KDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

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

June 30, 2015 and 2014

Submitted by

THE AUDITOR
STATE OF HAWAII

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Financial Statements and Supplementary Information

June 30, 2015 and 2014

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HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

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PART I

INTRODUCTION SECTION

KKDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

December 21, 2015

The Auditor
State of Hawaii

Board of Trustees
Hawaii Employer-Union Health Benefits Trust Fund
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 years ended June 30, 2015 and 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 years ended June 30, 2015 and 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.

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As part of the audit of the EUTF's financial statements, we 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. We also 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.

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, 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, 2015 and 2014, 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*.

* * * * * * *

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
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 statements 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, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the enterprise fund, as well as the statements of changes in net position for the OPEB Trust for the years then ended, and the related notes to 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 audits. We conducted our audits 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.

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, as of June 30, 2015 and 2014, and the respective changes in financial position, and where applicable, the cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Change in Accounting Principles

As discussed in Note 2 to the financial statements, the EUTF adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27* (Statement No. 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, effective July 1, 2014. The EUTF's financial statements as of and for the year ended June 30, 2014 were not restated because the State's defined benefit pension plan information prepared in accordance with the requirements of Statement No. 68 was not available for periods prior to July 1, 2014. Our opinions are not modified with respect to this matter.

Relationship to the State of Hawaii

As discussed in Note 1 to the financial statements, the financial statements of the EUTF are intended to present the respective financial position, 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, 2015 and 2014, and the changes in its financial position, and where applicable, its cash flows for the years 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, the schedules of funding progress and employer contributions, the eight-year loss development information, and the schedule of the EUTF's proportionate share of the State's net pension liability identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 audits 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise EUTF's basic financial statements. The schedules 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. Such information has been subjected to the auditing procedures applied in the audits 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2015, 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 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 21, 2015

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, 2015 and 2014. 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.

Active employee healthcare benefits, OPEB retiree healthcare benefits (including their respective beneficiaries), and OPEB pre-funding of retiree healthcare benefits are reported separately for accounting purposes. Accordingly, the EUTF reports the active employee healthcare benefits as risk financing in conformity with Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, (Statement No. 10), as amended, the OPEB retiree healthcare benefits in conformity with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (Statement No. 43), and OPEB pre-funding of retiree healthcare benefits, which meets the requirements of a qualifying trust, under Statement No. 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 ended 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 ended on June 30, 2015 for active employees, 2) May 1, 2012 and ended on December 31, 2014 for non-Medicare retirees, and 3) July 1, 2012 and ended on December 31, 2014 for Medicare retirees.

The EUTF procured and entered into one (1) year health benefit and prescription drug contracts with carriers and a TPA with two (2) one (1) year or three (3) one (1) year options to extend. The active employee and retiree contracts with carriers and a TPA started on July 1, 2015 and January 1, 2015, respectively.

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 the 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. Effective January 1, 2015, two (2) new carriers were added: UnitedHealthcare Medicare Advantage Medical Plan and USAble Life for life insurance for retirees replacing RSN.

The CVS Caremark 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 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 for medical and drug only (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 HMSA 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 EUTF and HSTA VEBA HMSA supplemental plans and the bundling of the HMSA medical and CVS Caremark 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 back 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. As a result, EUTF created new plans for the HSTA VEBA members (both active and retirees) that matched their HSTA VEBA benefits. 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 years.
    - 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 - These statements summarize the assets, liabilities, and net position of this fiduciary fund.
        - Statements of changes in net position - These statements summarize the financial results of the operations for the years.

Change in Accounting Principles

Effective July 1, 2014, the EUTF adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (Statement No. 68). 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, such as the Employees' Retirement System of the State of Hawaii.

Simultaneously with the adoption of Statement No. 68, the EUTF adopted the provisions of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68* (Statement No. 71). This statement amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployers for contributions made after the measurement date of the government's beginning net pension liability.

As further discussed in Note 2, the restatement of the comparative financial data for the prior periods presented was not practical due to the unavailability of information from the pension plan, therefore the provisions of Statement No. 68 were not applied to the prior periods. The cumulative effect of applying the provisions of this statement has been reported as a restatement of the enterprise fund's beginning net position for the year ended June 30, 2015. Specifically, the adoption of Statement Nos. 68 and 71 had the effect of decreasing net position as of June 30, 2014 by $3.2 million. In addition, the EUTF recorded a deferred outflow of resources of $541,000, a net pension liability of $3.3 million, and a deferred inflow of resources of $383,000 as of June 30, 2015 in the enterprise fund's financial statements. The adoption of Statement Nos. 68 and 71 had no effect on the EUTF's agency fund's or OPEB Trust's financial statements.

Financial Highlights

For the fiscal years ended June 30, 2015 and 2014, the EUTF collected the following contributions and administrative fees:

	2015	2014
Employer contributions (Enterprise and Agency)	$ 713,496,326	$ 683,614,697
Employee contributions (Enterprise and Agency)	231,486,186	221,907,945
Administrative fees	-	4,677,024

For the fiscal years ended June 30, 2015 and 2014, the EUTF paid the following:

	2015	2014
Carrier payments - fully insured plans	$ 718,685,128	$ 684,359,535
Carrier payments - self funded plans	165,401,239	157,282,872
Medicare Part B reimbursements	60,882,319	59,030,933
Administrative operating expenses	6,204,143	5,107,288

The administrative operating expenses budgeted for the EUTF totaled $6.5 million for the year ended June 30, 2015. Actual administrative operating expenses for the enterprise fund totaled $6.2 million for the year ended June 30, 2015. The expenses included $3.8 million for personnel services, $1.6 million for contracted services, $316,000 for lease rent, $145,000 for insurance, and $299,000 for other expenses such as postage, office supplies, travel, telephone, and repairs and maintenance.

The administrative operating expenses budgeted for the EUTF totaled $6.5 million for the year ended June 30, 2014. Actual administrative operating expenses for the enterprise fund totaled $5.1 million for the year ended June 30, 2014. The expenses included $2.9 million for personnel services, $1.5 million for contracted services, $318,000 for lease rent, $144,000 for insurance, and $282,000 for other expenses such as postage, office supplies, travel, telephone, and repairs and maintenance.

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 Statement No. 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, 2015 and 2014:

	2015	2014	Change	% Change
Assets:				
Current assets	$ 118,122,877	$ 96,499,003	$ 21,623,874	22.4%
Capital assets, net	2,127,279	3,435,439	(1,308,160)	-38.1%
Total assets	120,250,156	99,934,442	20,315,714	20.3%
Deferred outflows of resources related to pension	540,930	-	540,930	100.0%
Liabilities:				
Current liabilities	51,849,441	46,717,190	5,132,251	11.0%
Noncurrent liabilities	5,997,668	2,089,085	3,908,583	187.1%
Total liabilities	57,847,109	48,806,275	9,040,834	18.5%
Deferred inflows of resources related to pension	383,422	-	383,422	100.0%
Net position:				
Net investment in capital assets	2,127,279	3,435,439	(1,308,160)	-38.1%
Unrestricted	60,433,276	47,692,728	12,740,548	26.7%
Total net position	$ 62,560,555	$ 51,128,167	$ 11,432,388	22.4%

The enterprise fund's total assets increased by $20.3 million or 20.3% during the fiscal year ended June 30, 2015. The increase is primarily attributable to an increase in experience refunds due from insurance companies of $35.2 million due to less claims paid than premiums collected and an increase in rebates receivable of $3.9 million. This was partially offset by a decrease in cash and cash equivalents and investments of $18.3 million.

The enterprise fund's deferred outflows of resources and deferred inflows of resources increased by $541,000 and $383,000, respectively, due to the adoption of Statement Nos. 68 and 71 as described in the previous section. The deferred outflows of resources related to pension are primarily attributable to contributions made subsequent to the measurement date of June 30, 2014. The deferred inflows of resources related to pension are primarily attributable to the net difference between the projected and actual earnings on pension plan investments.

The enterprise fund's total liabilities increased by $9.0 million or 18.5% during the fiscal year ended June 30, 2015. The increase is primarily attributable to recording a net pension liability of $3.3 million in accordance with the GASB pension statements and an increase in premiums payable of $3.9 million due to increase in health benefits premiums and enrollment.

The total net position increased by $11.4 million, or 22.4%, for the fiscal year ended June 30, 2015. This is primarily attributable to operating income of $14.4 million for the year ended June 30, 2015, offset by the cumulative effect of adopting the Statement No. 68 of $3.2 million.

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 changes in net position for the years ended June 30, 2015 and 2014, for active employees follows:

	2015	2014	Change	% Change
Revenues:				
Operating revenues	$ 109,837,500	$ 77,308,942	$ 32,528,558	42.1%
Nonoperating revenues	224,878	266,188	(41,310)	-15.5%
Total revenues	110,062,378	77,575,130	32,487,248	41.9%
Operating expenses	95,406,137	77,882,461	17,523,676	22.5%
Increase (decrease) in net position	14,656,241	(307,331)	14,963,572	4868.9%
Net position beginning of year, as previously reported	51,128,167	51,435,498	(307,331)	-0.6%
Restatement	(3,223,853)	-	(3,223,853)	-100.0%
Net position at beginning of year, as restated	47,904,314	51,435,498	(3,531,184)	-6.9%
Net position at end of year	$ 62,560,555	$ 51,128,167	$ 11,432,388	22.4%

The enterprise fund's total revenues increased by $32.5 million, or 41.9%, for the fiscal year ended June 30, 2015. The enterprise fund's experience refunds were $22.0 million more than the previous year due to less claims paid than expected (premiums collected) for the fully-insured with one-way risk sharing health benefit plans. In addition, there was a $15.6 million increase in premium revenues for self-insured plans primarily due to an increase in prescription drug premiums. Administrative fees – agency fund decreased by $4.7 million since administrative fees were waived effective January 1, 2014 for retirees and July 1, 2014 for active employees.

The enterprise fund's operating expenses increased by $17.5 million, or 22.5%, for the fiscal year ended June 30, 2015. There was a $9.8 million or 14.2% increase in claims expenses for the self-insured prescription drug plans primarily due to the continued 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, 2015, the EUTF's prescription drug plan TPA estimated the additional claims expense due to Act 226, SLH 2013 to be $10.3 million. In addition, there was a $1.1 million or 21.5% increase in administrative operating expenses which was mainly attributable to filling personnel positions that were previously vacant and an increase in wages under collective bargaining agreements.

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 rates 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 decreased by $24.5 million, or 45.9%, for the fiscal year ended June 30, 2014. There was $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. 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.

Agency Fund

A summary of the EUTF's plan assets and liabilities for retirees is shown below as of June 30, 2015 and 2014:

	2015	2014	Change	% Change
Assets:				
Cash and cash equivalents	$ 22,231,017	$117,689,076	$ (95,458,059)	-81.1%
Investments	123,874,560	28,410,349	95,464,211	336.0%
Receivables	90,539,767	65,449,546	25,090,221	38.3%
Deposits	8,165,204	8,165,204	-	0.0%
Total assets	$ 244,810,548	$219,714,175	$ 25,096,373	11.4%
Liabilities:				
Premiums payable	$ 21,001,286	$ 19,479,014	$ 1,522,272	7.8%
Benefit claims payable	10,940,042	8,902,229	2,037,813	22.9%
Amounts held on behalf of employers for benefits	212,614,647	191,191,254	21,423,393	11.2%
Other	254,573	141,678	112,895	79.7%
Total liabilities	$ 244,810,548	$219,714,175	$ 25,096,373	11.4%

The agency fund's total assets and total liabilities increased by $25.1 million or 11.4%. The increase is primarily due to increases in experience refunds from insurance companies and in prescription drug rebates receivable of $17.4 million and $7.8 million, respectively.

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.

OPEB Trust

A summary of the EUTF's plan assets and liabilities for OPEB retirees is shown below as of June 30, 2015 and 2014:

	2015	2014	Change	% Change
Assets:				
Cash and cash equivalents	$ 86,464,297	$ 246,225,161	$ (159,760,864)	-64.9%
Investments	757,270,203	379,859,940	377,410,263	99.4%
Total assets	843,734,500	626,085,101	217,649,399	34.8%
Liabilities:				
Investment fees payable	214,255	17,086	197,169	1154.0%
Net Position:				
Restricted for other postemployment benefits	$ 843,520,245	$ 626,068,015	$ 217,452,230	34.7%

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	4331.0%
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 years ended June 30, 2015 and 2014 are summarized in the summary of changes in net position.

A summary of changes in net position for the years ended June 30, 2015 and 2014, for OPEB retirees follows:

	2015	2014	Change	% Change
Additions:				
Employer contributions	$199,789,992	$262,625,686	$ (62,835,694)	-23.4%
Investment earnings, net	17,662,238	48,678,753	(31,016,515)	-63.7%
Change in net position	217,452,230	311,304,439	(93,852,209)	-30.1%
Net position beginning of year	626,068,015	314,763,576	311,304,439	98.9%
Net position ending of year	$843,520,245	$626,068,015	$ 217,452,230	34.7%

During the fiscal year ended June 30, 2015, the net position of the OPEB Trust increased by $217.5 million or 34.7%. The OPEB Trust received $199.8 million of employer pre-funding contributions. In addition, investment earnings, net of investment expenses, amounted to $17.7 million.

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 for 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 $2.1 million as of June 30, 2015. Depreciation expense totaled $1.4 million for the year ended June 30, 2015. There were no significant additions or disposals of capital assets during fiscal year 2015.

The aggregate net capital assets was $3.4 million as of June 30, 2014. Depreciation expense totaled $1.4 million for the year ended June 30, 2014. There were no additions or disposals of capital assets during fiscal year 2014.

Economic Factors Affecting Next Fiscal Year

Factors Affecting Fiscal Year 2016

Effective July 1, 2015, a new bank custodian, Northern Trust, assumed custody of the EUTF's investments.

New active employee health benefit contracts will be implemented effective July 1, 2015 through June 30, 2016.

Retiree health benefit contracts will be extended effective January 1, 2016 to December 31, 2016.

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, 2015 and 2014

Assets:	**2015**	**2014**
Current assets:		
Cash and cash equivalents	$ 5,991,920	$ 30,179,932
Investments	12,643,485	6,791,881
Receivables:		
Premiums receivable from State of Hawaii and counties	34,395,592	33,446,488
Experience refunds due from insurance companies	50,971,838	15,801,709
Rebates receivable	8,707,315	4,780,740
Other receivables, net	20,522	97,183
Prepaid expenses	434,205	443,070
Deposits	4,958,000	4,958,000
Total current assets	118,122,877	96,499,003
Capital assets, net of accumulated depreciation of $7,885,475 in 2015 and $6,520,108 in 2014	2,127,279	3,435,439
Total assets	120,250,156	99,934,442
Deferred Outflows of Resources:		
Deferred outflows related to pension	540,930	-
Liabilities:		
Current liabilities:		
Premiums payable	43,958,246	40,089,444
Benefit claims payable	4,458,284	3,949,091
Due to employees	2,220,267	2,109,952
Vouchers and contracts payable	546,682	135,251
Accrued wages and employee benefits payable	407,375	223,728
Due to State of Hawaii	169,105	144,264
Compensated absences, current portion	89,482	65,460
Total current liabilities	51,849,441	46,717,190
Noncurrent liabilities:		
Net pension liability	3,279,499	-
Other postemployment benefits	2,509,057	1,899,503
Compensated absences, less current portion	209,112	189,582
Total liabilities	57,847,109	48,806,275
Deferred Inflows of Resources:		
Deferred inflows related to pension	383,422	-
Net Position:		
Net investment in capital assets	2,127,279	3,435,439
Unrestricted	60,433,276	47,692,728
Total net position	$ 62,560,555	$ 51,128,167

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, 2015 and 2014

	2015	2014
Operating revenues:		
Premium revenue - self-insured	$ 73,141,017	$ 57,561,624
Experience refunds	36,526,791	14,515,603
COBRA revenue	177,603	206,644
Administrative fees	-	3,506,052
Administrative fees - agency fund	-	1,170,972
Other revenue (loss)	(7,911)	348,047
Total operating revenues	109,837,500	77,308,942
Operating expenses:		
Claims expense - self insured	78,879,468	69,080,250
Insurer fee	8,991,360	2,322,379
Administrative operating expenses	6,204,143	5,107,288
Depreciation	1,365,367	1,371,135
Change in incurred but not reported (IBNR) claims	10,400	(13,400)
Loss (gain) on carrier payment methodology	(44,601)	14,809
Total operating expenses	95,406,137	77,882,461
Operating income (loss)	14,431,363	(573,519)
Nonoperating revenues:		
Investment income	224,878	266,188
Increase (decrease) in net position	14,656,241	(307,331)
Net position at beginning of year, as previously reported	51,128,167	51,435,498
Restatement	(3,223,853)	-
Net position at beginning of year, as restated	47,904,314	51,435,498
Net position at end of year	$ 62,560,555	$ 51,128,167

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, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash paid to vendors	$ (4,240,316)	$ (2,382,924)
Cash paid to employees	(808,639)	(2,428,712)
Cash received from State of Hawaii, counties and individuals for premiums and benefits payments	522,996,925	552,131,571
Cash paid for premiums and benefit payments	(544,733,278)	(527,075,873)
Rebates received related to prescription drug plans	8,281,229	3,695,769
Reserves received from insurance carriers	-	52,897
Net cash provided by (used in) operating activities	(18,504,079)	23,992,728
Cash flows used in capital and related financing activities:		
Purchase of office furniture and equipment	(57,207)	-
Cash flows from investing activities:		
Purchase of securities	(5,851,604)	(6,791,881)
Interest received	224,878	309,989
Net cash used in investing activities	(5,626,726)	(6,481,892)
Net increase (decrease) in cash and cash equivalents	(24,188,012)	17,510,836
Cash and cash equivalents at beginning of year	30,179,932	12,669,096
Cash and cash equivalents at end of year	$ 5,991,920	$ 30,179,932

Supplemental disclosure of noncash activity:

As described in Note 2, the adoption of the GASB pension standards resulted in the restatement of net position ($3,223,853) as of June 30, 2014, and the recording of deferred outflows of resources ($540,930), net pension liability ($3,279,499), and deferred inflows of resources ($383,422) as of June 30, 2015.

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, 2015 and 2014

	2015	2014
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	$ 14,431,363	$ (573,519)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,365,367	1,371,135
Increase in premiums receivable from State of Hawaii and counties	(949,104)	(4,504,297)
Decrease (increase) in experience refunds due from insurance companies	(35,170,129)	23,173,835
Increase in rebates receivable	(3,926,575)	(2,042,264)
Decrease (increase) in other receivables	76,661	(8,151)
Decrease (increase) in prepaid expenses	8,865	(98,891)
Decrease in deposits	-	52,897
Increase in deferred outflows of resources	(540,930)	-
Increase in premiums payable	3,868,802	4,318,851
Increase in benefits claims payable	509,193	1,283,960
Increase in amounts due to employees	110,315	550,187
Increase (decrease) in vouchers and contracts payable	411,431	(56,008)
Increase in accrued wages and employee benefits payable	183,647	43,202
Increase in amounts due to State of Hawaii	24,841	74,442
Increase (decrease) in compensated absences	43,552	(16,151)
Increase in net pension liability	55,646	-
Increase in other postemployment benefits	609,554	423,500
Increase in deferred inflows of resources	383,422	-
Total adjustments	(32,935,442)	24,566,247
Net cash provided by (used in) operating activities	$ (18,504,079)	$ 23,992,728

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, 2015 and 2014

Assets	**2015**	**2014**
Cash and cash equivalents	$ 22,231,017	$ 117,689,076
Investments	123,874,560	28,410,349
Receivables:		
Premiums receivable from State of Hawaii and counties	31,741,489	31,503,215
Experience refunds due from insurance companies	28,001,810	10,616,716
Rebates receivable	30,668,429	22,881,563
Other receivables	-	263,079
Medicare reimbursements from individuals, net of allowance of $826,750 in 2015 and $804,343 in 2014	128,039	138,890
Accrued interest receivable	-	46,083
Total receivables	90,539,767	65,449,546
Deposits	8,165,204	8,165,204
Total assets	$ 244,810,548	$ 219,714,175
Liabilities		
Premiums payable	$ 21,001,286	$ 19,479,014
Benefit claims payable	10,940,042	8,902,229
Due to retirees	22,427	21,313
Due to State of Hawaii	60	60
Other payables	232,086	120,305
Amounts held on behalf of employers for benefits	212,614,647	191,191,254
Total liabilities	$ 244,810,548	$ 219,714,175

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, 2015 and 2014

	2015	2014
Assets:		
Cash and cash equivalents	$ 86,464,297	$ 246,225,161
Investments	757,270,203	379,859,940
Total assets	843,734,500	626,085,101
Liabilities:		
Investment fees payable	214,255	17,086
Net position - restricted for other postemployment benefits	$ 843,520,245	$ 626,068,015

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, 2015 and 2014

	2015	2014
Additions:		
Employer contributions	$ 199,789,992	$ 262,625,686
Investment earnings:		
Interest	13,659,449	8,985,653
Net increase in the fair value of investments	4,762,140	40,016,078
	18,421,589	49,001,731
Less: investment expenses	759,351	322,978
Investment earnings, net	17,662,238	48,678,753
Change in net position	217,452,230	311,304,439
Net position - beginning	626,068,015	314,763,576
Net position - ending	$ 843,520,245	$ 626,068,015

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 protected 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.

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, 2015 and 2014:

	2015	**2014**
Active employees	68,632	68,325
Retirees	44,818	44,035
Dependents	85,783	85,546
Total	199,233	197,906

(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* (Statement No. 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* (Statement No. 10), as amended. The EUTF administers postemployment healthcare benefits under an agent multiple-employer defined benefit plan as defined by Statement No. 43.

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 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.

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, equity commingled funds, and equity securities 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 without a surviving spouse continuing to receive Medicare Part B reimbursements from the EUTF 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The EUTF's deferred outflows/inflows of resources related to pension are detailed in Note 8.

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, 2015 and 2014:

	Enterprise Fund	
	2015	**2014**
Balance at beginning of year	$ 255,042	$ 271,193
Additions	156,677	116,776
Reductions	(113,125)	(132,927)
Balance at end of year	298,594	255,042
Less curent portion	(89,482)	(65,460)
Noncurrent portion	$ 209,112	$ 189,582

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, 2015 and 2014 amounted to approximately $682,000 and $535,000, 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 $4,458,284 and $3,949,091 for active employees and $10,940,042 and $8,902,229 for retirees as of June 30, 2015 and 2014, respectively, based on the EUTF's benefits consultant's estimate for the liability for unpaid claims. These amounts include administrative fees payable to the third party administrator for services provided and for benefit claims incurred as of June 30, 2015 and 2014.

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, 2015 and 2014, respectively, the EUTF recognized gains (losses) of $44,601 and ($14,809), and $29,734 and $15,733, 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 year ended June 30, 2014, the administrative fees charged to the State, counties, and employees to administer the plans were $3,506,052 and $1,170,972, for active employees and retirees, respectively. These amounts are recognized as revenues in the enterprise fund, as all administrative operating expenses are recognized in the enterprise fund. Effective January 1, 2014, administrative fees were not charged on the retiree plans and effective July 1, 2014, administrative fees were not charged on the active employee plans.

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.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the EUTF's participation in the Employees' Retirement System of the State of Hawaii (the ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. The ERS's investments are reported at fair value.

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.

Change in Accounting Principles

Effective July 1, 2014, the EUTF adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (Statement No. 68). 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, such as the ERS.

Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* (Statement No. 27), as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

Simultaneously with the adoption of Statement No. 68, the EUTF adopted the provisions of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68* (Statement No. 71). This statement amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities.

The EUTF did not restate the financial statements as of and for the year ended June 30, 2014, because the actuarial information from the State did not provide the required information for the prior year. As such, the EUTF included the pension disclosures under Statement No. 27, for the year ended June 30, 2014. The EUTF reported the cumulative effect of the change in accounting principles by restating beginning net position in the accompanying 2015 financial statements of the enterprise fund. Specifically, the adoption of Statement Nos. 68 and 71 had the effect of decreasing net position as of June 30, 2014 by $3,223,853. In addition, the EUTF recorded a deferred outflow of resources of $540,930, a net pension liability of $3,279,499, and a deferred inflow of resources of $383,422 as of June 30, 2015 in the enterprise fund's financial statements. Refer to Note 8 for additional information regarding the ERS.

Recently Issued Accounting Pronouncements

GASB Statement No. 72

The GASB issued Statement No. 72, *Fair Value Measurement and Application* (Statement No. 72), which will become effective for financial statements for the fiscal years beginning after June 15, 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments. In addition, this statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The EUTF is currently evaluating the impact that Statement No. 72 will have on its financial statements.

GASB Statement No. 74

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Statement No. 74), which will become effective for financial statements for the fiscal years beginning after June 15, 2016.

The scope of this statement includes other postemployment benefits (OPEB) plans - defined benefit and defined contribution - administered through trusts that meet the certain criteria, such as the EUTF.

For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, Statement No. 74 requires the following:

Financial statements – include a statement of fiduciary net position and a statement of changes in fiduciary net position.

Notes to financial statements – include descriptive information such as the types of OPEB provided, the classes of plan members covered, and the composition of the OPEB plan's board. Such OPEB plans also are required to disclose information about OPEB plan investments, including the OPEB plan's investment policies, concentrations of investments with individual organizations equaling or exceeding five percent of the OPEB plan's fiduciary net position, and the annual money-weighted rate of return on OPEB plan investments. Other required note disclosures include information about contributions; reserves; allocated insurance contracts; components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and significant assumptions and other inputs used to measure the total OPEB liability and the sensitivity of the measure of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

Required supplementary information – include a schedule covering each of the ten most recent fiscal years that includes, for each year, the annual money-weighted rate of return on OPEB plan investments; the sources of changes in the net OPEB liability; and information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll. Additionally, the OPEB plan is required to present a schedule covering each of the ten most recent fiscal years that includes information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios. Significant methods and assumptions used in calculating the actuarially determined contributions are required to be presented as notes to the schedules.

Measurement of the net OPEB liability – the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The total OPEB liability generally is required to be determined through an actuarial valuation. Actuarial valuations of the total OPEB liability are required to be performed at least every two years. If a valuation or calculation is not performed as of the OPEB plan's fiscal year-end, the total OPEB liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation.

This statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended (Statement No. 43), and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The EUTF is currently evaluating the impact the Statement No. 74 will have on its financial statements.

GASB Statement No. 75

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Statement No. 75), which will become effective for financial statements for the fiscal years beginning after June 15, 2017. This statement addresses accounting and financial reporting for OPEB plans that are provided to the employees of state and local governmental employers. In this statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet certain criteria, such as the EUTF.

This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed.

In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The EUTF is currently evaluating the impact that Statement No. 75 will have on its financial statements.

(3) Cash and Cash Equivalents and Investments

As of June 30, 2015 and 2014, the EUTF's cash and cash equivalents and investments were distributed and reported in the financial statements as follows:

	2015			
	Enterprise fund	Agency fund	OPEB Trust	Total
Cash and cash equivalents	$ 5,991,920	$ 22,231,017	$ 86,464,297	$ 114,687,234
Investments	12,643,485	123,874,560	757,270,203	893,788,248
Total	$ 18,635,405	$ 146,105,577	$ 843,734,500	$1,008,475,482

	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

Cash and Cash Equivalents

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, 2015 and 2014, the carrying amounts of these accounts were $114,687,234 and $394,094,169, respectively, and the related bank balances were $115,638,645 and $152,641,993, respectively.

Investments

EUTF Investment Pool

The EUTF maintains an investment pool amounting to $893,788,248 and $415,062,170 as of June 30, 2015 and 2014, respectively.

The EUTF's investment pool, at fair value, consists of the following investments as of June 30, 2015 and 2014:

	2015	2014
Mutual funds:		
Fixed income - domestic:		
Inflation protected	$ 129,063,625	$ 70,775,256
Core	113,956,673	55,456,457
Short-term	136,518,045	35,202,230
Equity:		
U.S. real estate security	113,948,409	79,066,312
U.S. equity	-	110,178,726
Global	-	64,383,189
U.S. micro cap equities	68,635,465	-
Commingled funds:		
Equity - domestic	185,081,322	-
Equity - international	146,584,709	-
Total investments	$ 893,788,248	$ 415,062,170

Investments in mutual funds and U.S. micro cap equities 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.

Investments in commingled funds are valued at the NAV of units of a bank commingled investment vehicle. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

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, 2015.

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.

Strategic Allocation

Strategic 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 strategic 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 strategic allocation for the EUTF's two asset pools as of June 30, 2015, is as follows:

Strategic 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:			
U.S. equities	24%	19%	29%
International equities	19%	15%	23%
U.S. fixed income	15%	12%	18%
Inflation linked securities	17%	14%	20%
U.S. real estate securities	16%	13%	19%
U.S. microcap equities	9%	7%	11%
Cash & equivalents	0%	0%	2%

Rebalancing

The Board/Investment Committee has a policy of rebalancing the portfolio when actual strategic 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 strategic allocation ranges in the quarterly measurement, the Board or Investment Committee, generally, will provide direction to rebalance the portfolio to the 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, 2015 and 2014, the EUTF investment pool had monies invested in equity and fixed income mutual funds, equity commingled funds, and equity securities.

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 a 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 and commingled 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, 2015 and 2014, 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, 2015 and 2014 was as follows:

	Balance at July 1, 2014	Additions	Disposals	Balance at June 30, 2015
Office furniture and equipment	$ 479,828	$ 57,207	$ -	$ 537,035
Computer equipment and software	9,475,719	-	-	9,475,719
Less accumulated depreciation	(6,520,108)	(1,365,367)	-	(7,885,475)
Capital assets, net	$ 3,435,439	$ (1,308,160)	$ -	$ 2,127,279

	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

(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 are on a fiscal year and calendar year, 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

UnitedHealthcare - *Fully-insured*

- Medicare Advantage PPO plan – EUTF Medicare retirees

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 Caremark - *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 (ended December 31, 2014)

USAble Life – *Fully-insured*

- Term life insurance – EUTF and HSTA VB retirees (started January 1, 2015)

Supplemental

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

- EUTF active employees

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, 2015 and 2014:

	2015		2014	
	Active Employees	**Retirees**	**Active Employees**	**Retirees**
Experience refunds due from insurance companies:				
HDS	$ 2,350,950	$ 858,453	$ 859,221	$ 98,370
HMSA	47,805,513	26,677,786	14,501,924	10,203,385
RSN	288,817	-	152,937	-
VSP	526,558	465,571	287,627	314,961
	$ 50,971,838	$ 28,001,810	$15,801,709	$10,616,716
Rebates receivable:				
Receivable from CVS	$ 8,707,315	$ 2,527,496	$ 4,780,740	$ 1,230,214
Receivable from Silverscript	-	28,140,933	-	21,651,349
	$ 8,707,315	$ 30,668,429	$ 4,780,740	$22,881,563

	2015		2014	
	Active Employees	Retirees	Active Employees	Retirees
Premiums payable:				
COBRA payable - HDS	-	-	$ 376	$ -
COBRA payable - Kaiser	-	-	2,780	-
COBRA payable - RSN	-	-	641	-
COBRA payable - VSP	-	-	30	-
HDS	2,896,567	3,122,015	2,720,242	1,783,769
HDS - HSTA VB	496,900	122,261	496,642	116,566
HMSA	24,679,197	11,711,511	23,497,372	11,832,164
HMSA - HSTA VB	3,990,136	681,343	3,991,531	868,921
Kaiser Hawaii	9,870,131	4,700,676	7,373,316	4,227,816
Kaiser Hawaii - HSTA VB	1,046,650	158,632	1,082,607	153,941
RSN Chiro - HSTA VB	15,380	5,238	15,914	5,229
RSN Dual/Chiro	151,280	-	122,180	-
RSN Life	244,023	62	241,107	150,026
RSN Life - HSTA VB	36,647	-	39,049	10,325
UnitedHealthcare	-	2,156	-	-
USAble	-	153,305	-	-
USAble - HSTA VB	-	10,255	-	-
VSP	454,044	314,159	430,753	310,011
VSP - HSTA VB	77,291	19,673	74,462	20,008
Standard	-	-	442	238
	$ 43,958,246	$ 21,001,286	$40,089,444	$19,479,014

(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, 2015:

	Active Employees	Retirees	Total
Balance at July 1, 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
Claims and changes in estimates	90,646,846	145,434,584	236,081,430
Contractor processing administrative fees	1,017,509	3,921,181	4,938,690
Paid (including rebates) during the year	(91,155,162)	(147,317,952)	(238,473,114)
Balance at June 30, 2015	$ 4,458,284	$ 10,940,042	$ 15,398,326

Below is a summary of benefit claims payable by TPA at June 30, 2015 and 2014:

	2015		2014	
	Active Employees	Retirees	Active Employees	Retirees
Benefit claims payable:				
Benefit claims - CVS	$ 4,216,259	$ 4,858,292	$ 3,717,760	$ 4,296,438
Benefit claims - HMA	72,173	3,007	72,881	3,036
Benefit claims - Silverscript	-	5,452,833	-	3,978,055
IBNR for self-insured plans	86,000	-	75,600	-
Admin fee - CVS	83,852	14,743	82,850	17,052
Admin fee - Silverscript	-	611,167	-	607,648
	$ 4,458,284	$10,940,042	$ 3,949,091	$ 8,902,229

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, 2015 and 2014 are as follows:

	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

(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, 2015 and 2014, are as follows:

	2015		
	Active Employees	**Retirees**	**Total**
Required contributions:			
Employer:			
State of Hawaii	$ 244,990,558	$ 275,614,692	$ 520,605,250
State of Hawaii - HSTA VB	3,804,567	149,975	3,954,542
City & County of Honolulu	46,175,908	64,676,380	110,852,288
County of Hawaii	13,607,410	14,125,400	27,732,810
County of Maui	14,643,796	12,728,384	27,372,180
County of Kauai, including Department of Water	6,684,442	6,887,106	13,571,548
Board of Water Supply - Honolulu	2,809,770	4,913,381	7,723,151
County of Hawaii - Department of Water	911,214	773,343	1,684,557
	333,627,665	379,868,661	713,496,326
Employee	228,716,451	2,769,735	231,486,186
	562,344,116	382,638,396	944,982,512
Pre-funded contributions - employer:			
State of Hawaii	-	117,400,000	117,400,000
City & County of Honolulu	-	47,122,724	47,122,724
County of Hawaii	-	4,532,000	4,532,000
County of Maui	-	15,305,000	15,305,000
County of Kauai, including Department of Water	-	8,360,268	8,360,268
Board of Water Supply - Honolulu	-	5,900,000	5,900,000
County of Hawaii - Department of Water	-	1,073,000	1,073,000
Honolulu Authority for Rapid Transportation	-	97,000	97,000
	-	199,789,992	199,789,992
	$ 562,344,116	$ 582,428,388	$1,144,772,504

	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

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, 2015 for the enterprise fund and agency fund, respectively, were $489,203,099 and $229,495,856 and for the year ended June 30, 2014 for the enterprise fund and agency fund, respectively, were $456,927,900 and $227,431,635.

(8) Retirement Benefits

Employees' Retirement System

Plan Description

All eligible employees of the State and counties, which includes the EUTF, are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation.

Benefits Provided

The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory class members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

Retirement Benefits

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension.

Contributory Class for Employees Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 55.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 5 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation to the surviving spouse/reciprocal beneficiary until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 1 year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Employees Hired After June 30, 2012

Retirement Benefits

Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 10 years of credited service are eligible to retire at age 60.

Disability and Death Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory plan members hired after June 30, 2012 are generally the same as those for contributory plan members hired June 30, 2012 and prior.

Hybrid Class for Employees Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation to the surviving spouse/reciprocal beneficiary until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 5 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Employees Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

Disability and Death Benefits

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 120%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary, or if less than 10 years of service, return of member's contributions and accrued interest.

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates were 24.0% for police and firefighters and 16.5% for all other employees. Contributions to the ERS from the EUTF were $345,879 and $268,804 for the fiscal years ended June 30, 2015 and 2014, respectively.

The employer is required to make all contributions for noncontributory members. For contributory class employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary and police and firefighters are required to contribute 12.2% of their salary. For contributory class employees hired after June 30, 2012, judges and elected officials are required to contribute 9.8% of their salary and police and firefighters are required to contribute 14.2% of their salary. Hybrid members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Measurement of the actuarial valuation of the pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources 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 pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by Statement Nos. 68 and 71 pertaining to the State's net pension liability, pension expense, deferred outflows of resources, and deferred inflows of resources can be found in the State's CAFR.

At June 30, 2015, the EUTF reported a net pension liability of $3,279,499 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The EUTF's proportionate share of the net pension liability was based on a projection of the EUTF's share of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2014, the State's proportion was 58.48%, which was an increase of .85% from its proportion measured as of June 30, 2013. The EUTF's share of the State's net pension liability at June 30, 2014 was .07%

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2015, the EUTF recognized pension expense of $280,762. At June 30, 2015, the EUTF reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 493,662	$ -
Differences between expected and actual experience	41,320	932
Changes in proportion and differences between contributions and proportionate share of contributions	5,948	-
Net difference between projected and actual earnings on pension plan investments	-	382,490
	$ 540,930	$ 383,422

The $493,662 reported as deferred outflows of resources related to pensions resulting from the EUTF's contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30:	
2016	$ (85,901)
2017	(85,901)
2018	(85,901)
2019	(85,901)
2020	7,450
	$ (336,154)

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.50%
Investment rate of return	7.75% compounded annually including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA.

Post-retirement mortality rates are based on Client Specific Tables and the 1994 US Group Annuity Mortality Statistic Tables for police and firefighters. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates their experience studies every five years.

Long-term Expected Rate of Return on Pension Plan Investments

The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	30.00%	8.50%
International equity	26.00%	9.00%
Total fixed-income	20.00%	3.10%
Real estate	7.00% *	8.46%
Private equity	7.00% *	11.75%
Real return	5.00% *	6.10%
Covered calls	5.00%	7.65%
Total investments	100.00%	

*The real estate, private equity, and real return targets will be the percentage actually invested up to 7%, 7%, and 5%, respectively of the total fund. Changes in the real estate private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the net pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State, which includes the EUTF, will be made at statutorily required rates, actuarially determined. Based on those assumptions, the ERS's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

Sensitivity of the EUTF's Proportionate Share of the State's Net Pension Liability to Changes in the Discount Rate

The following presents the EUTF's proportionate share of the State's net pension liability calculated using the discount rate of 7.75%, as well as what the EUTF's proportionate share of the State's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
EUTF's proportionate share of the State's net pension liability	$ 4,162,179	$ 3,279,499	$ 2,401,955

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the ERS. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at http://ers.ehawaii.gov/.

Pension Contributions Under GASB Statement No. 27

For periods prior to June 30, 2014, the funding method used to calculate the total employer contribution was 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 State's actual pension contribution was approximately $268,800, $241,300, and $223,800 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.

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, 2015, 2014 and 2013 were $213,559, $174,100, and $158,685, respectively, which represented 26%, 29%, 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, 2015 and 2014:

	2015	2014
Annual required contribution	$ 823,113	$ 597,600
Contributions made	(213,559)	(174,100)
Increase in net OPEB obligation	609,554	423,500
Net OPEB obligation at beginning of year	1,899,503	1,476,003
Net OPEB obligation at end of year	$ 2,509,057	$ 1,899,503
Actual contributions made as a percentage of ARC	26%	29%

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 (excluding part-time, temporary, and casual/seasonal), 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 the 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.

The Circuit Court denied the motion. Plaintiffs subsequently stipulated to dismiss their claims premised on the contribution cap, which readied the case for final judgment. Plaintiffs appealed to the Intermediate Court of Appeals. On Defendant's request, the Hawaii Supreme Court accepted the case on transfer. Briefing of the appeal has been completed. The Defendants expect the Hawaii Supreme Court will hear oral argument in the case by early 2016.

The Defendants 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, 2015 or 2014. 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 trustees of the Hawaii State Teachers Association Voluntary Employees' Beneficiary Association Trust (the VEBA Trust) and certain individuals who allegedly participated in health and other benefit plans provided by 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, 2015 and 2014. 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, among other risks, torts; theft of, damage to, or destruction of assets; errors and 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. Additionally, the EUTF obtained a cyber-risk insurance policy with an aggregate loss limit of $5 million and a $100,000 deductible.

The State retains various risks and insures certain excess layers with commercial insurance companies. The State purchases policies that provide coverage for all state entities, including the EUTF. The State has a crime insurance policy for various types of coverage including employee dishonesty with an annual aggregate for losses of $10 million and a $500,000 deductible.

The State also has a liability insurance policy for various types of coverage including employment practices and errors and omissions to cover any wrongful acts or employment practices violations with an annual aggregate for losses of $15 million.

The EUTF is covered under the State's self-insurance program for workers' compensation. During fiscal years 2015 and 2014, the EUTF paid $23,120 and $15,424, respectively, in workers' compensation premiums to the State's General Fund.

There have been no claims against the EUTF under the insurance coverage for 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). The lease was amended on July 20, 2015 increasing the total rental area to 13,601 square feet and extending the term for seven years starting 60 days after completion of the improvements to the suites. The EUTF anticipates the improvements to be completed in February 2016. Rent on this lease is paid by the EUTF.

At June 30, 2015, the future minimum rental commitment under the noncancelable operating lease through 2023 is as follows:

Year Ending June 30:		
2016	$	351,000
2017		452,000
2018		452,000
2019		452,000
2020		452,000
Thereafter		1,244,000
	$	3,403,000

Minimum rent payments are recognized on a straight-line basis over the term of the lease. The rent expense for the years ended June 30, 2015 and 2014 was $315,833 and $318,275, 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, 2015 and 2014, based on the July 1, 2013 actuarial valuation, were as follows:

	2015		
	Required contribution for June 30, 2015 (pay as you go basis)	**ARC for June 30, 2015**	**ARC as a percentage (%) of the covered payroll**
Employer:			
State of Hawaii	$ 275,764,667	$ 717,689,000	23.7%
City & County of Honolulu	64,676,380	147,058,000	25.8%
County of Hawaii	14,125,400	32,478,000	22.8%
County of Maui	12,728,384	28,241,000	19.0%
County of Kauai, including Department of Water	6,887,106	15,829,000	20.3%
Board of Water Supply - Honolulu	4,913,381	8,528,000	26.0%
County of Hawaii - Department of Water	773,343	1,850,000	21.5%
Honolulu Authority for Rapid Transportation	-	532,000	7.6%
	$ 379,868,661	$ 952,205,000	

	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 Hwaii - 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	

The fair value of the OPEB Trust by employer as of June 30, 2015 and 2014, respectively, are as follows:

	2015	2014
State of Hawaii	$ 221,193,812	$ 100,002,466
Board of Water Supply - Honolulu	50,688,924	43,620,516
County of Hawaii	91,579,237	84,765,319
County of Maui	148,982,952	130,451,172
County of Kauai, including Department of Water	76,863,393	66,626,933
Hawaii County Department of Water Supply	11,524,221	10,181,284
City & County of Honolulu	242,592,504	190,420,325
Honolulu Authority for Rapid Transportation	95,202	-
	$ 843,520,245	$ 626,068,015

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 Statement No. 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, 2015, the EUTF changed custodians from Bank of Hawaii with Bank of New York Mellon as subcustodian to Northern Trust.

The EUTF has evaluated subsequent events from the statements of net position date through December 21, 2015, 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 2015

June 30,	Annual Required Contributions	Percentage contribution
2015	$ 952,205,000	39.9%
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

Required Supplementary Information (Unaudited)

Eight-Year Loss Development Information

June 30, 2008 through 2015

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 eight 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 eight 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

Required Supplementary Information (Unaudited)

Eight-Year Loss Development Information

June 30, 2008 through 2015

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 (Unaudited)

Self-Insured Active Employee Healthcare Benefit Plans
Eight-Year Loss Development Information

June 30, 2008 through 2015

	2008	2009	2010	2011	2012	2013	2014	2015
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	$ 73,318,621
Ceded	-	-	-	-	-	-	-	-
Net earned	$ 195,936,354	$ 221,762,304	$ 256,755,699	$ 246,004,463	$ 153,831,438	$ 51,774,778	$ 58,365,379	$ 73,318,621
2. Unallocated expenses	$ 2,382,253	$ 2,324,705	$ 3,464,359	$ 3,828,417	$ 2,142,126	$ 1,241,104	$ 1,101,332	$ 1,324,632
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	$ 78,889,869
Ceded	-	-	-	-	-	-	-	-
Net incurred	$ 233,857,827	$ 267,973,485	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849	$ 78,889,869
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	$ 82,307,251
One year later	231,169,876	283,354,922	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	
Two years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143	51,976,970		
Three years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143			
Four years later	231,157,984	283,378,367	239,959,499	234,225,771				
Five years later	231,157,984	283,378,367	239,959,499					
Six years later	231,157,984	283,378,367						
Seven years later	231,157,984							
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	$ 78,889,869
One year later	231,169,876	283,354,922	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	
Two years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143	51,976,970		
Three years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143			
Four years later	231,157,984	283,378,367	239,959,499	234,225,771				
Five years later	231,157,984	283,378,367	239,959,499					
Six years later	231,157,984	283,378,367						
Seven years later	231,157,984							
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	$ 13,400	$ -

See accompanying independent auditors' report.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information (Unaudited)

Schedule of the EUTF's Proportionate Share of the State's Net Pension Liability

June 30, 2015

EUTF's proportion of the State's net pension liability		0.07%
EUTF's proportionate share of the State's net pension liability	$	3,279,499
EUTF's covered-employee payroll	$	1,676,836
EUTF's proportionate share of the State's net pension liability as a percentage of its covered-employee payroll		195.58%
Plan fiduciary net position as a percentage of total pension liability		63.92%

Note to Schedule

The EUTF, as an administratively attached agency of the State, is required to recognize a liability for its proportionate share of the State's net pension liability. The EUTF recognizes pension expense and reports deferred outflows of resources and deferred inflows of resources related to pension for its proportionate share of the State's pension expense and deferred outflows of resources and deferred inflows of resources related to pension.

The schedule presents information to illustrate changes in the EUTF's proportionate share of the State's net pension liability over a ten-year period when the information is available.

OTHER SUPPLEMENTARY INFORMATION

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Schedules of Administrative Operating Expenses - Enterprise Fund

Years Ended June 30, 2015 and 2014

	2015	2014
Administrative operating expenses:		
Personnel services	$ 3,798,958	$ 2,879,263
Contracted services	1,645,392	1,484,134
Occupancy	315,833	318,275
Insurance	145,443	143,856
Postage	93,557	76,926
Printing and binding	61,784	67,443
Telephone	38,905	37,334
Repairs and maintenance	30,638	8,108
Rental of equipment	22,466	18,879
Transportation	22,226	27,791
Supplies	19,624	19,136
Other	9,317	26,143
Total administrative operating expenses	$ 6,204,143	$ 5,107,288

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, 2015

	July 1, 2014	Additions	Deductions	June 30, 2015
Assets:				
Cash and cash equivalents	$ 117,689,076	$ 435,310,618	$ (530,768,677)	$ 22,231,017
Investments	28,410,349	95,464,211	-	123,874,560
Receivables:				
Premiums receivable from State of Hawaii and counties	31,503,215	288,923,758	(288,685,484)	31,741,489
Experience refunds due from insurance companies	10,616,716	17,804,994	(419,900)	28,001,810
Rebates receivable	22,881,563	49,997,702	(42,210,836)	30,668,429
Other receivables	263,079	-	(263,079)	-
Medicare reimbursements from individuals, net of allowance of $826,750 in 2015 and $804,343 in 2014	138,890	61,513,305	(61,524,156)	128,039
Accrued interest receivable	46,083	94,466	(140,549)	-
Total receivables	65,449,546	418,334,225	(393,244,004)	90,539,767
Deposits	8,165,204	-	-	8,165,204
Total assets	$ 219,714,175	$ 949,109,054	$ (924,012,681)	$ 244,810,548
Liabilities:				
Premiums payable	$ 19,479,014	$ 231,448,844	$ (229,926,572)	$ 21,001,286
Benefit claims payable	8,902,229	120,408,114	(118,370,301)	10,940,042
Due to retirees	21,313	2,324,518	(2,323,404)	22,427
Due to State of Hawaii	60	-	-	60
Other payables	120,305	501,110	(389,329)	232,086
Amounts held on behalf of employers for benefits	191,191,254	122,724,642	(101,301,249)	212,614,647
Total liabilities	$ 219,714,175	$ 477,407,228	$ (452,310,855)	$ 244,810,548

See accompanying independent auditors' report.

PART III

INTERNAL CONTROL AND COMPLIANCE SECTION

KKDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

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
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 years ended June 30, 2015 and 2014, and the related notes to financial statements, and have issued our report thereon dated December 21, 2015.

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 21, 2015