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Acting State Auditor
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Constitutional Mandate

The Office of the Auditor, pursuant to Article VII, Section 10 of the Hawai'i State Constitution, is required to conduct post-audits of the transactions, accounts, program and performance of departments, offices and agencies of the State and its political subdivisions, and to certify to the accuracy of all financial statements issued by the respective accounting officers.

Financial Audit of the Hawai'i Employer-Union Health Benefits Trust Fund

Financial Statements, Fiscal Year Ended June 30, 2012

The primary purpose of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Employer-Union Health Benefits Trust Fund as of and for the fiscal year ended June 30, 2012. The audit was conducted by Macias, Gini & O'Connell LLP (MGO).

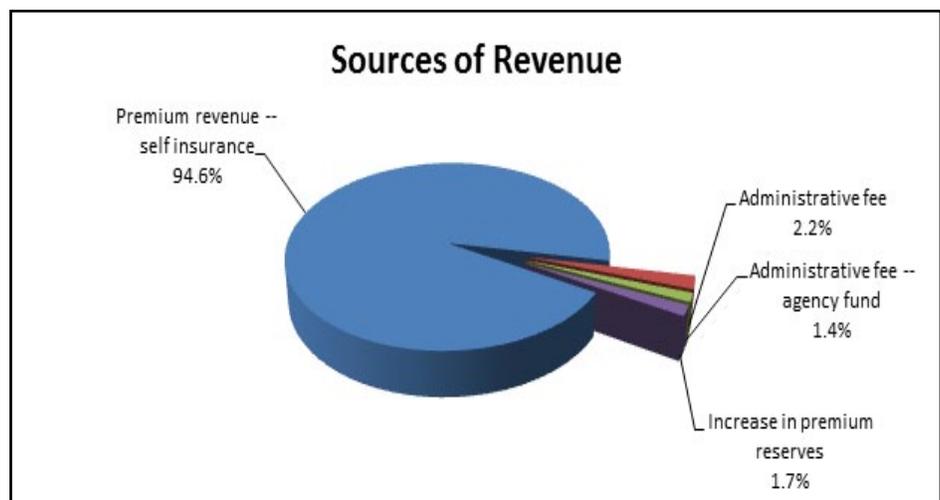
About the Trust Fund

The Employer-Union Health Benefits Trust Fund (EUTF) is a state agency that provides eligible State of Hawai'i and County (Honolulu, Hawai'i, Kaua'i and Maui) employees and retirees and their eligible dependent with health and life insurance benefits at a cost affordable to both the public employers and participants. The EUTF is administered by a Board of Trustees, which is composed of ten trustees appointed by the governor. The trust fund currently provides medical, prescription drug, dental, vision, chiropractic, dual-coverage medical and prescription and group life insurance benefits.

Financial Highlights

The trust fund has two types of funds: an enterprise fund and an agency fund. The enterprise fund is used to account for the assets, liabilities, revenues, expenses and net assets for active employee healthcare benefits. The agency fund is used to account for the assets and liabilities for retiree healthcare benefits.

Enterprise Fund For the year ended June 30, 2012, operating revenues totaled \$161 million while operating expenses totaled \$157.2 million, resulting in operating income of \$3.8 million. Moreover, the enterprise fund reported \$6.2 million in nonoperating revenues. Operating and non-operating revenues combined for a \$10 million increase in net assets.



Enterprise fund operating expenses included \$150.5 million related to claims. The fund also reported \$4.7 million for administrative operating expenses, \$1 million for depreciation, and \$1 million for loss on carrier payment methodology.



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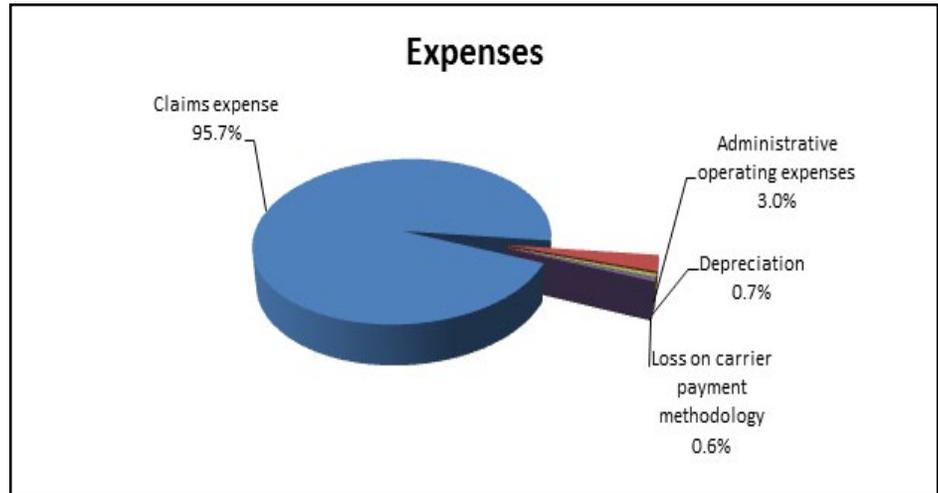
Auditors' Opinion

Financial Statements: **Unmodified opinion** +

Issues of Concern

Material Weaknesses
0
Significant Deficiencies
1

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Agency Fund. As of June 30, 2012, the EUTF's agency fund held \$378 million in assets, which included nearly \$330 million in cash and investments. Other agency fund assets included \$36 million in receivables and \$12 million in deposits with insurance carriers. Agency fund liabilities also totaled \$378 million, of which \$352.8 million was held on behalf of employers for retiree benefits. Other agency fund liabilities included \$20.6 million in premiums payable, \$4.6 million in benefit claims payable, and \$0.2 million in amounts due to others.

Auditors' Opinion

The EUTF received an unmodified opinion that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Findings

MGO did not identify any deficiencies in internal control that were considered to be material weaknesses. However, MGO reported one significant deficiency, which had been reported in the prior year but has not yet been resolved:

- The trust fund has not completed a comprehensive risk assessment analysis, including conducting monitoring procedures and documenting risk assessments and internal control policies over significant transaction cycles.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2012_Audit/EUTF2012.pdf