	—	—	—	26,924	—	—	—	26,924
Due from affiliates – noncurrent	—	18,612	—	—	—	—	—	—
Investment in affiliates (1)	2,924	—	—	—	—	—	(18,612)	—
Other assets	4,828	1,432	702	3,743	—	—	(2,924)	—
Total	\$ 73,422	965,286	115,121	428,932	19,322	28,837	(39,928)	1,590,992

(1) Investments in subsidiaries are carried at cost

## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

## Consolidating Balance Sheet Information

June 30, 2012

(In thousands)

Liabilities and Net Assets	Parent Company	The Queen's Medical Center and Subsidiary	Queen's Development Corporation and Subsidiaries	Queen Emma Land Company	Molokai General Hospital	Queen's Insurance Exchange	Eliminations	Consolidated
Current liabilities								
Accounts payable and other accrued liabilities	\$ 748	40,978	3,747	675	334	16	(2)	46,496
Accrued salaries and benefits	3,638	35,610	3,855	429	541	—	—	44,073
Other current liabilities	7,283	—	—	7,386	—	3,120	1,699	19,488
Due to government reimbursement programs – current	—	7,625	—	—	832	—	—	8,457
Long-term debt – current	—	15,495	—	—	—	—	—	15,495
Due to affiliates	4,986	5,382	1,801	1,224	218	24	(13,635)	—
Total current liabilities	16,655	105,090	9,403	9,714	1,925	3,160	(11,938)	134,009
Due to affiliates – noncurrent	—	—	—	1,643	—	—	(1,643)	—
Due to government reimbursement programs – less current portion	—	17,812	—	—	—	—	—	17,812
Long-term debt – less current portion (1)	2,941	268,034	53,810	—	—	—	—	324,785
Pension and postretirement liabilities	10,600	142,900	13,331	711	1,006	—	(4,819)	163,729
Other long-term liabilities	1,982	62,528	5,173	2,163	—	16,093	(18,612)	69,327
Total liabilities	32,178	596,364	81,717	14,231	2,931	19,253	(37,012)	709,662
Net assets								
Unrestricted (2)	41,244	349,513	33,404	414,701	16,391	9,584	3,282	868,119
Temporarily restricted	—	13,458	—	—	—	—	(6,198)	7,260
Permanently restricted	—	5,951	—	—	—	—	—	5,951
Total net assets	41,244	368,922	33,404	414,701	16,391	9,584	(2,916)	881,330
Total	\$ 73,422	\$ 965,286	\$ 115,121	\$ 428,932	\$ 19,322	\$ 28,837	\$ (39,928)	\$ 1,590,992

(1) The Obligated Group commercial paper obligations (classified as long-term debt – less current portion) are joint and several obligations for each of the Obligated Group members, however, the balance sheets of the individual entities only include their allocated portions

(2) Investments in subsidiaries are carried at cost

See accompanying independent auditors' report



## THE QUEEN'S HEALTH SYSTEMS AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2012

(In thousands)

	Parent Company	The Queen's Medical Center and Subsidiary	Queen's Development Corporation and Subsidiaries	Queen Emma Land Company	Molokai General Hospital	Queen's Insurance Exchange	Eliminations	Consolidated
Unrestricted operating revenues	\$ —	675,382	74,685	—	7,823	—	—	757,890
Net patient service revenues	—	—	11,936	83,140	156	—	—	95,232
Rental revenues	23,709	22,345	28,706	1,166	2,507	4,115	(51,840)	30,708
Other	23,709	697,727	115,327	84,306	10,486	4,115	(51,840)	883,830
Total unrestricted operating revenues	—	11,872	—	81	—	—	(7,381)	4,572
Net assets released from restrictions								
Total operating revenues and other support	23,709	709,599	115,327	84,387	10,486	4,115	(59,221)	888,402
Unrestricted operating expenses								
Salaries, wages, and employee benefits	15,635	356,361	47,065	1,768	5,717	—	—	426,546
Supplies	155	108,666	21,539	117	695	2	—	131,174
Purchased services	2,219	90,941	16,053	20,595	2,051	309	(47,856)	84,312
Depreciation and amortization	757	35,490	6,635	7,176	1,162	1	—	51,221
Professional fees	3,307	29,777	2,066	1,482	993	240	—	37,865
Rent and utilities	218	18,155	5,487	4,964	464	17	—	29,305
Provision for bad debts	—	25,028	1,625	71	142	—	—	26,866
Taxes – other than income taxes	32	—	5,598	10,769	26	(38)	—	16,387
Interest	13	9,148	235	—	—	—	—	9,396
Other	1,475	24,509	5,647	712	992	977	(4,126)	30,186
Total unrestricted operating expenses	23,811	698,075	111,930	47,654	12,242	1,508	(51,982)	843,258
Operating income (loss)	(102)	11,524	3,377	36,733	(1,756)	2,607	(7,239)	45,144
Nonoperating income (expense)								
Investment income – net	1,732	18,357	10	6,070	101	28	101	26,399
Income tax (expense) benefit	—	—	(1,646)	—	—	1,291	—	(355)
Loss on interest rate swap	—	(14,833)	—	—	—	—	—	(14,833)
Other (expense) income (1)	(15)	(1,922)	299	(379)	5	—	(439)	(2,451)
Total nonoperating income (expense)	1,717	1,602	(1,337)	5,691	106	1,319	(338)	8,760
Excess (deficiency) of revenues over expenses	1,615	13,126	2,040	42,424	(1,650)	3,926	(7,577)	53,904

(1) Investments in subsidiaries are carried at cost

See accompanying independent auditors' report