KDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

Financial Statements and Supplemental Information
(With Independent Auditors' Report)

June 30, 2014 and 2013

Submitted by

THE AUDITOR
STATE OF HAWAII

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Financial Statements and Supplemental Information

June 30, 2014 and 2013

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INTRODUCTION SECTION

CERTIFIED PUBLIC ACCOUNTANTS

December 24, 2014

The Auditor
State of Hawaii

Board of Trustees
Hawaii Employer-Union Health Benefits Trust Fund
of the State of Hawaii

We have completed our audit of the financial statements of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the EUTF), as of and for the year ended June 30, 2014, as listed in the table of contents. We transmit herewith our reports containing our opinions on those financial statements and our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Audit Objectives

The objectives of the audit were as follows:

1. To provide opinions on the fair presentation of the EUTF's financial statements in accordance with accounting principles generally accepted in the United States of America.

2. To consider the EUTF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements.

3. To perform tests of the EUTF's compliance with laws, regulations, contracts, and grants that may have a direct and material effect on the determination of financial statement amounts.

Scope of Audit

We performed an audit of the EUTF's financial statements as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, as adopted by the American Institute of Certified Public Accountants, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of the audit of the EUTF's financial statements, we performed tests of the EUTF's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also considered the EUTF's system of internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements.

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Organization of Report

This report has been organized into three parts as follows:

1. The Introduction Section describes briefly the objectives and scope of our audit and the organization and contents of this report.

2. The Financial Section includes management's discussion and analysis, and the EUTF's financial statements and the related notes, required supplementary information, and other supplementary information as of and for the years ended June 30, 2014 and 2013, and our independent auditors' report thereon.

3. The Internal Control and Compliance Section contains our independent auditors' report on the EUTF's internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

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We would like to take this opportunity to express our appreciation for the courtesy and assistance extended to us by the personnel of the EUTF during the course of our audit. Should you wish to discuss any of the matters contained herein, we will be pleased to meet with you at your convenience.

Very truly yours,

KKDLY LLC

PART II

FINANCIAL SECTION

Independent Auditors' Report

The Auditor
State of Hawaii

Board of Trustees
Hawaii Employer-Union Health Benefits Trust Fund
of the State of Hawaii

Report on the Financial Statements

We have audited the accompanying statements of net position for the enterprise fund and fiduciary net position for the agency fund of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the Trust Fund) and the statement of net position of the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the OPEB Trust), collectively referred to as the EUTF, as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the enterprise fund, as well as the statement of changes in net position for the OPEB Trust for the year then ended, and the related notes to the financial statements, which collectively comprise the EUTF's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and agency fund of the Trust Fund, as well as the financial position of the OPEB Trust, collectively referred to as the EUTF, as of June 30, 2014, and the respective changes in financial position, and where applicable, the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of the EUTF are intended to present the respective financial position, and the changes in financial position, and where applicable, the cash flows of the State of Hawaii that is attributable to the transactions of the EUTF. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2014, and the changes in its financial position, and where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 to 18, the schedule of funding progress and employer contributions on page 62 and the seven-year loss development information on pages 63 to 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise EUTF's basic financial statements as of and for the year ended June 30, 2014. The schedule of administrative operating expenses – enterprise fund and the schedule of changes in fiduciary net position – agency fund (supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 2014 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as of and for the year ended June 30, 2014 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Prior Period Financial Statements

The financial statements of EUTF as of and for the year ended June 30, 2013, were audited by other auditors whose report dated December 9, 2013, included an emphasis of matter paragraph that stated the financial statements of the EUTF are intended to present only activities of the State of Hawaii that is attributable to the transactions of the EUTF as discussed in Note 1, and expressed unmodified opinions on those financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2014, on our consideration of the EUTF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the EUTF's internal control over financial reporting and compliance.

KKDLY LLC

Honolulu, Hawaii
December 24, 2014

This section of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the EUTF) financial report presents the reader with an introduction and overview of the EUTF's financial performance for the fiscal years ended June 30, 2014 and 2013. This discussion has been prepared by management and should be read in connection with the financial statements and the notes thereto, which follow this section.

The EUTF is the state agency that provides eligible State of Hawaii (the State) and county (Honolulu, Hawaii, Maui, and Kauai) employees and retirees and their eligible dependents with health and life insurance benefits at a cost affordable to both the public employers and participants beginning July 1, 2003.

During 2007, the EUTF adopted Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (GASBS 43). GASBS 43 establishes accounting and financial reporting standards for plans that provide other post employment benefits (OPEB) other than pensions. GASBS 43 requires a statement of plan net position and a statement of changes in plan net position for defined benefit OPEB plans that are administered as trusts or equivalent arrangements. However, if an OPEB plan is not administered as a trust or equivalent arrangement, it is required to be reported as an agency fund.

Act 304, Session Laws of Hawaii (SLH) 2012 was signed into law on July 9, 2012 which authorized the EUTF Board of Trustees (the Board) to create and administer a separate trust fund for the purpose of receiving employer contributions that will prefund OPEB costs for retirees and their beneficiaries. The Board approved the Plan and Trust Agreement creating the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the OPEB Trust) effective June 30, 2013. Effective fiscal year 2013, the OPEB Trust met the criteria of a trust fund. Pre-funding contributions made by employers are considered contributions to the OPEB Trust. On June 30, 2013, the counties' pre-funded contributions and any interest earned or expenses incurred were transferred from the agency fund to the OPEB Trust. The OPEB Trust financial statements are included as a part of the basic financial statements of the EUTF. Previously, the pre-funding component of OPEB did not meet the criteria of a trust fund under GASBS 43, and as such, in fiscal years 2008 through 2012, the pre-funding component of OPEB was reported as an agency fund.

Further, the reporting of active employee healthcare benefits, OPEB retiree healthcare benefits (including their respective beneficiaries), and OPEB pre-funding of retiree healthcare benefits should be separate for accounting purposes. Accordingly, the EUTF reports the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, (GASBS 10), as amended, the OPEB retiree healthcare benefits in conformity with GASBS 43, and OPEB pre-funding of retiree healthcare benefits, which meets the requirements of a qualifying trust, under GASBS 43.

The EUTF has entered into multi-year health benefit contracts with carriers and third party administrators (TPA). The active employee and retiree contracts with carriers started on January 1, 2012 and will end on June 30, 2015 and December 31, 2014, respectively. The prescription drug contracts with the TPA started on the following: 1) May 1, 2012 and will end on June 30, 2015 for active employees, 2) May 1, 2012 and will end on December 31, 2014 for non-Medicare retirees, and 3) July 1, 2012 and will end on December 31, 2014 for Medicare retirees.

The following plans are fully-insured with one-way risk sharing (rates are experience rated and are set by the carrier; surpluses [premiums exceed claims, administrative fees, and retention charged by the insurance carrier] are retained by the EUTF and the carrier is responsible for any shortfalls [claims, administrative fees, and retention exceed premiums], and risk is retained by the carrier): All Hawaii Medical Service Association (HMSA) medical plans; Hawaii Dental Service (HDS) dental plans; Vision Service Plan (VSP) vision plans; and Royal State National Insurance Company (RSN) supplemental medical and prescription drug plan.

The following plans are fully-insured (rates are experience rated and are set by the carrier, surpluses and shortfalls are retained by the carrier, and risk is retained by the carrier): Kaiser medical and prescription drug plans; RSN chiropractic plans; and RSN life insurance plans.

The CVS Health and Silverscript prescription drug plans are self-insured (rates are experience rated and set by the Board, administrative fees and actual claims are paid to the TPA, surplus and shortfalls are retained by EUTF and risk is retained by EUTF).

Effective April 1, 2013, the EUTF added a supplemental drug plan for its Medicare Part D retirees. The new supplemental plan enhanced the existing Medicare drug plan by expanding access to certain drugs, as well as reducing co-pays for some drugs and providing coverage above and beyond what Medicare covers.

Effective July 1, 2013, the Board approved a new 75/25 preferred provider organization (PPO) plan administered by HMSA, replacing the high deductible plan, and approved a new health maintenance organization (HMO) Kaiser Standard plan, replacing the HMO Kaiser Basic plan.

The Federal Affordable Care Act (ACA) became effective July 1, 2011 for the EUTF's active employee medical and prescription drug plans. The following are the changes to the EUTF's active employee plans due to ACA: 1) The plan lost its grandfather status due to the increase in the employees' share of premiums; 2) The definition of dependent child was expanded to age 26 and requirements that the child be unmarried and a full time student were dropped (additional dependents were enrolled as a result); 3) All active employee plans included coverage for women's preventive services in line with the guidelines developed by the Institute of Medicine and supported by the Health Resources and Services Administration (the HRSA), including providing services without a copayment, cost share or deductible when rendered by a participating provider; 4) The dual coverage supplemental plans offered by the EUTF to the Hawaii State Teachers Association (the HSTA) voluntary employees beneficiary association (the VEBA) increased the annual dollar maximum from $750,000 to $1,250,000 effective July 1, 2012; 5) The imposition of ACA fees (i.e., PCORI – Patient-Centered Outcomes Research Institute, insurer and reinsurer fees); and 6) Effective July 1, 2014 elimination of the HMSA supplemental plans and the bundling of the HMSA medical and CVS Health prescription drug plans.

Act 245, SLH 2005 (partially codified as Chapter 87D, Hawaii Revised Statutes (HRS)), temporarily authorized employee organizations to establish VEBA trusts to provide health benefits to state and county employees in their bargaining units outside of the EUTF. It established a three-year pilot program to allow for the analysis of the costs and benefits of a VEBA trust against those of the EUTF. Effective March 1, 2006, the HSTA implemented the three-year pilot program. As a result, all active HSTA employees were enrolled in the VEBA trust and subsequently cancelled from the EUTF's health benefit plans. Act 245's sunset dates were amended three times: July 1, 2009, July 1, 2010, and December 31, 2010.

In addition, Chapter 87D, HRS, which authorized the establishment of the VEBA, also included the option for HSTA retirees to make a one-time choice to either remain with the EUTF or transfer to the HSTA VEBA benefit plans. The option period was from October through November 2006. As a result, approximately 1,400 HSTA retirees transferred to the HSTA VEBA. HSTA employees that retired on or after March 1, 2006 were required to be enrolled with the HSTA VEBA.

As a result of Act 245 sunsetting on December 31, 2010, effective January 1, 2011, approximately, 12,500 HSTA VEBA active employees and 2,500 retirees were transferred to the EUTF. In December 2010, Judge Sakamoto (Kona, et al v Abercrombie, Civil No. 10-1-1966-09 KKS) ruled that HSTA VEBA members (actives and retirees) were entitled to the same standard of coverage in benefits when they were transitioned to the EUTF on January 1, 2011. The enrollment of HSTA VEBA members into the newly created health and other benefit plans was done by the EUTF solely to comply with Judge Sakamoto's ruling and does not create any constitutional or contractual right to the benefits by these plans. The State does not agree with Judge Sakamoto's ruling. If Judge Sakamoto's ruling is overturned, stayed, or modified, the EUTF reserves the right to move HSTA VEBA members into regular EUTF plans. See further discussion in Note 9 to the financial statements.

Overview of the Financial Statements

The financial statements of the EUTF include the following statements:

- Enterprise Fund - Active Employee Healthcare Benefits
    - Statements of net position - These statements summarize the assets, liabilities, and net position of this enterprise fund.
    - Statements of revenue, expenses, and changes in net position – These statements summarize the financial results of the operations for the year.
    - Statements of cash flows – These statements identify the sources and uses of cash.

- Other Post-Employment Benefits
  - Agency Fund – OPEB Retiree Healthcare Benefits (pay-as-you-go)
    - Statements of fiduciary net position - These statements summarize the assets and liabilities of this agency fund.
  - OPEB Trust – OPEB Pre-Funding of Retiree Healthcare Benefits
    - Statements of net position - This statement summarizes the assets, liabilities, and net position of this fiduciary fund.
    - Statements of changes in net position – This statement summarizes the financial results of the operations for the year.

Financial Highlights

For the fiscal years ended June 30, 2014 and 2013, the EUTF collected the following contributions and administrative fees:

	2014	2013
Employer contributions (Enterprise and Agency)	$ 683,614,697	$ 636,047,598
Employee contributions (Enterprise and Agency)	221,907,945	233,273,179
Administrative fees	4,677,024	5,820,909

For the fiscal years ended June 30, 2014 and 2013, the EUTF paid the following:

	2014	2013
Carrier payments - fully insured plans	$ 684,359,535	$ 647,821,800
Carrier payments - self funded plans	157,282,872	164,745,552
Medicare Part B reimbursements	59,030,933	55,150,160
Administrative operating expenses	5,107,288	5,156,681

The administrative operating expenses budgeted for the EUTF totaled $6,452,900 for the year ended June 30, 2014. Actual administrative operating expenses for the enterprise fund totaled $5,107,288 for the year ended June 30, 2014. The expenses included $2,879,263 for personal services, $1,484,134 for contracted services, $318,275 for lease rent, $143,856 for insurance, and $281,760 for other expenses such as postage, office supplies, open enrollment, travel, telephone, and repairs and maintenance.

The administrative operating expenses budgeted for the EUTF totaled $5,334,600 for the year ended June 30, 2013. Actual administrative operating expenses for the enterprise fund totaled $5,156,681 for the year ended June 30, 2013. The expenses included $2,741,393 for personnel services, $1,726,160 for contracted services, $324,955 for lease rent, $91,490 for insurance, and $272,683 for other expenses such as open enrollment, office supplies, telephone, travel, repairs and maintenance, copier rental and postage.

The presentation of the operations of the self-insured plans for active employees reported in the enterprise fund shows the aggregate amount of premium revenues recognized as operating revenues and related benefit claims expense incurred as operating expenses. This presentation is in accordance with the financial reporting criteria of GASBS 10, where the risk of loss for these self-insured plans transfers from the employers to the EUTF, thus the activity should be reported in aggregate in the statements of revenues, expenses, and changes in net position.

Financial Analysis

Enterprise Fund

A summary of the EUTF's net position for active employees is shown below as of June 30, 2014 and 2013:

	2014	2013	Change	% Change
Assets:				
Current assets	$96,499,003	$88,813,216	$ 7,685,787	8.7%
Capital assets	3,435,439	4,806,574	(1,371,135)	-28.5%
Total assets	99,934,442	93,619,790	6,314,652	6.7%
Liabilities:				
Current liabilities	46,717,190	40,503,589	6,213,601	15.3%
Noncurrent liabilities	2,089,085	1,680,703	408,382	24.3%
Total liabilities	48,806,275	42,184,292	6,621,983	15.7%
Net Position:				
Net investment in capital assets	3,435,439	4,806,574	(1,371,135)	-28.5%
Unrestricted	47,692,728	46,628,924	1,063,804	2.3%
Total net position	$51,128,167	$51,435,498	$ (307,331)	-0.6%

The enterprise fund's total assets and total liabilities increased by $6.3 million or 6.7% and $6.6 million or 15.7%, respectively, during the fiscal year ended June 30, 2014. The increases are primarily attributable to increases of $4.5 million and $4.3 million in premiums receivable from employers and premiums payable, respectively, which are due to increases in premium rates for the health benefit plans.

The total net position decreased by $307,000, or 0.6%, for the fiscal year ended June 30, 2014. This is primarily attributable to fluctuations in operating revenues and operating expenses as described in the summary of changes in net position for the year ended June 30, 2014.

A summary of the EUTF's net position for active employees is shown below as of June 30, 2013 and 2012:

	2013	2012	Change	% Change
Assets:				
Current assets	$ 88,813,216	$ 51,632,927	$ 37,180,289	72.0%
Capital assets	4,806,574	6,182,012	(1,375,438)	-22.2%
Total assets	93,619,790	57,814,939	35,804,851	61.9%
Liabilities:				
Current liabilities	40,503,589	48,587,874	(8,084,285)	-16.6%
Noncurrent liabilities	1,680,703	1,241,014	439,689	35.4%
Total liabilities	42,184,292	49,828,888	(7,644,596)	-15.3%
Net Position:				
Invested in capital assets	4,806,574	6,182,012	(1,375,438)	-22.2%
Unrestricted	46,628,924	1,804,039	44,824,885	2,484.7%
Total net position	$ 51,435,498	$ 7,986,051	$ 43,449,447	544.1%

The enterprise fund's total assets increased by $35.8 million, or 61.9%, during the fiscal year ended June 30, 2013. The increase is primarily attributable to an increase in experience refunds due from insurance carriers in the amount of $36.4 million. The EUTF recorded experience refunds from its fully-insured with one-way risk sharing health benefit plans.

The enterprise fund's total liabilities decreased by $7.6 million, or 15.3%, during the fiscal year ended June 30, 2013. The decrease was primarily attributable to a $4.8 million decrease in the benefit claims payable for the medical self-insured plans. Effective January 1, 2012, the prescription drug plan was the only plan with a self-insured arrangement. In addition, there was a $2.6 million decrease in the retrospective premiums payable as the EUTF did not currently have any plans with a retrospective premium arrangement.

The total net position increased by $43.4 million, or 544.1%, for the fiscal year ended June 30, 2013. This is primarily attributable to an increase in experience refunds from its fully-insured with one-way risk sharing health benefit plans and the finalization of premium reserves received from the insurance carriers.

A summary of changes in net position for the years ended June 30, 2014 and 2013, for active employees follows:

	2014	2013	Change	% Change
Revenues:				
Operating revenues	$ 77,308,942	$ 96,411,407	$(19,102,465)	-19.8%
Nonoperating revenues	266,188	409,407	(143,219)	-35.0%
Total revenues	77,575,130	96,820,814	(19,245,684)	-19.9%
Operating expenses	77,882,461	53,371,367	24,511,094	45.9%
Increase (decrease) in net position	(307,331)	43,449,447	(43,756,778)	-100.7%
Net position beginning of year	51,435,498	7,986,051	43,449,447	544.1%
Total net position at end of year	$ 51,128,167	$ 51,435,498	$ (307,331)	-0.6%

The enterprise fund's total revenues decreased by $19.2 million, or 19.9%, for the fiscal year ended June 30, 2014. The enterprise fund's experience refunds were $25 million less than the previous year due to more precise estimates of premiums charged under fully-insured with one-way risk sharing health benefit plans. This was offset by a $6.7 million increase in premium revenues for self-insured plans primarily due to premium rate increases for the active employee (effective July 1, 2013) and retiree (effective January 1, 2014) prescription drug plans. Administrative fees – agency fund decreased by $1.2 million since administrative fees were waived effective January 1, 2014 for retirees.

The enterprise fund's operating expenses increased by $24.5 million, or 45.9%, for the fiscal year ended June 30, 2014. There was a $17.1 million or 32.9% increase in claims expenses and a $5.2 million or 9.7% increase in the IBNR claims for the self-insured prescription drug plans primarily due to the impact of Act 226, SLH 2013, that among other things prohibited mandatory mail order and increased specialty drug costs. The EUTF implemented Act 226, SLH 2013, on October 1, 2013 for active employees and January 1, 2014 for retirees. For the year ended June 30, 2014, the EUTF's prescription drug plan TPA estimated the additional claims expense due to Act 226, SLH 2013 to be $6.1 million.

A summary of changes in net position for the years ended June 30, 2013 and 2012, for active employees follows:

	2013	2012	Change	% Change
Revenues:				
Operating revenues	$ 96,411,407	$ 161,062,458	$ (64,651,051)	-40.1%
Nonoperating revenues	409,407	6,245,227	(5,835,820)	-93.4%
Total revenues	96,820,814	167,307,685	(70,486,871)	-42.1%
Operating expenses	53,371,367	157,245,533	(103,874,166)	-66.1%
Increase in net position	43,449,447	10,062,152	33,387,295	331.8%
Net position beginning of year	7,986,051	(2,076,101)	10,062,152	-484.7%
Total net position at end of year	$ 51,435,498	$ 7,986,051	$ 43,449,447	544.1%

The enterprise fund's total revenues decreased by $70.5 million, or 42.1%, for the fiscal year ended June 30, 2013. The enterprise fund's operating revenues decreased by $101.6 million in premium revenue for self-insured plans. This was offset by increase in experience refunds of $36.8 million due to surpluses from fully-insured with one-way risk sharing health benefit plans. The enterprise fund's nonoperating revenues decreased by a total of $5.8 million due to a $220,000 favorable change in the fair value of its investments in the State pool, and the remaining $5.9 million difference is because there were no transfers from the agency fund to the enterprise fund in the current year.

The enterprise fund's operating expenses decreased by $103.9 million, or 66.1%, for the fiscal year ended June 30, 2013. There was $115.2 million decrease in claims expenses for the self-insured plans. The IBNR claims decreased by $11.6 million.

The decreases in premium revenue for self-insured and claims expenses for self-insured plans is attributable to the termination of the self-insured medical plans effective December 31, 2011. Therefore, the prescription drug plans are the only self-insured plans to date.

The enterprise fund's total net position increased by $43.4 million, or 544.1%, for the fiscal year ended June 30, 2013. This is primarily attributable to increase in experience refunds which includes the experience gains held by insurance carriers and the finalization of premium reserves received from the insurance carriers.

Agency Fund

A summary of the EUTF's plan assets and liabilities for retirees is shown below as of June 30, 2014 and 2013:

	2014	2013	Change	% Change
Assets:				
Cash and cash equivalents	$ 117,689,076	$127,428,900	$ (9,739,824)	-7.6%
Investments	28,410,349	-	28,410,349	100.0%
Receivables	65,449,546	49,990,690	15,458,856	30.9%
Deposits	8,165,204	8,169,064	(3,860)	0.0%
Total assets	$ 219,714,175	$185,588,654	$ 34,125,521	18.4%
Liabilities:				
Premiums payable	$ 19,479,014	$ 18,521,714	$ 957,300	5.2%
Benefit claims payable	8,902,229	7,674,651	1,227,578	16.0%
Amounts held on behalf of employers for benefits	191,191,254	159,339,471	31,851,783	20.0%
Other	141,678	52,818	88,860	168.2%
Total liabilities	$ 219,714,175	$185,588,654	$ 34,125,521	18.4%

The agency fund's total assets and total liabilities increased by $34.1 million or 18.4%. The increase is primarily due to increase in prescription drug rebates receivable of $15.1 million and increase in cash and cash equivalents and investments of $18.7 million.

A summary of the EUTF's plan assets and liabilities for retirees is shown below as of June 30, 2013 and 2012:

	2013	2012	Change	% Change
Assets				
Cash and cash equivalents	$ 127,428,900	$ 93,022,037	$ 34,406,863	37.0%
Cash and investments held by fiscal custodian	-	236,947,610	(236,947,610)	-100.0%
Receivables	49,990,690	36,388,825	13,601,865	37.4%
Deposits	8,169,064	11,990,076	(3,821,012)	-31.9%
Total assets	$ 185,588,654	$ 378,348,548	$ (192,759,894)	-50.9%
Liabilities				
Premiums payable	$ 18,521,714	$ 17,717,627	$ 804,087	4.5%
Benefit claims payable	7,674,651	4,651,669	3,022,982	65.0%
Amounts held on behalf of employers for benefits	159,339,471	352,789,782	(193,450,311)	-54.8%
Other	52,818	3,189,470	(3,136,652)	-98.3%
Total liabilities	$ 185,588,654	$ 378,348,548	$ (192,759,894)	-50.9%

The agency fund's total assets decreased by $192.8 million, or 50.9%, for the fiscal year ended June 30, 2013. The agency fund's cash and cash equivalents increase of $34.4 million was mainly attributable to the net experience gain of self-insured prescription drug plan for Medicare retirees in the amount of $31.0 million. Cash and investments held by fiscal custodian in the amount of $314.8 million was transferred to the OPEB Trust at the end of fiscal year 2013. The agency fund's receivables increase of $13.6 million was attributable to the recording of an increase in experience refunds from fully-insured with one-way risk sharing health benefit plans and the finalization of medical self-insured plans. Deposits decreased by $3.8 million due to the termination of the medical self-insured plans and the InformedRx prescription drug plans.

The agency fund's total liabilities decreased by $192.8 million, or 50.9%, for the fiscal year ended June 30, 2013. The agency fund's premiums payable increase of $804,000 and the agency fund's benefit claims payable increase of approximately $3.0 million were primarily attributable to the increase in counts in enrollment and prescription drug claims cost. The decrease in the amounts held on behalf of employers for benefits of approximately $193.5 million was attributable to the transferring of the OPEB pre-funding contributions by various employers to the OPEB Trust in the amount of $314.8 million, experience net gain in the retiree prescription drug plans of $31.0 million, and the increase in experience refunds from the retiree health benefit plans in the amount of $10.0 million. The decrease of $3.1 million in other liabilities was attributable to the $2.9 million decrease in the retrospective premiums payable as the EUTF does not currently have any plans with a retrospective premium arrangement.

OPEB Trust

A summary of the EUTF's plan assets and liabilities for OPEB retirees is shown below as of June 30, 2014 and 2013:

	2014	**2013**	**Change**	**% Change**
Assets:				
Cash and cash equivalents	$ 246,225,161	$ 5,556,912	$ 240,668,249	4,331.0%
Investments	379,859,940	309,220,839	70,639,101	22.8%
Total assets	626,085,101	314,777,751	311,307,350	98.9%
Liabilities:				
Investment fees payable	17,086	14,175	2,911	20.5%
Net Position:				
Restricted for other postemployment benefits	$ 626,068,015	$ 314,763,576	$ 311,304,439	98.9%

Changes in the net position of the OPEB Trust for the fiscal year ended June 30, 2014 are summarized in the summary of changes in net position.

A summary of changes in net position for the years ended June 30, 2014 and 2013, for OPEB retirees follows:

	2014	2013	Change	% Change
Additions:				
Employer contributions	$262,625,686	$ -	$262,625,686	100.0%
Investment earnings, net	48,678,753	-	48,678,753	100.0%
Transfer of employer pre-funding contributions and related net investments earnings from agency fund	-	314,763,576	(314,763,576)	(100.0%)
Change in net position	311,304,439	314,763,576	(3,459,137)	(1.0%)
Net position beginning of year	314,763,576	-	314,763,576	100.0%
Net position ending of year	$626,068,015	$314,763,576	$311,304,439	98.9%

During the fiscal year ended June 30, 2014, the net position of the OPEB Trust increased by $311.3 million or 98.9%. The OPEB Trust received $262.6 million of employer pre-funding contributions. In addition, investment earnings, net of investment expenses, amounted to $48.7 million.

During the fiscal year ended June 30, 2013, the EUTF transferred $314.8 million of employer pre-funding contributions and related net investment earnings from the agency fund to the OPEB Trust.

Capital Assets

The EUTF's capital assets consist of office furniture and equipment and computer equipment and software.

The aggregate net capital assets was $3,435,439 as of June 30, 2014. Depreciation expense totaled $1,371,135 for the year ended June 30, 2014. There were no additions or disposals of capital assets during fiscal year 2014.

The aggregate net capital assets was $4,806,574 as of June 30, 2013. Depreciation expense totaled $1,375,438 for the year ended June 30, 2013. There were no additions or disposals of capital assets during fiscal year 2013.

Economic Factors Affecting Next Fiscal Year

Factors Affecting Fiscal Year 2015

Active employees' health benefit contracts were extended for one year commencing on July 1, 2014 through June 30, 2015. New health benefit premium rates and collective bargaining agreements became effective July 1, 2014. Effective July 1, 2014, the HMSA supplemental plans have been eliminated to comply with the Affordable Care Act.

New retiree health benefit contracts will be implemented effective January 1, 2015 through December 31, 2015.

Request for Information

This financial report is designed to provide the Board of Trustees, the State Auditor, and our membership, with a general overview of the EUTF's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, Hawaii 96805-2121

Respectfully Submitted,

Sandra Yahiro
Administrator

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statements of Net Position - Enterprise Fund

June 30, 2014 and 2013

Assets	**2014**	**2013**
Current assets:		
Cash and cash equivalents	$ 30,179,932	$ 12,669,096
Investments	6,791,881	-
Receivables:		
Premiums receivable from State of Hawaii and counties	33,446,488	28,942,191
Experience refunds due from insurance companies	15,801,709	38,975,544
Rebates receivable	4,780,740	2,738,476
Accrued interest receivable	-	43,801
Other receivables	97,183	89,032
Prepaid expenses	443,070	344,179
Deposits	4,958,000	5,010,897
Total current assets	96,499,003	88,813,216
Capital assets, net of accumulated depreciation of $6,520,108 in 2014 and $5,148,973 in 2013	3,435,439	4,806,574
Total assets	99,934,442	93,619,790
Liabilities		
Current liabilities:		
Premiums payable	40,089,444	35,770,593
Benefit claims payable	3,949,091	2,665,131
Vouchers and contracts payable	135,251	191,259
Accrued wages and employee benefits payable	223,728	180,526
Due to employees	2,109,952	1,559,765
Due to State of Hawaii	144,264	69,822
Compensated absences, current portion	65,460	66,493
Total current liabilities	46,717,190	40,503,589
Noncurrent liabilities:		
Other postemployment benefits	1,899,503	1,476,003
Compensated absences	189,582	204,700
Total liabilities	48,806,275	42,184,292
Net Position		
Net investment in capital assets	3,435,439	4,806,574
Unrestricted	47,692,728	46,628,924
Total net position	$ 51,128,167	$ 51,435,498

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statements of Revenues, Expenses, and Changes in Net Position - Enterprise Fund

Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Premium revenue - self-insured	$ 57,561,624	$ 50,842,544
Experience refunds	14,515,603	39,540,334
Administrative fees	3,506,052	3,488,720
Administrative fees - agency fund	1,170,972	2,332,189
Other revenue	348,047	-
COBRA revenue	206,644	207,620
Total operating revenues	77,308,942	96,411,407
Operating expenses:		
Claims expense - self insured	69,080,250	51,976,970
Administrative operating expenses	5,107,288	5,156,681
Insurer fee	2,322,379	-
Depreciation	1,371,135	1,375,438
Loss on carrier payment methodology	14,809	20,478
Change in incurred but not reported (IBNR) claims	(13,400)	(5,158,200)
Total operating expenses	77,882,461	53,371,367
Operating income (loss)	(573,519)	43,040,040
Nonoperating revenues:		
Investment income, including write-up of amounts held in State pool of $219,953 in 2013	266,188	409,407
Increase (decrease) in net position	(307,331)	43,449,447
Net position at beginning of year	51,435,498	7,986,051
Net position at end of year	$ 51,128,167	$ 51,435,498

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statements of Cash Flows - Enterprise Fund

Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash paid to vendors	$ (2,382,924)	$ (2,756,588)
Cash paid to employees	(2,428,712)	(2,282,068)
Cash received from State of Hawaii, counties and individuals for premiums and benefits payments	552,131,571	487,681,353
Cash paid for premiums and benefit payments	(527,075,873)	(486,284,879)
Rebates received related to prescription drug plan	3,695,769	4,458,080
Reserves received from insurance carriers	52,897	11,455,783
Net cash provided by operating activities	23,992,728	12,271,681
Cash flows from investing activities:		
Purchase of securities	(6,791,881)	-
Interest received	309,989	397,415
Net cash provided by (used in) investing activities	(6,481,892)	397,415
Net increase in cash and cash equivalents	17,510,836	12,669,096
Cash and cash equivalents at beginning of year	12,669,096	-
Cash and cash equivalents at end of year	$ 30,179,932	$ 12,669,096

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statements of Cash Flows - Enterprise Fund (continued)

Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	$ (573,519)	$ 43,040,040
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,371,135	1,375,438
Decrease (increase) in premiums receivable from State of Hawaii and counties	(4,504,297)	1,297,289
Decrease (increase) in experience refunds due from insurance companies	23,173,835	(36,404,611)
Increase in rebates receivable	(2,042,264)	(1,014,516)
Decrease (increase) in other receivables	(8,151)	267,806
Increase in prepaid expenses	(98,891)	(100,952)
Decrease in deposits	52,897	11,455,783
Increase (decrease) in premiums payable	4,318,851	(590,192)
Increase (decrease) in benefits claims payable	1,283,960	(4,820,801)
Decrease in vouchers and contracts payable	(56,008)	(240,348)
Increase in accrued wages and employee benefits payable	43,202	16,933
Increase in amounts due to employees	550,187	178,497
Increase (decrease) in amounts due to State of Hawaii	74,442	(18,172)
Increase (decrease) in compensated absences	(16,151)	20,662
Increase in other postemployment benefits	423,500	421,730
Decrease in retrospective premiums payable	-	(2,612,905)
Total adjustments	24,566,247	(30,768,359)
Net cash provided by operating activities	$ 23,992,728	$ 12,271,681

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statements of Fiduciary Net Position - Agency Fund

June 30, 2014 and 2013

Assets	**2014**	**2013**
Cash and cash equivalents	$ 117,689,076	$ 127,428,900
Investments	28,410,349	-
Receivables:		
Premium receivable from State of Hawaii and counties	31,503,215	32,599,082
Rebates receivable	22,881,563	7,808,883
Experience refunds due from insurance companies	10,616,716	9,185,095
Other receivables	263,079	167,160
Medicare reimbursements from individuals, net of allowance of $804,343 in 2014 and $747,137 in 2013	138,890	201,269
Accrued interest receivable	46,083	29,201
Total receivables	65,449,546	49,990,690
Deposits	8,165,204	8,169,064
Total assets	$ 219,714,175	$ 185,588,654
Liabilities		
Premiums payable	$ 19,479,014	$ 18,521,714
Benefit claims payable	8,902,229	7,674,651
Due to retirees	21,313	25,980
Due to State of Hawaii	60	60
Other payables	120,305	26,778
Amounts held on behalf of employers for benefits	191,191,254	159,339,471
Total liabilities	$ 219,714,175	$ 185,588,654

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Hawaii Employer-Union Health Benefits Trust Fund
for Other Post-Employment Benefits

Statements of Net Position

June 30, 2014 and 2013

	2014	2013
Assets:		
Cash and cash equivalents	$ 246,225,161	$ 5,556,912
Investments	379,859,940	309,220,839
Total assets	626,085,101	314,777,751
Liabilities:		
Investment fees payable	17,086	14,175
Net position - restricted for other postemployment benefits	$ 626,068,015	$ 314,763,576

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Hawaii Employer-Union Health Benefits Trust Fund
for Other Post-Employment Benefits

Statements of Changes in Net Position

Years Ended June 30, 2014 and 2013

	2014	2013
Additions:		
Employer contributions	$ 262,625,686	$ -
Investment earnings:		
Net increase in the fair value of investments	40,016,078	-
Interest	8,985,653	-
	49,001,731	-
Less: investment expenses	322,978	-
Investment earnings, net	48,678,753	-
Transfer of employer pre-funding contributions and related net investment earnings from agency fund	-	314,763,576
Change in net position	311,304,439	314,763,576
Net position - beginning	314,763,576	-
Net position - ending	$ 626,068,015	$ 314,763,576

See accompanying notes to financial statements.

(1) Financial Reporting Entity

Chapter 87A, Hawaii Revised Statutes (HRS) established the Hawaii Employer-Union Health Benefits Trust Fund (the Trust Fund). The Trust Fund was established to design, provide, and administer health and other benefit plans for the State of Hawaii (the State) and the Counties of Honolulu, Hawaii, Maui, and Kauai employees, retirees and their eligible dependents beginning July 1, 2003. Chapter 87, HRS that established the Hawaii Public Employees Health Fund (the Health Fund) was repealed and the net assets of the Health Fund were transferred to the Trust Fund.

Act 245, Session Laws of Hawaii (SLH) 2005, established a voluntary employees' beneficiary association (the VEBA) trust pilot program for the administration of the healthcare benefits for active employees and retirees, which the Hawaii State Teachers Association (the HSTA) implemented in March 2006. The program sunset date was December 31, 2010, and the VEBA trust was terminated. Effective January 1, 2011, all HSTA employees and retirees receiving benefits under the VEBA trust were enrolled in the benefit programs administered through the Trust Fund. Approximately 12,500 HSTA active employees and 2,500 retirees were transferred to the Trust Fund.

The Trust Fund is administered by a Board of Trustees (the Board) composed of ten trustees appointed by the Governor of the State. The Board is responsible for determining the nature and scope of benefit plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the Trust Fund, and overseeing all Trust Fund activities. The Board relies on professional services provided by a salaried Administrator, the State Attorney General, a benefits consultant and an investment consultant.

Chapter 87A, HRS was amended on July 9, 2012 to allow the Board to establish a separate trust fund for the purpose of receiving employer contributions that will pre-fund other post-employment benefits (OPEB) for retirees and their beneficiaries. Pursuant to this amendment, the Board executed an irrevocable declaration of trust establishing the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the OPEB Trust) effective June 30, 2013. The OPEB Trust is governed by the Board of the Trust Fund. Its assets are held for the exclusive purpose of providing other post-employment benefits and are legally restricted from creditors. The OPEB Trust financial statements are included as part of the basic financial statements of the Trust Fund (collectively referred to as the EUTF).

The EUTF is administratively attached to the Department of Budget and Finance in the executive branch of the State. The EUTF's basic financial statements reflect only its portion of the fund type categories. The State Comptroller maintains the central accounts for all State funds and publishes annual financial statements for the State, which includes the EUTF's financial activities.

The EUTF currently provides medical, prescription drug, dental, vision, chiropractic, supplemental medical and prescription drug, and group life insurance benefits. The medical plans include a statewide preferred provider organization (PPO) benefit plan and a federally-qualified health maintenance organization (HMO) plan. Other benefit plans are offered on a statewide basis.

The employers' share of benefit plan contributions for collectively bargained employees are negotiated by the State and counties with the exclusive representative of each employee bargaining unit. Employer contributions for retirees are prescribed by the HRS. Any remaining premium balance is paid by employees through payroll deductions or premium conversion plan reductions and paid by retirees directly, if applicable.

The State's and counties' contributions also include the employees' share made through payroll deductions, contributions for retired employees, and Medicare Part B reimbursements made by the Trust Fund to eligible retired employees and their spouses for Medicare Part B insurance premiums.

The EUTF provided insurance coverage to the following individuals as of June 30, 2014 and 2013:

	2014	2013
Active employees	68,325	68,061
Retirees	44,035	43,099
Dependents	85,546	77,763
Total	197,906	188,923

(2) Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Financial Statement Presentation

The reporting of active and postemployment (including their respective beneficiaries) healthcare benefits provided through the same plan should separate the two benefits for accounting purposes between active and postemployment healthcare benefits. Accordingly, the EUTF reports the postemployment healthcare benefits in conformity with Government Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (GASBS 43), and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASBS 10), as amended. The EUTF administers postemployment healthcare benefits under an agent multiple-employer defined benefit plan as defined by GASBS 43. Prior to June 30, 2013, the Trust Fund received and held employer and employee pay-as-you-go contributions and employer pre-funding contributions. On June 30, 2013, the employer pre-funding contributions and related net investment earnings were transferred to the OPEB Trust.

Proprietary Fund (Enterprise Fund)

The accounting for the active employee healthcare benefits is reported as an enterprise fund. An enterprise fund is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges. The enterprise fund operations are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows.

The enterprise fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with the enterprise fund's ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the enterprise fund are premium revenues, administrative fees, and experience refunds. Investment income is reported as nonoperating revenues.

Fiduciary Fund (Agency Fund)

The EUTF reports assets and liabilities in an agency fund resulting from the collection of contributions from employers and retirees and payments of postemployment health benefits for retirees and their beneficiaries. The agency fund does not meet the criteria of a trust or equivalent arrangement, thus assets and liabilities for the postemployment health benefits are reported as an agency fund. Agency funds do not have a measurement focus and report only assets and liabilities.

OPEB Trust

The EUTF accounts for the pre-funding contributions made by the State and counties in the OPEB Trust, which meets the criteria of a trust or equivalent arrangement. Accordingly, the assets, liabilities, and net position, as well as the changes in net position, of the OPEB Trust are reported as a fiduciary fund using the accrual basis of accounting similar to the enterprise fund. The assets, liabilities, and operations for the pre-funding contributions are reported in the statements of net position and changes in net position.

Recently Issued Accounting Pronouncements

GASB Statement No. 65

During fiscal year 2014, the EUTF implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. This statement did not have a material impact on the EUTF's financial statements.

GASB Statement No. 66

During fiscal year 2014, the EUTF implemented GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62*. The objective of this statement is to resolve conflicting accounting and financial reporting guidance between previously issued statements. This statement did not have a material impact on the EUTF's financial statements.

GASB Statement No. 68

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (*GASBS 68), which will become effective for financial statements for fiscal years beginning after June 15, 2014. This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* (GASBS 27), as well as the requirements of GASB Statement No. 50, *Pension Disclosures* (GASBS 50), as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of GASBS 27 and GASBS 50 remain applicable for pensions that are not covered by the scope of this statement. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

GASB Statement No. 71

The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, which should be applied simultaneously with the provisions of GASBS 68. This statement amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of GASBS 68 by employers and nonemployer contributing entities. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

Cash Equivalents

All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

Investments

Investments are reported at fair value. Investments consist of equity and fixed income mutual funds held in the EUTF investment pool.

Receivables

Receivables consist primarily of amounts due from employers and employees for health benefits premium contributions, as well as amounts due from individuals for overpayment of Medicare Part B reimbursements. The employee receivables are reported as net receivables and were based on management's estimate of amounts considered collectible. Management considered receivables outstanding for more than 60 days by employees who are no longer employed by the State and counties to be uncollectible. An allowance for employer receivables is not considered necessary based on past collection experience. The Medicare Part B reimbursement receivables from individuals are reported as net receivables and were based on management's estimate of amounts considered collectible. Management considered Medicare Part B receivables older than one year from individuals who are deceased to be uncollectible.

Capital Assets and Depreciation

The EUTF's capital assets consist of office furniture and equipment, and computer equipment and software with estimated useful lives greater than one year and with an acquisition cost greater than $5,000. Purchased capital assets are valued at cost. Donated capital assets are recorded at their fair value at the date of donation. Depreciation expense is determined using the straight-line method over the assets' estimated useful life of seven years.

Compensated Absences

All employees earn vacation at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of 90 days. Employees are entitled to receive cash payment for accumulated vacation upon termination. The accompanying enterprise fund financial statements present the cost of accumulated unpaid vacation as a liability. A reconciliation of changes in compensated absences liabilities for accumulated vacation is as follows for the years ended June 30, 2014 and 2013:

	Enterprise Fund	
	2014	**2013**
Balance at beginning of year	$ 271,193	$ 250,531
Additions	116,776	127,709
Reductions	(132,927)	(107,047)
Balance at end of year	255,042	271,193
Less curent portion	(65,460)	(66,493)
Noncurrent portion	$ 189,582	$ 204,700

All employees earn sick leave credits at the rate of one and three-quarters working days for each month of service. Sick leave credits may be accumulated without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for unpaid sick leave credits is reported in the accompanying enterprise fund financial statements.

However, an EUTF employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii at the rate of one additional month of service for each 20 days of unused sick leave. Accumulated sick leave as of June 30, 2014 and 2013, amounted to $535,193 and $648,509, respectively.

Risk Management

The EUTF is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss is reasonably estimable.

Benefits Claims Expense and Cost

The benefits claims expense reported in the enterprise fund relates to the self-insured prescription drug plans and includes the ultimate net cost of all reported claims incurred through the end of the fiscal year, for active employee healthcare benefits. The benefits claims expense also includes an additional estimate for unreported claims that have been incurred as of fiscal year-end. The cost of benefits claims for retirees are reported as a component of benefit claims payable in the agency fund.

Management has made certain assumptions based on currently available information and industry statistics in determining the benefits claims expense. Accordingly, the ultimate costs may vary significantly from the estimated amounts reported in the financial statements. Management believes that, given the inherent variability in benefits claims expense, such aggregate liabilities are within a reasonable range of adequacy. Such estimates are based on estimated claims cost reported prior to fiscal year-end, and estimates (based on actuarial projections of historical loss development) of claims cost incurred but not reported. Reserves are continually reviewed and adjusted as experience develops or new information becomes known; such adjustments are charged to net position as incurred for active employees. Rebates receivable are recorded in the period that the claim is paid and is netted against the cost of the claim.

Management recorded its best estimate for the obligation of unpaid claims of $3,949,091 and $2,665,131 for active employees and $8,902,229 and $7,674,651 for retirees as of June 30, 2014 and 2013, respectively, based on the EUTF's benefits consultant's estimate for the liability for unpaid claims. These amounts include administrative fees payable to the contracted plan administrator for services provided and for benefit claims incurred as of June 30, 2014 and 2013.

Carrier Payment Methodology

Premiums paid to the carriers are calculated on a monthly basis by multiplying the total number of active employees and retirees enrolled in the various plans on the last day of the month by the premium rates set forth in the contract agreements, whereas employer and employee billings are calculated on a semi-monthly basis. As a result, the EUTF recognizes a gain or loss between the total premiums actually collected from the employers and employees and the total premiums actually paid to the carriers. For the years ended June 30, 2014 and 2013, respectively, the EUTF recognized gains (losses) of ($14,809) and ($20,478), and $15,733 and $20,420, related to active employees and retirees, respectively.

Chapter 87A, HRS states that employer contributions are irrevocable. In addition, Chapter 87A, HRS does not require the EUTF to return insurance carrier refunds, rate credits and other earnings, as authorized by the Board, to identifiable employees who participated in ascertainable years that created the refund or credit. Accordingly, the EUTF recognizes the gains as increases in experience refunds and the related receivable as experience refunds due from insurance companies.

Administrative Fees

The EUTF assesses and collects administrative fees from the State, counties, and employees to support the operations of the EUTF. The administrative fees for active employees are included in the insurance premiums and are allocated between employer and employee based on collective bargaining agreements. The administrative fees for retiree plans are also included in the insurance premiums. For the years ended June 30, 2014 and 2013, respectively, the administrative fees charged to the State, counties, and employees to administer the plans were $3,506,052 and $3,488,720, and $1,170,972 and $2,332,189, for active employees and retirees, respectively. For the period January 1, 2014 to June 30, 2014, administrative fees were not charged on the retiree plans. These amounts are recognized as revenues in the enterprise fund, as all administrative operating expenses are recognized in the enterprise fund.

Premium Revenues – Self-insured

Premium revenues – self-insured are recognized over the coverage period.

Experience Refunds

For fully-insured with risk sharing health benefit contracts, the EUTF recognizes estimated experience refunds. Management has made certain assumptions based on currently available information in determining the estimated experience refunds. Accordingly, the ultimate gains may vary significantly from the estimated amounts reported in the accompanying financial statements.

Reclassifications

Certain amounts reported in the prior year have been reclassified to conform with the current year's presentation. Such reclassifications had no effect on previously reported net position and changes in net position.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Cash and Cash Equivalents and Investments

As of June 30, 2014 and 2013, the EUTF's cash and cash equivalents and investments were distributed and reported in the financial statements as follows:

	2014			
	Enterprise fund	Agency fund	OPEB Trust	Total
Cash and cash equivalents	$ 30,179,932	$ 117,689,076	$ 246,225,161	$ 394,094,169
Investments	6,791,881	28,410,349	379,859,940	415,062,170
Total	$ 36,971,813	$ 146,099,425	$ 626,085,101	$ 809,156,339

	2013			
	Enterprise fund	Agency fund	OPEB Trust	Total
Cash and cash equivalents	$ 12,669,096	$ 127,428,900	$ 5,556,912	$ 145,654,908
Investments	-	-	309,220,839	309,220,839
Total	$ 12,669,096	$ 127,428,900	$ 314,777,751	$ 454,875,747

Cash and Cash Equivalents

The following is a summary of cash and cash equivalents as of June 30, 2014 and 2013:

	2014	2013
Bank and cash management accounts	$ 394,094,169	$ 30,054,402
Amounts held in State Treasury	-	115,600,506
Total cash and cash equivalents	$ 394,094,169	$ 145,654,908

Bank and Cash Management Accounts

The EUTF maintains bank accounts at a major financial institution located in Hawaii and a cash management account with a broker-dealer. As of June 30, 2014 and 2013, the carrying amounts of these accounts were $394,094,169 and $30,054,402, respectively, and the related bank balances were $152,641,993 and $29,873,011, respectively.

Amounts Held in State Treasury

The State maintains an investment pool that is used by various state departments and agencies, including the EUTF. The amounts held in State Treasury balance reflects the EUTF's relative position in the State's investment pool, which amounted to $115,600,506 as of June 30, 2013.

For demand or checking accounts and time certificates of deposits, the State requires that the depository banks pledge collateral based on the daily available bank balances. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

Credit Risk

The State's investment policy limits its investments to investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, banker's acceptances, and money market funds maintaining a Triple-A rating.

Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. Further, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

Concentration of Credit Risk

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

Information relating to the amounts held in State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount and corresponding bank balances of the State Treasury and collateralization of the investment pool balances is included in the Comprehensive Annual Financial Report of the State.

The EUTF's share of the State's investment pool, as summarized in the table below, was 4.2% at June 30, 2013 (amounts in thousands):

		Maturity (in years)		
	Fair value	**Less than 1**	**1-5**	**>5**
Investment - Primary Government:				
Certificates of deposit	$ 976,243	$ 878,619	$ 97,624	$ -
U.S. government securities	1,092,462	567,854	320,667	203,941
Repurchase agreements	255,683	219,887	35,796	-
	$ 2,324,388	$ 1,666,360	$ 454,087	$ 203,941
Investment - Fiduciary Funds:				
Certificates of deposit	$ 166,308	$ 149,677	$ 16,631	$ -
U.S. government securities	186,106	99,614	50,716	35,776
Repurchase agreements	43,557	37,459	6,098	-
	$ 395,971	$ 286,750	$ 73,445	$ 35,776

The amounts held in State Treasury included auction rate securities collateralized by student loans. During the year ended June 30, 2013, the State experienced a favorable change in the fair value of its investments in the auction rate securities. Accordingly, the EUTF recorded an increase in the fair value of its investments of $366,588, of which $219,953 and $146,635 was allocated to the enterprise fund and agency fund, respectively.

Investments

EUTF Investment Pool

The EUTF maintains an investment pool amounting to $415,062,170 and $309,220,839 as of June 30, 2014 and 2013, respectively.

The EUTF's investment pool, at fair value, consists of the following investments as of June 30, 2014 and 2013:

	2014	2013
Investments - mutual funds:		
Fixed income:		
Blackrock Inflation Protected	$ 70,775,256	$ 54,669,940
Vanguard Total Bond Market Index Fund	55,456,457	45,031,434
Vanguard Short-Term Corp Bond Index Fund	35,202,230	-
Equity:		
Vanguard Total Stock Market Index	110,178,726	93,827,272
Vanguard REIT Index Fund	79,066,312	65,668,371
Vanguard FTSE All World US Industrial	64,383,189	50,023,822
Total investments	$ 415,062,170	$ 309,220,839

Investments in mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the EUTF are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the value of the EUTF's investments has fluctuated since June 30, 2014.

The Board is responsible for safekeeping these monies and has appointed an Investment Committee responsible for investing EUTF assets in compliance with applicable HRS and with the foremost intention of providing sufficient investment appreciation to meet the current and future OPEB benefit payments. Money is invested in accordance with the EUTF's Statement of Investment Policy and Guidelines (the Investment Policy).

Investments Authorized

Section 87A-24(2) of the HRS empowers the Board to invest monies "in the same manner specified in section 88-119(1)(A), (1)(B), (1)(C), (2), (3), (4), (5), (6), and (7)." Permissible investments under section 88-119 "Investments" are as follows:

(1) Real estate loans and mortgages. Obligations (as defined in section 431:6-101) of any of the following classes:

   (a) Obligations secured by mortgages of nonprofit corporations desiring to build multi-rental units (ten units or more) subject to control of the government for occupancy by families displaced as a result of government action;

   (b) Obligations secured by mortgages insured by the Federal Housing Administration;

   (c) Obligations for the repayment of home loans made under the Servicemen's Readjustment Act of 1944 or under Title II of the National Housing Act;

(2) Government obligations, etc. Obligations of any of the following classes:

   (a) Obligations issued or guaranteed as to principal and interest by the United States or by any state thereof or by any municipal or political subdivision or school district of any of the foregoing; provided that principal of and interest on the obligations are payable in currency of the United States; or sovereign debt instruments issued by agencies of, or guaranteed by foreign governments;

   (b) Revenue bonds, whether or not permitted by any other provision hereof, of the State or any municipal or political subdivision thereof, including the Board of Water Supply of the City and County of Honolulu, and street or improvement district bonds of any district or project in the State; and

   (c) Obligations issued or guaranteed by any Federal Home Loan Bank, including consolidated Federal Home Loan bank obligations, the Home Owner's Loan Corporation, the Federal National Mortgage Association, or the Small Business Administration;

(3) Corporate obligations. Below investment grade or nonrated debt instruments, foreign or domestic, in accordance with investment guidelines adopted by the Board;

(4) Preferred and common stocks. Shares of preferred or common stock of any corporation created or existing under the laws of the United States or of any state or district thereof or of any country;

(5) Obligations eligible by law for purchase in the open market by federal reserve banks;

(6) Obligations issued or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, or the African Development Bank; and

(7) Obligations secured by collateral consisting of any of the securities or stock listed above and worth at the time the investment is made at least fifteen percent more than the amount of the respective obligations.

Asset Allocation

Asset allocation refers to the strategic deployment of assets among the major classes of investments permitted under the HRS. It is the primary determinant of success in meeting long-term investment objectives. The EUTF's asset allocation is established by the Board with input from the Investment Committee and the investment consultant and is a function of the Board's expectations of current and future liquidity and income needs, eligible investment types under the HRS, expectations of asset class investment performance likely to be achieved over the long-term, and the Board's tolerance for investment risk.

The selected asset allocation for the EUTF's two asset pools as of June 30, 2014, is as follows:

Asset Classification	Target	Minimum	Maximum
Short-term liquidity/operating asset pool:			
Cash and cash equivalents and short-duration fixed income	100%	0%	100%
Long-term investment portfolio:			
Cash and cash equivalents	0%	0%	2%
U.S. fixed income	15%	13%	17%
Inflation linked securities	19%	16%	22%
U.S. real estate securities	21%	17%	25%
U.S. equities	28%	23%	33%
International equities	17%	13%	21%

Rebalancing

The Board has a policy of rebalancing the portfolio when actual asset allocations fall outside of the desired ranges. In order to minimize transaction costs and operational risks, EUTF cash flows, such as contributions received or benefits paid, will be used to achieve rebalancing objectives. Moreover, the investment consultant will provide in its quarterly report the percentages that each asset class constitutes of total assets. If the percentage falls outside of the allowable target asset allocation ranges in the quarterly measurement, the Board or Investment Committee, generally, will provide direction to rebalance the portfolio to target allocation. These customary rebalancing procedures notwithstanding, during periods of extreme market conditions, illiquid markets, or other extenuating circumstances in which rebalancing may be difficult or costly, the Board/Investment Committee may, at its discretion, elect to suspend rebalancing until a time it believes is prudent.

Interest Rate Risk

Interest rate risk is the risk that changes in the market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The EUTF manages interest rate risk through a portfolio of short, intermediate, and long maturities, resulting in a portfolio of intermediate duration. As of June 30, 2014 and 2013, the EUTF investment pool had monies invested in equity and fixed income mutual funds.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The EUTF investment pool invests in three fixed-income oriented mutual funds, the Vanguard Total Bond Market Index Fund, which only invests in investment grade securities, the BlackRock Inflation Protected Fund, which is not rated by nationally recognized statistical rating organizations, and the Vanguard Short Term Corporate Bond Index Fund, which only invests in investment grade securities.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the EUTF will not be able to recover the value of its investments residing at its custodian bank or collateral securities that are lent by the custodian bank to outside party(ies). The EUTF's investments are held at custodian banks of pooled funds, or at the EUTF's own custodian bank. The EUTF's custodian is Bank of Hawaii (BOH) and investments are held with BOH's sub-custodian, Bank of New York Mellon (BNY Mellon). BOH and BNY Mellon are "Qualified Custodians" as defined within Rule 206(4)-2 of the Investment Advisers Act of 1940 for which funds or securities are held separate from bank assets. The EUTF did not have custodial credit risk related to its mutual funds.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the EUTF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The EUTF's Investment Policy or the HRS do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. At times and as of June 30, 2014 and 2013, the EUTF had deposits in excess of Federal Deposit Insurance Corporation (FDIC) and SIPC limits.

Concentration of Credit Risk

The EUTF provides guidelines regarding portfolio diversification by placing limits on the amount it may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

(4) Capital Assets

The enterprise fund's capital asset activity for the years ended June 30, 2014 and 2013 was as follows:

	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Office furniture and equipment	$ 479,828	$ -	$ -	$ 479,828
Computer equipment and software	9,475,719	-	-	9,475,719
Less accumulated depreciation	(5,148,973)	(1,371,135)	-	(6,520,108)
Capital assets, net	$ 4,806,574	$ (1,371,135)	$ -	$ 3,435,439

	Balance at July 1, 2012	Additions	Disposals	Balance at June 30, 2013
Office furniture and equipment	$ 479,828	$ -	$ -	$ 479,828
Computer equipment and software	9,475,719	-	-	9,475,719
Less accumulated depreciation	(3,773,535)	(1,375,438)	-	(5,148,973)
Capital assets, net	$ 6,182,012	$ (1,375,438)	$ -	$ 4,806,574

(5) Health and Life Insurance Benefit Contracts

The EUTF's primary purpose is to provide active employees, retirees, and dependent-beneficiaries with health benefit plans and group life insurance. To effectuate this purpose, the EUTF enters in multi-year health benefit and life insurance contracts with carriers and administrators. The active employee and retiree contracts end on June 30, 2015 and December 31, 2014, respectively.

The health benefit and life insurance contracts utilize three different financial arrangements:

Self-insured

Rates are experience rated and are set by the Board acting on the advice of the benefits consultant. Due to the size of the pool, there is no stop loss insurance associated with these plans. The EUTF pays administrative fees to the third-party administrator (the TPA) and pays actual claims that are paid by the TPA. If claims are less than the premium collections from the employers, employees, and retirees (the surplus), the surplus funds are retained by the EUTF. However, if claims are greater than the premium collections (the shortfall), the EUTF is responsible for the shortfall.

Fully-insured

Rates are experience rated and are set by the insurance carrier. Surpluses are retained by the insurance carrier and the insurance carrier is responsible for any shortfalls. Risk is retained by the insurance carrier.

Fully-insured with One-Way Risk Sharing

Rates are experience rated and are set by the insurance carrier. Surpluses (premiums in excess of claims and administrative fees and retention charged by the insurance carrier) are retained by the EUTF, while the insurance carrier is responsible for any shortfalls.

The following is a summary of the insurance carriers and TPA and the funding arrangements for the medical, prescription drug, dental, vision, and life insurance:

Medical

Hawaii Medical Service Association (HMSA) - *Fully-insured with one-way risk sharing*

- PPO plans – EUTF active employees 90/10, 80/20, and 75/25, and HSTA VB active employees 90/10 and 80/20
- HMO plan – EUTF active employees
- Retiree PPO plans – EUTF and HSTA VB retirees 90/10

Medical and Prescription Drug

Kaiser Permanente (Kaiser) - *Fully-insured*

- Comprehensive HMO plans – EUTF and HSTA VB active employees
- Standard HMO plan – EUTF active employees
- Retiree Comprehensive HMO plans – EUTF and HSTA VB retirees (non-Medicare and Senior Advantage Medicare)

Prescription Drug

CVS Health - *Self-insured*

- Prescription drug coverage for HMSA PPO and HMO plans – EUTF and HSTA VB active employees and non-Medicare retirees

Silverscript – *Self-insured*

- Prescription drug coverage through an employer group waiver plan for non-Kaiser retirees – EUTF and HSTA VB Medicare retirees

Dental

Hawaii Dental Service - *Fully-insured with one-way risk sharing*

- EUTF and HSTA VB active employees
- Supplemental plan for HSTA VB active employees
- EUTF and HSTA VB retirees

Vision

Vision Service Plan - *Fully-insured with one-way risk sharing*

- EUTF and HSTA VB active employees and retirees

Chiropractic

Royal State National Insurance Company - *Fully-insured through ChiroPlan Hawaii, Inc.*

- EUTF and HSTA VB active employees and HSTA VB retirees (included with the medical plans)

Life Insurance

Royal State National Insurance Company - *Fully-insured*

- Term life insurance – EUTF and HSTA VB active employees
- Term life insurance – EUTF and HSTA VB retirees

Supplemental

Royal State National Insurance Company - *Fully-insured with one-way risk sharing*

- EUTF active employees

HMSA - *Fully-insured with one-way risk sharing*

- EUTF and HSTA VB active employees – eliminated July 1, 2014 to comply with ACA.

All Contracts

The following is a summary of the experience refunds due from insurance companies, rebates receivable, and premiums payable balances by insurance company at June 30, 2014 and 2013:

	2014		2013	
	Active Employees	Retirees	Active Employees	Retirees
Experience refunds due from insurance companies:				
HDS	$ 859,221	$ 98,370	$ -	$ -
HMA	-	-	753,813	27,159
HMSA	14,501,924	10,203,385	36,231,690	8,964,998
RSN	152,937	-	1,339,565	-
VSP	287,627	314,961	650,476	192,938
	$15,801,709	$10,616,716	$38,975,544	$ 9,185,095
Rebates receivable:				
Receivable from CVS	$ 4,780,740	$ 1,230,214	$ 2,709,411	$ 991,354
Receivable from InformedRx	-	-	29,065	187,669
Receivable from Silverscript	-	21,651,349	-	6,629,860
	$ 4,780,740	$22,881,563	$ 2,738,476	$ 7,808,883

	2014		2013	
	Active Employees	Retirees	Active Employees	Retirees
Premiums payable:				
COBRA payable - HDS	$ 376	$ -	$ 376	$ -
COBRA payable - Kaiser	2,780	-	2,780	-
COBRA payable - RSN	641	-	641	-
COBRA payable - VSP	30	-	30	-
HDS	2,720,242	1,783,769	2,541,607	1,650,810
HDS - HSTA VB	496,642	116,566	512,804	111,073
HMSA	23,497,372	11,832,164	19,598,674	10,961,961
HMSA - HSTA VB	3,991,531	868,921	4,154,148	832,311
Kaiser Hawaii	7,373,316	4,227,816	6,927,208	4,321,933
Kaiser Hawaii - HSTA VB	1,082,607	153,941	1,124,309	165,007
RSN Chiro - HSTA VB	15,914	5,229	17,133	5,156
RSN Dual/Chiro	122,180	-	118,467	-
RSN Life	241,107	150,026	233,802	146,412
RSN Life - HSTA VB	39,049	10,325	43,268	10,399
VSP	430,753	310,011	413,938	297,114
VSP - HSTA VB	74,462	20,008	80,966	19,300
Standard	442	238	442	238
	$ 40,089,444	$ 19,479,014	$ 35,770,593	$ 18,521,714

(6) Benefit Claims Expense

The EUTF is self-insured for the prescription drug plans. Under the self-insured arrangement, the TPA provides the EUTF with provider networks, claims processing, cost containment and other services. Instead of premiums, the EUTF pays administrative fees to the TPA for the services rendered and reimburses the TPA for claims paid. Prior to January 1, 2012, the EUTF had self-insured arrangements for medical (HMSA and HMA) and prescription drug (InformedRx) plans.

Activity in the liability for unpaid benefit claims expense related to the self-insured prescription drug plans is as follows for the two years ended June 30, 2014:

	Active Employees	Retirees	Total
Balance at July 1, 2012	$ 7,485,932	$ 4,651,669	$ 12,137,601
Claims and changes in estimates	51,359,035	100,985,168	152,344,203
Contractor processing administrative fees	932,331	3,693,358	4,625,689
Paid (including rebates) during the year	(57,112,167)	(101,655,544)	(158,767,711)
Balance at June 30, 2013	2,665,131	7,674,651	10,339,782
Claims and changes in estimates	73,821,642	127,204,013	201,025,655
Contractor processing administrative fees	983,240	3,832,456	4,815,696
Paid (including rebates) during the year	(73,520,922)	(129,808,891)	(203,329,813)
Balance at June 30, 2014	$ 3,949,091	$ 8,902,229	$ 12,851,320

Below is a summary of benefit claims payable by TPA at June 30, 2014 and 2013:

	2014		2013	
	Active Employees	Retirees	Active Employees	Retirees
Benefit claims payable:				
Benefit claims - CVS	$ 3,717,760	$ 4,296,438	$ 2,460,310	$ 2,896,719
Benefit claims - HMA	72,881	3,036	41,023	7,039
Benefit claims - Silverscript	-	3,978,055	-	4,470,804
IBNR for self-insured plans	75,600	-	89,000	-
Admin fee - CVS	82,850	17,052	74,913	2
Admin fee - HMA	-	-	31	-
Admin fee - HMSA	-	-	(146)	144
Admin fee - Silverscript	-	607,648	-	299,943
	$ 3,949,091	$ 8,902,229	$ 2,665,131	$ 7,674,651

According to the terms of contracts with TPA's, the EUTF was required to make a deposit to cover estimated claims costs for the self-insured prescription drug plans. The deposits held by the TPAs for the self-insured prescription drug plans as of June 30, 2014 and 2013, are as follows:

	2014		
	Active Employees	**Retirees**	**Total**
Silverscript - drug contract	$ -	$ 6,423,204	$ 6,423,204
CVS - drug contract	4,958,000	1,742,000	6,700,000
	$ 4,958,000	$ 8,165,204	$13,123,204

	2013		
	Active Employees	**Retirees**	**Total**
Silverscript - drug contract	$ -	$ 6,423,204	$ 6,423,204
CVS - drug contract	4,958,000	1,742,000	6,700,000
HMA - medical contract	52,897	3,860	56,757
	$ 5,010,897	$ 8,169,064	$13,179,961

(7) Summary of Contributions and Pre-Funded Contributions

The employer and employee contributions recognized and pre-funded contributions received for the years ended June 30, 2014 and 2013, are as follows:

	2014		
	Active Employees	**Retirees**	**Total**
Required contributions:			
Employer:			
State of Hawaii	$ 218,696,685	$ 279,881,150	$ 498,577,835
State of Hawaii - HSTA VB	3,228,289	120,557	3,348,846
City & County of Honolulu	41,666,546	65,493,742	107,160,288
County of Hawaii	12,503,409	14,282,906	26,786,315
County of Maui	13,207,493	12,420,109	25,627,602
County of Kauai, including Department of Water	6,063,579	6,895,732	12,959,311
Board of Water Supply - Honolulu	2,500,075	5,046,667	7,546,742
County of Hawaii - Department of Water	792,000	815,758	1,607,758
	298,658,076	384,956,621	683,614,697
Employee	219,322,343	2,585,602	221,907,945
	517,980,419	387,542,223	905,522,642
Pre-funded contributions - employer:			
State of Hawaii	-	100,000,000	100,000,000
City & County of Honolulu	-	41,544,416	41,544,416
County of Hawaii	-	3,170,000	3,170,000
County of Maui	-	97,200,000	97,200,000
County of Kauai including Department of Water	-	8,190,270	8,190,270
Board of Water Supply - Honolulu	-	11,436,000	11,436,000
County of Hawaii - Department of Water	-	1,085,000	1,085,000
	-	262,625,686	262,625,686
	517,980,419	650,167,909	1,168,148,328
Less: administrative fees	(3,506,052)	(1,170,972)	(4,677,024)
	$ 514,474,367	$ 648,996,937	$1,163,471,304

	2013		
	Active Employees	**Retirees**	**Total**
Required contributions:			
Employer:			
State of Hawaii	$ 143,473,569	$ 253,160,331	$396,633,900
State of Hawaii - HSTA VB	41,430,519	24,731,470	66,161,989
City & County of Honolulu	37,687,251	64,462,861	102,150,112
County of Hawaii	12,119,517	13,891,849	26,011,366
County of Maui	12,430,488	11,866,487	24,296,975
County of Kauai, including Department of Water	5,341,159	6,678,730	12,019,889
Board of Water Supply - Honolulu	2,027,376	5,132,550	7,159,926
County of Hawaii - Department of Water	784,706	828,735	1,613,441
	255,294,585	380,753,013	636,047,598
Employee	230,975,572	2,297,607	233,273,179
	486,270,157	383,050,620	869,320,777
Pre-funded contributions - employer:			
City & County of Honolulu	-	38,500,000	38,500,000
County of Kauai including Department of Water	-	12,203,051	12,203,051
Board of Water Supply - Honolulu	-	3,100,000	3,100,000
County of Hawaii - Department of Water	-	1,005,000	1,005,000
	-	54,808,051	54,808,051
	486,270,157	437,858,671	924,128,828
Less: administrative fees	(3,488,720)	(2,332,189)	(5,820,909)
	$ 482,781,437	$ 435,526,482	$918,307,919

The required contributions include both contributions for self-insured and fully-insured plans. The self-insured contributions are reported as operating revenues in the statements of revenues, expenses, and changes in net position for the enterprise fund. The contributions related to the fully-insured plans are included as a component of the premium receivable on the statements of net position for the enterprise fund and the statements of fiduciary net position for the agency fund. Contributions related to the fully-insured plans for the year ended June 30, 2014 for the enterprise fund and agency fund, respectively, were $456,927,900 and $227,431,635 and for the year ended June 30, 2013 for the enterprise fund and agency fund, respectively, were $432,011,926 and $215,809,906.

(8) Retirement Benefits

Employees' Retirement System

Plan Description

All eligible employees of the State and counties are required by Chapter 88, HRS to become members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS and can be amended by legislative action. The ERS is governed by a Board of Trustees. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813, or through the ERS's website: ers.hawaii.gov.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new noncontributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials and persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively.

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 with 30 years of credited service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit options are similar to the current contributory plan. Approximately 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan, are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Effective July 1, 2012, the hybrid contributory plan was revised by Act 163, SLH 2011. Members joining the hybrid plan on or after that date are eligible for retirement at age 65 with 10 years of credited service or age 60 with 30 years of credited service. Members will receive a benefit multiplier of 1.75% for each year of credited service in the hybrid plan. The benefit options remain similar to the current contributory plan.

Funding Policy

Covered employees of the contributory plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 7.8% or 9.8% of their salary, respectively. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 12.2% or 14.2% of their salary, respectively. Covered employees of the hybrid plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 6% or 8% of their salary, respectively. The funding method used to calculate the total employer contribution is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The EUTF's share of the aggregated pension expense was approximately $268,803, $241,300, and $223,848 for the years ended June 30, 2014, 2013, and 2012, respectively, which equal the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the EUTF.

Postemployment Health Care and Life Insurance Benefits

Plan Description

The State, pursuant to Act 88, SLH 2001, provides certain health care and life insurance benefits to all qualified employees under an agent multiple-employer defined benefit plan comprising of the State and counties. The EUTF was established on July 1, 2003 to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding

The State's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

Prior to fiscal year 2014, the State's base contribution levels were tied to the pay-as-you-go amounts necessary to provide current benefits to retirees. In the fiscal year 2014, the State contributed $100,000,000 in addition to the amount necessary to provide current benefits to retirees.

Annual OPEB Cost and Net OPEB Obligation Related to the EUTF

Measurement of the actuarial valuation and the annual required contribution (ARC) is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the EUTF. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The EUTF's contributions for the years ended June 30, 2014, 2013 and 2012 were $174,100, $158,685, and $117,790, respectively, which represented 29%, 27%, and 27%, respectively, of the EUTF's share of the ARC for postemployment health care and life insurance benefits.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2014 and 2013:

	2014	**2013**
Annual required contribution	$ 597,600	$ 580,415
Contributions made	(174,100)	(158,685)
Increase in net OPEB obligation	423,500	421,730
Net OPEB obligation at beginning of year	1,476,003	1,054,273
Net OPEB obligation at end of year	$ 1,899,503	$ 1,476,003
Actual contributions made as a percentage of ARC	29%	27%

Actuarial Methods and Assumptions Used in the State's Actuarial Valuation

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The methods and assumptions used by the State are the same as disclosed in Note 12.

Refer to the State's basic financial statements for information regarding required supplementary information regarding the funding progress and plan information for State employees.

On July 3, 2013, the Governor signed into law Act 268, SLH 2013. Act 268 required the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund post-employment health and other benefit costs for retirees and their beneficiaries. It established the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required public employer contributions effective fiscal year 2014.

Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board. In any fiscal year, should an employer's contribution be less than the annual required public employer contribution, the difference shall be transferred to the appropriate trust account from a portion of all general excise tax revenues, for the State, or transient accommodations tax revenues, for the counties.

Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's nor EUTF's financial statements.

(9) Commitments and Contingencies

Litigation

Dannenberg, et al. v. State of Hawaii, Civil No. 06-1-1141 JHC

On June 30, 2006, several State and County retirees filed a Complaint in the State of Hawaii Circuit Court of the First Circuit (the Circuit Court) against the EUTF, the Board, and the State of Hawaii (collectively, the Defendants), as well as various county governments that participate in the EUTF's health benefits plans. The plaintiffs allege various claims based on an argument that the EUTF is constitutionally, statutorily, and contractually required to provide health benefit plans that provide retirees and their dependents with benefits that are substantially equal to those provided to active employees and their dependents. The plaintiffs seek declaratory and injunctive relief, damages, and attorneys' fees and costs.

On December 10, 2012, the plaintiffs filed a motion for partial summary judgment seeking judgment in their favor on the liability issues in the lawsuit, i.e., that the plaintiffs be granted their requested declaratory and injunctive relief, and that the Defendants be found liable for monetary damages in an amount to be determined later. On July 25, 2013, the Defendants filed their motion for partial summary judgment seeking judgment in its favor on all of the plaintiffs' claims that are based on the allegations that: (1) the Defendants violated the constitutional, contractual, and statutory rights of the plaintiffs by not providing healthcare benefits for retirees and their dependents that were equivalent to those provided to active employees and their dependents; (2) the Defendants violated the constitutional and contractual rights of the plaintiffs by not providing healthcare benefits to retirees and their dependents that are equivalent to those provided to other employee-beneficiaries and dependent-beneficiaries, regardless of age; and; (3) the Defendants were negligent in providing health benefits to retirees and their dependents. Both motions were heard by the Circuit Court on October 30, 2013. On October 16, 2014, the Court ruled that the Plaintiff's accrued health benefits have not been reduced, diminished, or impaired as the health benefits that retirees receive under the EUTF are the same or substantially the same as the health benefits retirees received under the Hawaii Public Employees Health Fund. The plaintiffs filed a motion for reconsideration of the order or alternatively for an interlocutory appeal. On November 13, 2014, the Court issued a minute order denying the motion. A written order has not yet been entered.

The Defendants are evaluating the remaining claims and intend to vigorously defend against the plaintiffs' claims in this lawsuit. The outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the years ended June 30, 2014 or 2013. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

*Kono, et al. v. Abercrombie, Civil No. 10-1-1966-09 KK*S

On September 14, 2010, the Hawaii State Teachers Association Voluntary Employees Beneficiary Association Trust (the VEBA Trust) and two participants in the VEBA Trust health plans filed a Complaint in the Circuit Court against the State alleging: (1) the State diminished and impaired accrued health benefits for the active and retired teachers participating in the VEBA Trust health plans in violation of Article XVI, Section 2 of the Hawaii Constitution, by enacting Act 106, SLH 2010 ("Act 106") and transferring the VEBA members to the EUTF and/or reassigning the administration of the VEBA Trust health benefit plans from the VEBA Trust to the EUTF; and (2) the State had taken $3.96 million in surplus funds from the VEBA Trust and this similarly diminished or impaired the VEBA Trust members' accrued health benefits in violation of Article XVI, Section 2.

The State filed a motion for judgment on the pleadings seeking dismissal of the lawsuit. The plaintiffs filed a motion for preliminary injunction seeking to prevent the transfer of VEBA Trust participants to the EUTF health plans under Act 106. On December 7, 2010, both motions were heard by the Circuit Court. The Circuit Court gave an oral ruling that denied both motions but held that VEBA Trust participants had a right to maintain the standard of coverage benefits they had enjoyed under the VEBA Trust health plans when they were transferred to the EUTF on January 1, 2011. The Circuit Court also indicated that to the extent that the VEBA Trust surplus that was paid to the State was an accrued benefit of the VEBA Trust members who had paid into that surplus, the appropriate remedy was that such amounts should be set aside to ensure that former VEBA Trust participants can maintain their standard of coverage benefits.

On March 15, 2011, pursuant to its oral ruling, the Circuit Court issued an order denying the State's motion for judgment on the pleadings, and an order denying plaintiff's motion for preliminary injunction, and a final judgment.

The State filed an appeal of the Circuit Court's orders and the final judgment. The Hawaii Intermediate Court of Appeals (the ICA) dismissed the appeal because the form of final judgment did not comply with court requirements. On October 6, 2011, the Circuit Court issued an amended final judgment. On October 14, 2011, the State filed an appeal of the amended final judgment, the final judgment, and certain other orders entered by the Circuit Court. On November 4, 2011, the plaintiffs filed a cross-appeal. On April 24, 2013, the ICA issued a memorandum opinion vacating the Circuit Court's entry of the final and amended final judgments and certain related orders. The ICA said that entry of these judgments was improper as no dispositive motion was pending at the time the Circuit Court terminated the litigation. The ICA remanded the case back to the Circuit Court for further proceedings consistent with the ICA's opinion.

No trial date has yet been set. The State intends to vigorously defend against the plaintiffs' claims in this lawsuit. The outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the years ended June 30, 2014 and 2013. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

(10) Risk Management

The EUTF is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. In accordance with HRS 87A-25, the EUTF has obtained fiduciary liability insurance with an annual aggregate for losses of $10 million and a fidelity bond to cover employee dishonesty with an annual aggregate for losses of $5 million. In addition, the EUTF also obtained a public officials and employment practices insurance policy to cover any wrongful acts or employment practices violation in which the EUTF retains the first $25,000 per occurrence and the annual aggregate for losses is $3 million. In addition, the EUTF obtained a cyber-risk insurance policy with an aggregate loss limit of $5 million and a $100,000 deductible.

The EUTF is covered under the State's self-insurance program for workers' compensation. During fiscal years 2014 and 2013, the EUTF paid $15,424 and $14,586, respectively, in workers' compensation premiums to the State's General Fund.

There have been no significant reductions in insurance coverage and the amount of settlements has not exceeded insurance coverage for each of the past three fiscal years.

(11) Lease Commitment

The EUTF's office is located in the City Financial Tower. The State Department of Accounting and General Services (Lessee) leases the EUTF's office from the ERS (Lessor) under the noncancelable operating lease through October 31, 2014, and on a month-to-month basis thereafter.

The rent expense for the years ended June 30, 2014 and 2013 was $318,275 and $324,955, respectively.

(12) Funded Status, Funding Progress and Other Plan Information – OPEB Plan

As of July 1, 2013, the date of the most recent actuarial valuation, the plan membership was as follows:

	Retirees (including surviving spouse receiving benefits)	Deferred vested members not yet receiving benefits	Active employees	Total
Employer:				
State of Hawaii	32,519	5,369	50,768	88,656
City & County of Honolulu	6,776	777	8,568	16,121
County of Hawaii	1,435	154	2,301	3,890
County of Maui	1,223	188	2,450	3,861
County of Kauai, including Department of Water	731	91	1,247	2,069
Board of Water Supply - Honolulu	564	51	528	1,143
County of Hawaii - Department of Water	94	2	157	253
Honolulu Authority for Rapid Transportation	3	-	89	92
	43,345	6,632	66,108	116,085

Contribution and Other Plan Information

The State and counties required contribution to the EUTF is based on the pay-as-you-go basis and the ARC amount for the years ended June 30, 2014 and 2013, based on the July 1, 2013 and July 1, 2011 actuarial valuations, were as follows:

	2014		
	Required contribution for June 30, 2014 (pay as you go basis)	**ARC for June 30, 2014**	**ARC as a percentage (%) of the covered payroll**
Employer:			
State of Hawaii	$ 280,001,707	$ 1,038,370,000	35.5%
City & County of Honolulu	65,493,742	144,624,000	26.2%
County of Hawaii	14,282,906	30,526,000	22.2%
County of Maui	12,420,109	31,543,000	22.0%
County of Kauai, including Department of Water	6,895,732	15,331,000	20.3%
Board of Water Supply - Honolulu	5,046,667	8,977,000	28.3%
County of Hawaii - Department of Water	815,758	1,899,000	22.9%
Honolulu Authority for Rapid Transportation	-	292,000	4.3%
	$ 384,956,621	$ 1,271,562,000	

	2013		
	Required contribution for June 30, 2013 (pay as you go basis)	**ARC for June 30, 2013**	**ARC as a percentage (%) of the covered payroll[1]**
Employer:			
State of Hawaii	$ 277,891,801	$ 994,893,000	36.0%
City & County of Honolulu	64,462,861	139,733,000	24.5%
County of Hawaii	13,891,849	29,494,000	21.7%
County of Maui	11,866,487	30,476,000	22.1%
County of Kauai, including Department of Water	6,678,730	14,813,000	20.5%
Board of Water Supply - Honolulu	5,132,550	8,674,000	26.3%
County of Hawaii - Department of Water	828,735	1,834,000	20.8%
	$ 380,753,013	$ 1,219,917,000	

[1] Percentages are an estimate based on information included in the actuarial valuation dated July 1, 2011.

Beginning in fiscal year 2008, the EUTF receives and holds deposits from the State and counties to pre-fund retiree benefits on behalf of the employees in a separate account and allocates any interest earned and expenses incurred related to those the pre-funding deposits based on accumulated amounts to date. Effective June 30, 2013, the Board created an irrevocable trust, the OPEB Trust, which meets the criteria of GASBS 43, to hold these funds. The cumulative deposits and related net investment earnings were transferred to the OPEB Trust.

The fair value of the OPEB Trust by employer as of June 30, 2014 and 2013, respectively, are as follows:

	2014	2013
State of Hawaii	$ 100,002,466	$ -
Board of Water Supply - Honolulu	43,620,516	27,462,650
County of Hawaii	84,765,319	71,010,416
County of Maui	130,451,172	28,935,120
County of Kauai, including Department of Water	66,626,933	49,870,644
Hawaii County Department of Water Supply	10,181,284	7,916,468
City & County of Honolulu	190,420,325	129,568,278
	$ 626,068,015	$ 314,763,576

Funded Status and Funding Progress

The funded status of the OPEB plan as of the most recent actuarial valuation is as follows:

Actuarial valuation date	Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded ratio (a) / (b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b) - (a) / (c)
7/1/2013	$ 296,124,000	$ 11,477,633,000	$ 11,181,509,000	2.6%	$ 3,881,223,000	288%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASBS 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize an unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent, closed
Amortization period	28.2 years
Actuarial assumptions:	
Investment rate of return	7%
Healthcare cost trend rate:	
Medical and prescription drug - HMO	7.5% initial; 5% ultimate
Medical and prescription drug - PPO	9% initial; 5% ultimate
Dental	4% initial; 4% ultimate
Vision	3% initial; 3% ultimate
Medicare Part B	5% initial; 5% ultimate
Projected salary increases	3.5%

Each State and county are required to disclose additional information with regard to funding policy, the employers' annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

(13) Subsequent Events

Effective July 1, 2014, the active employee contracts for medical, prescription drug, dental, vision, supplemental medical and drug, and life insurance were extended through June 30, 2015. New health benefit premium rates and collective bargaining agreements became effective July 1, 2014. The HMSA supplemental plans were eliminated to comply with the Affordable Care Act effective July 1, 2014.

Effective January 1, 2015 through December 31, 2015, new retiree contracts for medical, prescription drug, dental, vision, and life insurance will be implemented.

The EUTF has evaluated subsequent events from the statements of net position date through December 24, 2014, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
July 1, 2007 through 2013

Actuarial valuation date	Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded ratio (a) / (b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b)-(a)/(c)
7/1/2013	$ 296,124,000	$ 11,477,633,000	$ 11,181,509,000	2.6%	$ 3,881,223,000	288.1%
7/1/2011	178,200,000	16,458,800,000	16,280,600,000	1.1	3,743,000,000	435.0
7/1/2009	115,500,000	14,662,100,000	14,546,600,000	0.8	2,758,000,000	527.4
7/1/2007	-	9,194,300,000	9,194,300,000	0.0	2,789,000,000	329.7

Schedule of Employer Contributions
Years Ended June 30, 2011 through 2014

June 30,	Annual Required Contributions	Percentage contribution
2014	$ 1,271,562,000	30.3%
2013	1,219,917,000	31.2
2012	1,207,638,000	30.8
2011	1,300,757,000	27.6

See accompanying independent auditors' report.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Seven-Year Loss Development Information
(Unaudited)

June 30, 2008 through 2014

Self-Insured Healthcare Plans for Active Employees

The EUTF began providing and administering fully-insured health and other benefit plans beginning July 1, 2003. The EUTF also began providing self-insured plans effective July 1, 2007 through December 31, 2011 for medical plans and continues to offer self-insured prescription drug plans for active employees. Therefore, the loss development table on the following page shows data for seven successive policy years starting from the fiscal year ended June 30, 2008, for active employee self-insured plans.

The tables on the following page illustrates how the EUTF's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the EUTF related to the self-insured activities as of the end of each of the past seven years.

The rows of the table are defined as follows:

(1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

(2) This line shows each fiscal year's other operating costs of the EUTF including overhead and claims expense not allocable to individual claims.

(3) This line shows the EUTF's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

(4) This section of six rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

(5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each policy year.

(6) This section of six rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.)

(7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Seven-Year Loss Development Information
(Unaudited)

June 30, 2008 through 2014

As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the tables show data for successive policy years.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information

Self-Insured Active Employee Healthcare Benefit Plans
Seven-Year Loss Development Information (unaudited)

June 30, 2008 through 2014

	2008	2009	2010	2011	2012	2013	2014
1. Required contribution and investment revenue:							
Earned	$ 195,936,354	$ 221,762,304	$ 256,755,699	$ 246,004,463	$ 153,831,438	$ 51,774,778	$ 58,365,379
Ceded	-	-	-	-	-	-	-
Net earned	$ 195,936,354	$ 221,762,304	$ 256,755,699	$ 246,004,463	$ 153,831,438	$ 51,774,778	$ 58,365,379
2. Unallocated expenses	$ 2,382,253	$ 2,324,705	$ 3,464,359	$ 3,828,417	$ 2,142,126	$ 1,241,104	$ 1,101,332
3. Estimated claims and expenses, end of policy year:							
Incurred	$ 233,857,827	$ 267,973,485	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849
Ceded	-	-	-	-	-	-	-
Net incurred	$ 233,857,827	$ 267,973,485	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849
4. Net paid (cumulative) as of:							
End of policy year	$ 196,730,425	$ 262,097,745	$ 251,299,883	$ 237,215,369	$ 185,234,570	$ 52,654,087	$ 69,825,153
One year later	231,169,876	283,354,922	239,959,499	234,225,771	144,371,143	51,976,970	
Two years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143		
Three years later	231,157,984	283,378,367	239,959,499	234,225,771			
Four years later	231,157,984	283,378,367	239,959,499				
Five years later	231,157,984	283,378,367					
Six years later	231,157,984						
Seven years later							
Eight years later							
Nine years later							
5. Reestimated ceded claims and expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. Reestimated net incurred claims and expenses:							
End of policy year	$ 233,857,827	$ 267,973,485	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849
One year later	231,169,876	283,354,922	239,959,499	234,225,771	144,371,143	51,976,970	
Two years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143		
Three years later	231,157,984	283,378,367	239,959,499	234,225,771			
Four years later	231,157,984	283,378,367	239,959,499				
Five years later	231,157,984	283,378,367					
Six years later	231,157,984						
Seven years later							
Eight years later							
Nine years later							
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	$ (2,699,843)	$ 15,404,882	$ (5,012,488)	$ (6,822,877)	$ (6,117,774)	$ 5,158,200	$ -

SUPPLEMENTARY INFORMATION

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Schedule of Administrative Operating Expenses - Enterprise Fund

Years Ended June 30, 2014 and 2013

	2014	2013
Administrative operating expenses:		
Personal services	$ 2,879,263	$ 2,741,393
Contracted services	1,484,134	1,726,160
Occupancy	318,275	324,955
Insurance	143,856	91,490
Postage	76,926	61,079
Printing and binding	67,443	63,786
Telephone	37,334	33,889
Transportation	27,791	25,360
Supplies	19,136	16,122
Rental of equipment	18,879	20,852
Training	17,073	11,450
Repairs and maintenance	8,108	9,433
Equipment	4,792	29,314
Other	4,278	1,398
Total administrative operating expenses	$ 5,107,288	$ 5,156,681

See accompanying independent auditors' report.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Schedule of Changes in Fiduciary Net Position - Agency Fund

Year Ended June 30, 2014

	July 1, 2013	Additions	Deductions	June 30, 2014
Assets:				
Cash and cash equivalents	$ 127,428,900	$ 504,900,391	$ (514,640,215)	$ 117,689,076
Investments	-	28,410,349	-	28,410,349
Receivables:				
Premium receivable from State of Hawaii and counties	32,599,082	387,542,223	(388,638,090)	31,503,215
Rebates receivable	7,808,883	27,303,905	(12,231,225)	22,881,563
Experience refunds due from insurance companies	9,185,095	9,658,589	(8,226,968)	10,616,716
Other receivables	167,160	260,762	(164,843)	263,079
Medicare reimbursements from individuals, net of allowance of $804,343 in 2014 and $747,137 in 2013	201,269	59,030,933	(59,093,312)	138,890
Accrued interest receivable	29,201	130,489	(113,607)	46,083
Total receivables	49,990,690	483,926,901	(468,468,045)	65,449,546
Deposits	8,169,064	-	(3,860)	8,165,204
Total assets	$ 185,588,654	$ 1,017,237,641	$ (983,112,120)	$ 219,714,175
Liabilities:				
Premiums payable	$ 18,521,714	$ 292,905,881	$ (291,948,581)	$ 19,479,014
Benefit claims payable	7,674,651	131,036,469	(129,808,891)	8,902,229
Due to retirees	25,980	2,234,781	(2,239,448)	21,313
Due to State of Hawaii	60	-	-	60
Other payables	26,778	320,399	(226,872)	120,305
Amounts held on behalf of employers for benefits	159,339,471	115,846,945	(83,995,162)	191,191,254
Total liabilities	$ 185,588,654	$ 542,344,475	$ (508,218,954)	$ 219,714,175

See accompanying independent auditors' report.

PART III

INTERNAL CONTROL AND COMPLIANCE SECTION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Auditor
State of Hawaii

Board of Trustees
Hawaii Employer-Union Health Benefits Trust Fund
of the State of Hawaii

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii and the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (collectively referred to as the EUTF) as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the EUTF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EUTF's internal control. Accordingly, we do not express an opinion on the effectiveness of the EUTF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the EUTF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KKDLY LLC

Honolulu, Hawaii
December 24, 2014