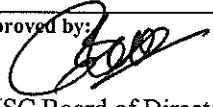
 HAWAII HEALTH SYSTEMS CORPORATION <i>"Touching Lives Everyday"</i>	Department: Corporate Finance	Policy No.: FIN 0013
	Issued by: Kelley Roberson COO/CFO	Revision No.: N/A
Policies and Procedures	Approved by:  HHSC Board of Directors By: Raymond Ono Its: Secretary/Treasurer	Effective Date: August 21, 2008
Subject: Operational Budgeting		Supersedes Policy: N/A
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I. PURPOSE: To provide policy and guidelines and description of processes for the development of facility-level and regional annual operating and cash flow budgets for consolidation by the Hawaii Health Systems Corporation into system annual operating and cash flow budgets. Separate Government Budgeting Policy (FIN 0014) is provided concerning development of biennium and supplemental budgets for funding support from the state of Hawaii.

II. DEFINITIONS:

Budgeting: The process of translating planning and programming decisions into specific projected financial plans for relatively short periods of time. A budget is an itemized summary of estimated or intended expenditures for a given period along with proposals for financing them.

Budget Year: Budget year for State of Hawaii government, including Hawaii Health Systems Corporation and component regions of HHSC is from July 1 through June 30.

Operating Budget: An operating budget is the annual budget of an activity stated in terms of Budget Classification Code, functional/subfunctional categories and cost accounts. It contains estimates of the total value of resources required for the performance of the operation including reimbursable work or services for others. It also includes estimates of workload in terms of total work units identified by cost accounts. Operating budget policies and procedures are not part of the Government Budgeting policy.

Accrual Accounting: HHSC budgeting and financial reporting, including annual audited financial statements utilize accrual basis accounting, which is the accounting method whereby income and expense items are recognized as they are earned or incurred, even though they may not have been received or actually paid in cash. The alternative is cash basis accounting. Under the accrual method, companies do have some discretion as to when income and expenses are recognized, but there are rules governing the recognition. In addition, companies are required to make prudent estimates to report revenues, expenses, assets and liabilities. Actual cash results can differ from these accrual estimates.

Cash Flow Budget: A cash flow budget is a plan of the cash inflows and outflows of an enterprise over a certain period of time. A cash flow forecast is a projection of those cash inflows and outflows for a period of time. A typical cash flow budget plans the anticipated cash receipts and disbursements of a business on a month-to-month basis. However, a cash flow budget could plan the cash inflows and outflows on a weekly or daily basis. Because of the uncertainty

involved in the cash flow budget, trying to project too far into the future may prove to be less than worthwhile. At the same time, a cash flow budget that doesn't look far enough into the future will not predict future events early enough for you to take corrective action in your cash flow. The primary purpose of using a cash flow budget is to plan for the use of credit or other capital resources during periods when the enterprise must pay out more cash than it takes in. This identifies the cash resources necessary to sustain the enterprise during periods of operating losses, expansion or heavy capital investment.. The cash flow budget plans for cash flow gaps — periods when cash outflows exceed cash inflows when combined with your cash reserves. The cash flow budget identifies the actions management will take to ensure that the gaps are closed, or at least narrowed, when they are predicted by the cash flow forecast. Cash flow budgeting is necessary to develop general fund subsidy requirements for facilities and regions for submission through HHSC to the administration and the legislature as part of biennium and supplemental budget requests.

Budget Proviso: A proviso is a clause in a document making a qualification, condition, or restriction. In the Hawaii state budget passed each, provisos may be included that specify conditions or restrictions for expenditures of funds appropriated. For instance, a budget proviso could require HHSC to spend a specified dollar amount of general funds subsidy at a specific facility for a specific purpose, even though that amount and purpose may not have been included in the budget approved and submitted by the region.

- III. POLICY & GUIDELINES:** A final round of budgeting will be required prior to the start of each fiscal year to finalize details of working operating budgets, capital budgets and cash flow budgets for the fiscal year. It is possible that general funds appropriated will be less than the minimum amounts specified in regional budget submissions, creating a funding shortfall for the forthcoming fiscal year that will begin on the first day of July. In years in which regions are unable to come to agreement on distribution of general funds, the HHSC President & CEO will determine how general funds will be distributed.
- A. Budgeting Systems & Timelines.** The HHSC Corporate Board of Directors annually will issue timeline for iterative submissions of regional and facility budgets through corporate management to the HHSC Corporate Board of Directors for consolidation as the system-wide operating and cash flow budgets.
 - B. Budgeting System & Reporting.** In coordination with Regional executives and Regional Systems Boards, the HHSC Corporate Board of Directors may require a budgeting information system for development of common budget formats and terminology to facilitate consolidation of regional budgets.
 - C. Regional Budgeting.** Regional Systems Boards of Directors are authorized to issue regional timelines and issue regional policies on operating and cash flow budgets.
 - D. Corporate Office Budget.** Based on input from the **Biennium Budget Management Committee**, the FISAC will provide guidance to HHSC senior management and regional leaders on the process to develop required support levels at the HHSC corporate office. The Regional System leaders and HHSC Senior Management will determine recommended levels of corporate office support for the biennium budget that will, subsequently, be incorporated into final system-wide operating and cash flow budgets.
 - E. General Funds Allocation.** It is possible that general funds appropriated will be less than the minimum amounts specified in regional budget submissions, creating a funding shortfall for the forthcoming fiscal year that will begin on the first day of the next month of July. In years in which regions are unable to come to agreement on distribution of general funds, the HHSC President & CEO will determine how general funds will be

distributed. Debt commitments to pay for construction which encumber the real assets of HHSC shall be given priority in the methodology.

F. Shortfalls in General Funds. If amount of general funds subsidy appropriated is less than required to cover projected cash flow shortfalls, emergency funding from the administration or from submission of an emergency appropriation, or both, will be required during the fiscal year, or other source of cash will be required in order for final operating and capital and cash flow budgets to be effective.

IV. APPLICABILITY: This policy shall apply to all HHSC regions and facilities and HHSC Corporate staff.

V. REFERENCE: HRS Chapter 323F

VI. EFFECTIVE DATE: This policy will become effective with the preparation of operating and cash flow budgets for fiscal year 2010 (July 1, 2009 through June 30, 2010).