ANNUAL REPORT

FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

December 2013

THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
ANNUAL REPORT
Fiscal Year ended June 30, 2013

This report presents an overview of the organization and activities of the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") for the fiscal year ending June 30, 2013. The EUTF manages and administers the health and life insurance plans for eligible state and county employees and retirees and their dependents. The objective of the EUTF is to provide quality health plans that are affordable to employers and employees.

The EUTF was established under Chapter 87A of the Hawaii Revised Statutes and is administratively attached to the Department of Budget and Finance. The office is located in City Financial Tower, 201 Merchant Street, Suite 1520, Honolulu, Hawaii.

The EUTF operates according to administrative rules originally adopted in February 2003 and most recently revised in 2009. The administrative rules were formulated to carry out the requirements of Chapter 87A.

MAJOR EVENTS IN FISCAL YEAR 2013

EUTF conducted open enrollment in October 2012 for retirees, with an effective date of January 1, 2013 and in April/May, 2013 for active employees, with an effective date of July 1, 2013.

The process of transferring banking arrangements to Bank of Hawaii finalized, except for a few incidental processes that finalized after June 30, 2013.

The EUTF Board of Trustees approved the Plan and Trust Agreement creating the Hawaii Employer-Union Health Benefits Fund for Other Post-Employment Benefits ("OPEB Trust") effective June 30, 2013. Effective fiscal year 2013, the OPEB Trust met the criteria of a trust fund. Pre-funding contributions made by employers are considered contributions to the OPEB Trust.

TRUST FUND ORGANIZATION

<u>Board of Trustees</u>
The EUTF is administered by a board of trustees ("Board") which is responsible for determining the benefit plans offered, negotiating and entering into contracts with insurance carriers and plan administrators, establishing eligibility criteria and management policies for the EUTF, and overseeing all EUTF activities.

There are ten trustees, five representing the public employers and five representing employee-beneficiaries, including a retiree representative. The trustees as of June 30, 2013 are shown below:

Board officers were elected July 1, 2013 as follows: Linda Currivan Musto, Chairperson, Julia Zeghmi, Vice-Chairperson, and Luis Salaveria, Secretary-Treasurer.

The Board has regularly scheduled monthly meetings with the exception of October. Board agendas and minutes are posted on the EUTF website eutf.hawaii.gov.

The EUTF is audited annually and the annual financial reports are also posted on the EUTF website.

<u>Administrator and Staff</u>

The EUTF is managed by an administrator who is hired by and reports to the Board.

The administrator is assisted in managing the EUTF by an assistant administrator, a financial management officer, an information systems analyst, and a member services manager. EUTF staff has a total of 52 positions (including management staff and the Administrator).

The EUTF has three branches: the Financial Services Branch, Information Systems Branch, and Member Services Branch.

- The financial management officer is supported by six accountants and three account clerks, who reconcile employee accounts, collect employer/employee contributions for health benefits, process all vendor payments, prepare monthly financial statements and coordinate an annual financial audit.
- The information systems analyst manages support for internal IT services, manages 1st level support for the benefits administration system, fulfills HIPAA security responsibilities, coordinates additional support services provided by DAGS/ICSD and Vitech Systems Group, Inc, and is supported by seven IT staff .
- The member services branch manager oversees the Member Services Branch and is supported by 25 employees assigned to customer service, enrollment and training duties that include in person visits and phone calls and e-mails from members, handling all processing for retirees, and processing all active employee enrollment submissions.

<u>Advisors, Consultants and Major Contracts</u>

The Board employs professional consultants and advisors on certain specific issues of importance to the EUTF:

- Benefits Plan Consultant: The Board has contracted with the Segal Company ("Segal") to provide benefit plan consulting services. Segal is a major national benefits consulting firm and provides access to their wide range of services from their Glendale California office.

- Benefits Administration System ("BAS"): Vitech Systems Group, Inc. provides the benefits administration computer system which handles all enrollment input and transmission, member records and premium calculation and tracking. Vitech Systems Group, Inc. provides on-going support of the benefits administration system including programming periodic plan and eligibility rule changes.

- Investment Consultants: Pension Consulting Alliance provides guidance in long term investments.

- Actuary: A solicitation is expected to occur in September 2013 for a new actuary who will provide actuarial evaluation and analysis of the Other Post Employment Benefit ("OPEB") liability for retiree health plans.

- Auditor: A new auditing firm, PKF Pacific Hawaii LLP, procured by the State of Hawaii Office of the Auditor, to conduct the FY2013 audit.

HEALTH AND LIFE INSURANCE BENEFIT PLANS

The EUTF provides health and life insurance benefits through contracts with the following organizations:

- Hawaii Medical Service Association ("HMSA")
    1. PPO Plans – 90/10, 80/20, and 75/25 (starting 7/1/13)
    2. HMO
    3. HSTA VB* 90/10 & 80/20 PPO plans
    4. Retiree PPO 90/10 plans
- Kaiser Permanente ("Kaiser")
    1. Comprehensive HMO (EUTF & HSTA VB*)
    2. Standard HMO (starting 7/1/13)
    3. Retiree Comprehensive HMO (Non Medicare and Kaiser Senior Advantage Medicare plans)
- CVS Caremark
    1. Caremark Prescription drug coverage for HMSA PPO and HMO plans – Active and non-Medicare retirees
    2. SilverScript Prescription drug coverage through an Employer Group Waiver Plan (EGWP)
- Hawaii Dental Service ("HDS") – EUTF Active and Retiree & HSTA VB* Active, Retiree and Supplemental (HSTA VB*) plans
- Vision Service Plan ("VSP") – Active, Retiree & HSTA VB* plans
- Royal State National Insurance Company, Ltd
    1. Chiropractic coverage through ChiroPlan Hawaii, Inc. ("ChiroPlan") – included with all active medical plans

2. Group Life insurance for all active employees and retirees.

- Supplemental Medical Plans
  1. Royal State National Insurance Company, Ltd. (“Royal State”)
  2. HMSA Supplemental
  3. HMSA HSTA VB* Supplemental

The federal Affordable Care Act (ACA) became effective for the active employee medical and prescription drug plans on July 1, 2011. During the period July 1, 2012 to June 30, 2013, EUTF made the following plan design changes to conform to ACA:

- **All EUTF and HSTA VB* Active 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 (HRSA), including providing services without a copayment, cost share or deductible when rendered by a participating provider.

- **HSTA VB* Dual Coverage (Supplemental Plan):** Increased the annual dollar maximum from $750,000 to $1,250,000 effective July 1, 2012.

* HSTA VB refers to the plans developed in response to Judge Sakamoto’s December 7, 2010 ruling. HSTA VB plans cover only those who were previously covered by the HSTA VEBA plans effective 12/31/10.

EUTF ACTIVITY IN 2012 – 2013

On April 1, 2013 the EUTF added a supplemental drug plan for Medicare retirees. The new supplemental drug plan enhanced the existing Medicare drug plan by expanding access to certain drugs as well as reducing co-pays for some drugs and providing coverage above and beyond what Medicare covers. This new supplemental plan did not cost any additional premiums to retirees or the State and counties.

The 2013 Legislature passed HB65 (Act 226, SLH2013) that, among other things, prohibited mandatory mail order. EUTF will be implementing Act 226, SLH2013 during FY14.

INSURED AND SELF-INSURED PLANS

The following plans are fully insured:

HMSA*
Kaiser
Royal State Life insurance
Chiro Plan through Royal State
Royal State Supplemental
HDS Dental*
VSP Vision*

* Fully insured with premium refund in those years in which premium exceeds incurred claims and expenses.

The following plans are self funded:

- CVS Caremark Prescriptions Drug (for active employees and non-Medicare retirees) and SilverScript EGWP Prescription Drug (for Medicare retirees)

OPERATIONS

Ongoing Programs and General Operations

The EUTF provides Open Enrollment sessions for active employees each Spring and for retirees each Fall, as well as Departmental Personnel Officer informational sessions each year. EUTF also participates in pre-retirement sessions and new hire orientation conducted by the various employers.

During FY2013, the EUTF Member Services Branch continued to achieve greater operational efficiencies. The Call Center successfully handled 93,205 phone calls and staff serviced over 7,355 walk-in visitors. Additionally, 72,019 incoming documents were imaged; 66,558 enrollment-related outbound documents were printed in-house and mailed directly to plan participants.

Information Systems handled the following systems issues in addition to normal work flow:

- System modification to transition and administer Medicare Part D prescription drug eligibility to SilverScript Insurance Company
- Implement secure transfer of the ACH data files with Bank of Hawaii
- Migrated the EUTF web site contents to a new web server
- Implemented an "Acceptable Usage of Information Technology Resources" acknowledgement form procedure each time an EUTF staff logs on to an EUTF computer
- Implemented 834 eligibility file changes as requested by CVS/Caremark
- Provided Benefit Plan cost data for 2012 W-2s in accordance with the Federal Affordable Care Act to State of Hawaii DAGS, City & County of Honolulu, Hawaii Department of Water Supply, Hawaii Public Charter Schools, County of Maui, and County of Kauai

An annual audit of the EUTF, as required by Chapter 87A-25(2), was conducted for the fiscal year July 1, 2012 through June 30, 2013 by PKF Pacific Hawaii, LLP. The EUTF Financial Statements and Independent Auditor’s Report is posted on EUTF’s website and attached to this report.

The following pages provide enrollment data as of June 15, 2013 and premium and claim payment data for the six months from January 1 through June 30, 2013.

Enrollment Counts - EUTF Actives

The table below shows EUTF Actives enrollments for period ending 06-30-2013

Count by Enrollment Coverage

Count of Subscribers	Type of Enrollment			
Benefit Plan	**Self**	**Two-Party**	**Family**	**Grand Total**
Medical Plans				
PPO-90/10 Medical (HMSA), Chiro (RSN)	3,837	1,034	1,492	6,363
PPO-80/20 Medical (HMSA), Chiro (RSN)	12,396	4,031	6,715	23,142
HMO Medical (HMSA), Chiro (RSN) bundled with HMO Drug (CaremarkPCS)	1,863	423	575	2,861
High Deductible Health Plan Medical (HMSA), Drug (HMSA)	142	24	25	191
HMO Comprehensive Medical (Kaiser), Drug (Kaiser), Chiro (RSN)	4,503	1,373	2,026	7,902
HMO Basic Medical (Kaiser), Drug (Kaiser), Chiro (RSN)	1,048	220	277	1,545
Supplemental Medical (HMSA), Drug (HMSA), Chiro (RSN)	156	104	155	415
Supplemental Medical (RSN), Drug (RSN), Chiro (RSN)	92	86	199	377
Medical Plans Total	**24,037**	**7,295**	**11,464**	**42,796**
Drug Plans				
PPO Drug (CaremarkPCS)	15,480	4,991	8,123	28,594
HMO Drug (CaremarkPCS) bundled with HMO Medical (HMSA)	1,863	423	575	2,861
Drug Plans Total	**17,343**	**5,414**	**8,698**	**31,455**
Dental Plan (HDS)	**22,803**	**10,132**	**13,710**	**46,645**
Vision Plan (VSP)	**22,407**	**8,949**	**12,378**	**43,734**
Life Insurance (RSN)	**56,816**			**56,816**

Count by Subscribers and Dependents

	Type		
Benefit Plan	**Subscribers**	**Dependents**	**Total**
Medical Plans			
PPO-90/10 Medical (HMSA), Chiro (RSN)	6,363	5,470	11,833
PPO-80/20 Medical (HMSA), Chiro (RSN)	23,142	23,755	46,897
HMO Medical (HMSA), Chiro (RSN) bundled with HMO Drug (CaremarkPCS)	2,861	2,127	4,988
High Deductible Health Plan Medical (HMSA), Drug (HMSA)	191	104	295
HMO Comprehensive Medical (Kaiser), Drug (Kaiser), Chiro (RSN)	7,902	7,490	15,392
HMO Basic Medical (Kaiser), Drug (Kaiser), Chiro (RSN)	1,545	1,022	2,567
Supplemental Medical (HMSA), Drug (HMSA), Chiro (RSN)	415	555	970
Supplemental Medical (RSN), Drug (RSN), Chiro (RSN)	377	684	1,061
Medical Plans Total	**42,796**	**41,207**	**84,003**
Drug Plans			
PPO Drug (CaremarkPCS)	28,594	28,936	57,530
HMO Drug (CaremarkPCS) bundled with HMO Medical (HMSA)	2,861	2,127	4,988
Drug Plans Total	**31,455**	**31,063**	**62,518**
Dental Plan (HDS)	**46,645**	**49,892**	**96,537**
Vision Plan (VSP)	**43,734**	**44,803**	**88,537**

Data Taken 06-15-2013

Enrollment Counts - HSTA VB Actives

The table below shows HSTA VB Actives enrollments for period ending 06-30-2013

Count by Enrollment Coverage

Count of Subscribers	Type of Enrollment			
Benefit Plan	**Self**	**Two-Party**	**Family**	**Grand Total**
Medical Plans				
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (CaremarkPCS), Vision (VSP)	1,392	305	889	2,586
HSTA VB PPO-80/20 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (CaremarkPCS), Vision (VSP)	1,704	552	1,552	3,808
HSTA VB HMO Medical (Kaiser), Drug (Kaiser), Chiro (RSN) bundled with Vision (VSP)	832	216	520	1,568
HSTA VB Supplemental Medical (HMSA), Drug (HMSA), Vision (HMSA), Chiro (RSN)	40	48	128	216
Medical Plans Total	**3,968**	**1,121**	**3,089**	**8,178**
Drug Plan				
HSTA VB PPO Drug (CaremarkPCS) bundled with PPO-80/20 or PPO-90/10 Medical (HMSA)	3,097	857	2,441	6,395
Drug Plan Total	**3,097**	**857**	**2,441**	**6,395**
Dental Plans				
HSTA VB Dental (HDS)	3,838	1,417	3,263	8,518
HSTA VB Supplemental Dental (HDS)	50	51	186	287
Dental Plans Total	**3,888**	**1,468**	**3,449**	**8,805**
Vision Plans				
HSTA VB Vision (VSP) - Stand Alone	44	65	179	288
HSTA VB Vision (VSP) bundled with Medical	3,963	1,148	2,851	7,962
Vision Plans Total	**4,007**	**1,213**	**3,030**	**8,250**
Life Insurance (RSN)	**10,532**			**10,532**

Count by Subscribers and Dependents

	Type		
Benefit Plan	**Subscribers**	**Dependents**	**Total**
Medical Plans			
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (CaremarkPCS), Vision (VSP)	2,586	2,879	5,465
HSTA VB PPO-80/20 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (CaremarkPCS), Vision (VSP)	3,808	5,117	8,925
HSTA VB HMO Medical (Kaiser), Drug (Kaiser), Chiro (RSN) bundled with Vision (VSP)	1,568	1,805	3,373
HSTA VB Supplemental Medical (HMSA), Drug (HMSA), Vision (HMSA), Chiro (RSN)	216	426	642
Medical Plans Total	**8,178**	**10,227**	**18,405**
Drug Plan			
HSTA VB PPO Drug (CaremarkPCS) bundled with PPO-80/20 or PPO-90/10 Medical (HMSA)	6,395	7,994	14,389
Drug Plan Total	**6,395**	**7,994**	**14,389**
Dental Plans			
HSTA VB Dental (HDS)	8,518	10,927	19,445
HSTA VB Supplemental Dental (HDS)	287	597	884
Dental Plans Total	**8,805**	**11,524**	**20,329**
Vision Plans			
HSTA VB Vision (VSP) - Stand Alone	288	591	879
HSTA VB Vision (VSP) bundled with Medical	7,962	9,466	17,428
Vision Plans Total	**8,250**	**10,057**	**18,307**

Data Taken 06-15-2013

Enrollment Counts - EUTF Actives

The table below shows EUTF Actives enrollments for period ending 06-30-2013

Count by Bargaining Unit

Count of Subscribers Benefit Plan	BU 00	BU 01	BU 02	BU 03	BU 04	BU 05	BU 06	BU 07	BU 08	BU 09	BU 10	BU 11	BU 12	BU 13	Grand Total
Medical Plans															
PPO-90/10 Medical (HMSA), Chiro (RSN)	246	714	47	1,487	51	445	90	567	530	154	229	221	267	1,315	6,363
PPO-80/20 Medical (HMSA), Chiro (RSN)	596	3,885	331	6,114	258	558	424	1,465	1,304	600	1,231	926	1,581	3,869	23,142
HMO Medical (HMSA), Chiro (RSN) bundled with HMO Drug (CaremarkPCS)	90	421	26	745	21	242	26	160	168	91	160	103	171	437	2,861
High Deductible Health Plan Medical (HMSA), Drug (HMSA)	10	13	1	27		24	1	15	22	10	6	8	7	47	191
HMO Comprehensive Medical (Kaiser), Drug (Kaiser), Chiro (RSN)	178	1,381	124	2,007	92	311	94	674	339	331	610	270	461	1,030	7,902
HMO Basic Medical (Kaiser), Drug (Kaiser), Chiro (RSN)	46	171	7	309	4	202	10	104	191	81	73	46	64	237	1,545
Supplemental Medical (HMSA), Drug (HMSA), Chiro (RSN)	7	49	5	144	10	18	9	18	20	10	7	23	25	70	415
Supplemental Medical (RSN), Drug (RSN), Chiro (RSN)	5	38	7	149	5	18	7	4	18	6	13	16	16	75	377
Medical Plans Total	**1,178**	**6,672**	**548**	**10,982**	**441**	**1,818**	**661**	**3,007**	**2,592**	**1,283**	**2,329**	**1,613**	**2,592**	**7,080**	**42,796**
Drug Plans															
PPO Drug (CaremarkPCS)	807	4,546	375	7,458	312	852	513	1,945	1,615	728	1,441	1,128	1,837	5,037	28,594
HMO Drug (CaremarkPCS) bundled with HMO Medical (HMSA)	90	421	26	745	21	242	26	160	168	91	160	103	171	437	2,861
Drug Plans Total	**897**	**4,967**	**401**	**8,203**	**333**	**1,094**	**539**	**2,105**	**1,783**	**819**	**1,601**	**1,231**	**2,008**	**5,474**	**31,455**
Dental Plan (HDS)	**1,303**	**7,191**	**604**	**12,370**	**532**	**1,954**	**715**	**3,144**	**2,686**	**1,386**	**2,527**	**1,738**	**2,702**	**7,793**	**46,645**
Vision Plan (VSP)	**1,201**	**6,838**	**567**	**11,660**	**495**	**1,694**	**666**	**2,901**	**2,461**	**1,283**	**2,403**	**1,617**	**2,614**	**7,334**	**43,734**
Life Insurance (RSN)	**1,642**	**8,612**	**692**	**15,440**	**611**	**2,430**	**885**	**3,800**	**3,659**	**1,619**	**3,079**	**1,979**	**2,993**	**9,375**	**56,816**

Enrollment Counts - HSTA VB Actives

The table below shows HSTA VB Actives enrollments for period ending 06-30-2013

Count by Bargaining Unit

Count of Subscribers Benefit Plan	BU 05
Medical Plans	
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (CaremarkPCS), Vision	2,586
HSTA VB PPO-80/20 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (CaremarkPCS), Vision	3,808
HSTA VB HMO Medical (Kaiser), Drug (Kaiser), Chiro (RSN) bundled with Vision (VSP)	1,568
HSTA VB Supplemental Medical (HMSA), Drug (HMSA), Vision (HMSA), Chiro (RSN)	216
Medical Plans Total	**8,178**
Drug Plan	
HSTA VB PPO Drug (CaremarkPCS) bundled with PPO-80/20 or PPO-90/10 Medical (HMSA)	6,395
Drug Plan Total	**6,395**
Dental Plans	
HSTA VB Dental (HDS)	8,518
HSTA VB Supplemental Dental (HDS)	287
Dental Plans Total	**8,805**
Vision Plans	
HSTA VB Vision (VSP) - Stand Alone	288
HSTA VB Vision (VSP) bundled with Medical	7,962
Vision Plans Total	**8,250**
Life Insurance (RSN)	**10,532**

Data Taken 06-15-2013

Enrollment Counts - EUTF Retirees

The table below shows EUTF Retirees enrollments for period ending 06-30-2013

Count by Enrollment Coverage

Count of Subscribers	Type of Enrollment			
Benefit Plan	**Self**	**Two-Party**	**Family**	**Grand Total**
Medical Plans				
PPO-90/10 Medical (HMSA) - Retiree				
Retiree (Medicare)	16,174	9,271	509	25,954
Retiree (Non-Medicare)	2,633	2,760	917	6,310
PPO-90/10 Medical (HMSA) - Retiree Total	**18,807**	**12,031**	**1,426**	**32,264**
HMO Medical (Kaiser), Drug (Kaiser) - Retiree				
Retiree (Medicare)	3,743	1,881	138	5,762
Retiree (Non-Medicare)	579	540	164	1,283
HMO Medical (Kaiser), Drug (Kaiser) - Retiree Total	**4,322**	**2,421**	**302**	**7,045**
Out-of-State Plan				
Retiree (Medicare)	78	46	1	125
Retiree (Non-Medicare)	6	2		8
Out-of-State Plan Total	**84**	**48**	**1**	**133**
Medical Plans Total	**23,213**	**14,500**	**1,729**	**39,442**
Drug Plans				
PPO Drug (SilverScript) - Medicare	**15,754**	**8,724**	**468**	**24,946**
PPO Drug (CaremarkPCS) - Non-Medicare	**2,941**	**3,060**	**948**	**6,949**
Drug Plans Total	**18,695**	**11,784**	**1,416**	**31,895**
Dental Plan (HDS)	**23,204**	**14,289**	**1,619**	**39,112**
Vision Plan (VSP)	**23,147**	**14,649**	**1,739**	**39,535**
Life Insurance (RSN)	**35,544**			**35,544**

Count by Subscribers and Dependents

	Type		
Benefit Plan	**Subscribers**	**Dependents**	**Total**
Medical Plans			
PPO-90/10 Medical (HMSA) - Retiree			
Retiree (Medicare)	25,954	10,429	36,383
Retiree (Non-Medicare)	6,310	5,027	11,337
PPO-90/10 Medical (HMSA) - Retiree Total	**32,264**	**15,456**	**47,720**
HMO Medical (Kaiser), Drug (Kaiser) - Retiree			
Retiree (Medicare)	5,762	2,197	7,959
Retiree (Non-Medicare)	1,283	936	2,219
HMO Medical (Kaiser), Drug (Kaiser) - Retiree Total	**7,045**	**3,133**	**10,178**
Out-of-State Plan			
Retiree (Medicare)	125	48	173
Retiree (Non-Medicare)	8	2	10
Out-of-State Plan Total	**133**	**50**	**183**
Medical Plans Total	**39,442**	**18,639**	**58,081**
Drug Plans			
PPO Drug (SilverScript) - Medicare	**24,946**	**9,789**	**34,735**
PPO Drug (CaremarkPCS) - Non-Medicare	**6,949**	**5,400**	**12,349**
Drug Plans Total	**31,895**	**15,189**	**47,084**
Dental Plan (HDS)	**39,112**	**18,158**	**57,270**
Vision Plan (VSP)	**39,535**	**18,814**	**58,349**

Data Taken 06-15-2013

Enrollment Counts - HSTA VB Retirees

The table below shows HSTA VB Retirees enrollments for period ending 06-30-2013

Count by Enrollment Coverage

Count of Subscribers	Type of Enrollment			
Benefit Plan	**Self**	**Two-Party**	**Family**	**Grand Total**
Medical Plans				
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (SilverScript or CaremarkPCS), Vision (VSP) - Retiree				
Retiree (Medicare)	816	776	31	1,623
Retiree (Non-Medicare)	215	322	43	580
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (SilverScript or CaremarkPCS), Vision (VSP) - Retiree Total	**1,031**	**1,098**	**74**	**2,203**
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with Vision (VSP) - Retiree				
Retiree (Medicare)	5	4		9
Retiree (Non-Medicare)		1		1
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with Vision (VSP) - Retiree Total	**5**	**5**		**10**
HSTA VB HMO Medical (Kaiser), Drug (Kaiser), Chiro (RSN) bundled with Vision (VSP) - Retiree				
Retiree (Medicare)	96	80	7	183
Retiree (Non-Medicare)	33	24	4	61
HSTA VB HMO Medical (Kaiser), Drug (Kaiser), Chiro (RSN) bundled with Vision (VSP) - Retiree Total	**129**	**104**	**11**	**244**
HSTA VB Out-of-State Plan				
Retiree (Medicare)	2	1		3
HSTA VB Out-of-State Plan Total	**2**	**1**		**3**
Medical Plans Total	**1,167**	**1,208**	**85**	**2,460**
Drug Plans				
HSTA VB PPO Drug (SilverScript) bundled with PPO-90/10 Medical (HMSA) - Medicare	**773**	**715**	**30**	**1,518**
HSTA VB PPO Drug (CaremarkPCS) bundled with PPO-90/10 Medical (HMSA) - Non-Medicare	**261**	**383**	**44**	**688**
Drug Plans Total	**1,034**	**1,098**	**74**	**2,206**
Dental Plan (HDS)	**1,158**	**1,205**	**79**	**2,442**
Vision Plan (VSP)	**1,166**	**1,210**	**85**	**2,461**
Life Insurance (RSN)	**2,525**			**2,525**

Data Taken 06-15-2013

Enrollment Counts - HSTA VB Retirees

The table below shows HSTA VB Retirees enrollments for period ending 06-30-2013

Count by Subscribers and Dependents

Benefit Plan	Type Subscribers	Dependents	Total
Medical Plans			
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (SilverScript or CaremarkPCS), Vision (VSP) - Retiree			
Retiree (Medicare)	1,623	848	2,471
Retiree (Non-Medicare)	580	417	997
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with PPO Drug (SilverScript or CaremarkPCS), Vision (VSP) - Retiree Total	**2,203**	**1,265**	**3,468**
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with Vision (VSP) - Retiree			
Retiree (Medicare)	9	4	13
Retiree (Non-Medicare)	1	1	2
HSTA VB PPO-90/10 Medical (HMSA), Chiro (RSN) bundled with Vision (VSP) - Retiree Total	**10**	**5**	**15**
HSTA VB HMO Medical (Kaiser), Drug (Kaiser), Chiro (RSN) bundled with Vision (VSP) - Retiree			
Retiree (Medicare)	183	96	279
Retiree (Non-Medicare)	61	33	94
HSTA VB HMO Medical (Kaiser), Drug (Kaiser), Chiro (RSN) bundled with Vision (VSP) - Retiree Total	**244**	**129**	**373**
HSTA VB Out-of-State Plan			
Retiree (Medicare)	3	1	4
HSTA VB Out-of-State Plan Total	**3**	**1**	**4**
Medical Plans Total	**2,460**	**1,400**	**3,860**
Drug Plans			
HSTA VB PPO Drug (SilverScript) bundled with PPO-90/10 Medical (HMSA) - Medicare	**1,518**	**784**	**2,302**
HSTA VB PPO Drug (CaremarkPCS) bundled with PPO-90/10 Medical (HMSA) - Non-Medicare	**688**	**481**	**1,169**
Drug Plans Total	**2,206**	**1,265**	**3,471**
Dental Plan (HDS)	**2,442**	**1,384**	**3,826**
Vision Plan (VSP)	**2,461**	**1,402**	**3,863**

Data Taken 06-15-2013

Waived Subscriber Enrollments Counts

The tables below show calculated Waived counts for period ending 06-30-2013

Total Number of EUTF Actives: **68,284**

Waived Plans	Total
Medical Plans	17,310
Drug Plans	18,220
Dental Plan	12,834
Vision Plan	16,300
Life Insurance	936

Total Number of EUTF Retirees: **43,175**

Waived Plans	
Medical Plans	1,273
Drug Plans	1,649
Dental Plan	1,621
Vision Plan	1,179
Life Insurance	118

Data Taken 06-15-2013

Enrollment Counts - All Subscribers

The table below shows All Subscribers enrollments for period ending 06-30-2013

Count of Subscribers	Benefit Plan				
Employer	**Medical Plans**	**Drug**	**Dental Plan**	**Vision Plan**	**Life Insurance**
City and County of Honolulu					
Active	6,812	5,122	7,393	7,039	8,616
Retiree (Medicare)	4,810	3,517			
Retiree (Non-Medicare)	1,861	1,529	6,587	6,679	5,512
City and County of Honolulu Total	**13,483**	**10,168**	**13,980**	**13,718**	**14,128**
Honolulu Board of Water Supply					
Active	419	328	462	426	534
Retiree (Medicare)	433	339			
Retiree (Non-Medicare)	117	100	544	553	470
Honolulu Board of Water Supply Total	**969**	**767**	**1,006**	**979**	**1,004**
County of Hawaii					
Active	1,926	1,646	2,000	1,915	2,303
Retiree (Medicare)	899	839			
Retiree (Non-Medicare)	506	501	1,357	1,397	1,205
County of Hawaii Total	**3,331**	**2,986**	**3,357**	**3,312**	**3,508**
Hawaii Dept of Water Supply					
Active	133	118	135	135	156
Retiree (Medicare)	68	67			
Retiree (Non-Medicare)	25	25	92	93	76
Hawaii Dept of Water Supply Total	**226**	**210**	**227**	**228**	**232**
County of Kauai					
Active	983	911	1,048	1,007	1,241
Retiree (Medicare)	505	471			
Retiree (Non-Medicare)	217	236	696	722	582
County of Kauai Total	**1,705**	**1,618**	**1,744**	**1,729**	**1,823**
County of Maui					
Active	1,990	1,158	2,111	1,996	2,426
Retiree (Medicare)	805	501			
Retiree (Non-Medicare)	381	288	1,173	1,192	1,022
County of Maui Total	**3,176**	**1,947**	**3,284**	**3,188**	**3,448**
State of Hawaii					
Active	38,126	28,152	41,678	38,894	51,229
Retiree (Medicare)	26,136	20,727			
Retiree (Non-Medicare)	5,131	4,955	31,096	31,351	29,193
State of Hawaii Total	**69,393**	**53,834**	**72,774**	**70,245**	**80,422**
Hawaii Public Charter Schools					
Active	585	415	623	572	843
Retiree (Medicare)	3	2			
Retiree (Non-Medicare)	5	4	9	9	9
Hawaii Public Charter Schools Total	**593**	**421**	**632**	**581**	**852**
Grand Total	**92,876**	**71,951**	**97,004**	**93,980**	**105,417**

Data Taken 06-15-2013

Financial Statements and Independent Auditor's Report

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

June 30, 2013 and 2012

PKF Pacific Hawaii LLP
Accountants & Business Advisors

PKF

December 9, 2013

Board of Trustees
Hawaii Employer-Union Health Benefits Trust Fund
of the State of Hawaii
Ms. Jan K. Yamane
Office of the Auditor
State of Hawaii

Dear Ladies and Gentlemen:

This is our report on the financial audit of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (EUTF) as of and for the year ended June 30, 2013. Our audit was performed in accordance with the terms of our contract with the State of Hawaii.

Objective of the audit
The primary purpose of our audit was to form an opinion on the fairness of the presentation of the EUTF's basic financial statements as of and for the year ended June 30, 2013.

Scope of audit
Our audit was performed 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 scope of our audit included an examination of the transactions and accounting records of the EUTF for the year ended June 30, 2013.

Organization of the report
This report is presented in six parts as follows:

PART I	FINANCIAL STATEMENTS
PART II	REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
PART III	SUPPLEMENTARY INFORMATION
PART IV	REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
PART V	SCHEDULE OF FINDINGS
PART VI	RESPONSE OF THE AFFECTED AGENCY

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of EUTF.

Very truly yours,

PKF Pacific Hawaii LLP

PKF Pacific Hawaii LLP | 1132 Bishop Street | Suite 2500 | Honolulu | HI 96813-2864
Tel: 808 536 0066 | Fax: 808 523 8590 | www.pkfpacifichawaii.com

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PKF Pacific Hawaii LLP
Accountants & Business Advisors

PKF

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Board of Trustees
Hawaii Employer-Union Health Benefits Trust Fund
of the State of Hawaii
Ms. Jan K. Yamane
Office of the Auditor
State of Hawaii

Report on the Financial Statements
We have audited the accompanying statements of net position for the enterprise fund and fiduciary net position for the agency fund of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the "Trust Fund") and the statement of net position of the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the "OPEB Trust,") (collectively, the "EUTF") as of June 30, 2013, and the related statements of revenues, expenses and changes in fund net position, and cash flows for the enterprise fund as well as the statement of changes in net position for the OPEB Trust for the year then ended, and the related notes to the financial statements which collectively comprise the EUTF's basic financial statements as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

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Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and agency fund of the Trust Fund as well as the financial position of the OPEB Trust, collectively, the EUTF, as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note A, the financial statements of the EUTF are intended to present the respective financial position, and the changes in financial position and cash flows, where applicable, of the activities 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, 2013, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 to 21, schedule of funding progress and employer contributions on page 66 and six-year loss development information on pages 67 to 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Prior Period Financial Statements
The financial statements of EUTF as of and for the year ended June 30, 2012, were audited by other auditors whose report dated January 4, 2013, included an emphasis of matter paragraph that stated the financial statements of the EUTF are intended to present only activities of the State of Hawaii that is attributable to the transactions of the EUTF as discussed in Note A, and expressed an unmodified opinion on those financial statements.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013 on our consideration of the EUTF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the EUTF's internal control over financial reporting and compliance.

PKF Pacific Hawaii LLP

Honolulu, Hawaii
December 9, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED)

June 30, 2013 and 2012

This section of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii ("Trust Fund") financial report presents the reader with an introduction and overview of the Trust Fund's financial performance for the fiscal years ended June 30, 2013 and 2012. 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.

Chapter 87A of the Hawaii Revised Statutes ("HRS") established the Trust Fund. The Trust Fund is the state agency that provides eligible State of Hawaii ("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. HRS Chapter 87 that established the Hawaii Public Employees Health Fund ("Health Fund") was repealed and the net assets of the Health Fund were transferred to the Trust Fund.

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

Under GASBS 43, the Trust Fund submitted legislation to the 2012 Legislature ("HB2491") to administer a separate trust fund for the purpose of receiving employer contributions that will prefund OPEB costs for retirees and their beneficiaries. HB2491 HD1 SD1 was signed into law on July 9, 2012 (Act 304, SLH 2012). The Trust Fund Board of Trustees approved the Plan and Trust Agreement creating the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits ("OPEB Trust") effective June 30, 2013. Effective fiscal year 2013, the OPEB Trust meets the criteria of a trust fund. Pre-funding contributions made by employers are considered contributions to the OPEB Trust. On June 30, 2013, State and counties' pre-funded contributions and any interest earned or expenses incurred were transferred from the agency fund to the OPEB Trust. The OPEB Trust financial statements are included as a part of the basic financial statements of the Trust Fund. Previously, the pre-funding component of OPEB did not meet the criteria of a trust fund under GASBS 43, as such, beginning in fiscal year 2008 through 2012, the pre-funding component of OPEB was reported as an agency fund.

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

Beginning July 1, 2007 through December 31, 2011, the Trust Fund began offering self-funded medical plans in addition to the fully-insured Health Maintenance Organization ("HMO") medical plan. Also, beginning July 1, 2007, the Trust Fund began offering self-funded prescription drug plans. Under self-funded arrangements, the Trust Fund contracts with plan administrators for provider networks, claims processing, cost containment and other services. Instead of premiums, the Trust Fund pays administrative fees to the contractor and reimburses the contractor only for claims paid.

In April 2011, the Trust Fund issued Request for Proposals to provide medical, prescription drug, dental, vision and life benefit plans effective January 1, 2012. The evaluation committee made recommendations in June 2011 and July 2011, to the Board of Trustees, which approved awards of contracts for all plans effective January 1, 2012. A procurement protest was filed by the Trust Fund's incumbent pharmacy benefit manager ("PBM") challenging the award. In December 2011, the State's hearings officer rendered a decision and affirmed the award of the contract to the PBM selected by the Board of Trustees for the active employees and non-Medicare retirees. The Trust Fund implemented the plan effective May 1, 2012. The contract award for Medicare eligible retirees was vacated and sent back to the evaluation committee. In January 2012, the evaluation committee made a recommendation to the Board of Trustees, which approved the award of the contract for prescription drug plan for Medicare eligible retirees. The Trust Fund implemented the Medicare prescription drug plan effective July 1, 2012.

The contract period for the medical, dental, vision and life benefit plans for active employees is effective January 1, 2012 through June 30, 2013 and for retirees is effective January 1, 2012 through December 31, 2012. The prescription drug contract is effective May 1, 2012 through June 30, 2013 for active employees, May 1, 2012 through December 31, 2012 for non-medicare retirees, and July 1, 2012 through December 31, 2012 for medicare retirees. As of June 30, 2012, the contract period had not yet concluded and as such, no surplus entries were made. Surpluses were recorded during the fiscal year ended June 30, 2013.

The self-funded medical plans changed to participating fully-insured plans with risk sharing effective January 1, 2012. The dental and vision plans were changed from retrospective premium plans to participating fully-insured plans with risk sharing. Since these plans are fully-insured with risk sharing, premium surpluses will be refunded to the Trust Fund and any underwriting losses will not be paid by the Trust Fund. The prescription drug plan is the only plan with a self-funded arrangement.

Effective April 1, 2013, the Trust Fund added a supplemental drug plan for its Medicare Part D retirees. The new supplemental plan enhanced the existing Medicare drug plan by expanding access to certain drugs as well as reducing co-pays for some drugs and providing coverage above and beyond what Medicare covers. This new supplemental plan did not cost any additional premiums to retirees or the State and Counties.

The Board of Trustees exercised its option to extend the contracts for medical, prescription drug, dental, vision and life insurance plans for active employees for one year (July 1, 2013 through June 30, 2014) and for retirees (medicare and non-medicare) for one year (January 1, 2013 through December 31, 2013).

Effective July 1, 2013, the Board of Trustees approved a new 75/25 PPO plan administered by Hawaii Medical Service Association ("HMSA"), replacing the high deductible plan and a new HMO Kaiser Standard plan, replacing the HMO Kaiser Basic plan.

The Federal Affordable Care Act ("ACA") became effective July 1, 2011 for the Trust Fund's active employee medical and prescription drug plans. The following are the changes to the Trust Fund's active employee plans due to ACA: 1) The plan lost its grandfather status due to the increase in the employees' share of premiums; 2) The definition of dependent child was expanded to age 26 and requirements that the child be unmarried and a full time student were dropped. Additional dependents were enrolled as a result; 3) All active 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 ("HRSA"), including providing services without a copayment, cost share or deductible when rendered by a participating provider; 4) the dual coverage supplemental plans offered by the Trust Fund to the Hawaii State Teachers Association ("HSTA") voluntary employees beneficiary association ("VEBA") increased the annual dollar maximum from $750,000 to $1,250,000 effective July 1, 2012.

Act 245, Session Laws of Hawaii ("SLH") 2005 (partially codified as HRS Chapter 87D), temporarily authorized employee organizations to establish VEBA trusts to provide health benefits to State and County employees in their bargaining units outside of the Trust Fund. 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 Trust Fund. 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 Trust Fund'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 of the 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 Trust Fund or transfer to the HSTA VEBA benefit plans. The option period was from October through November 2006. As a result, approximately 1,400 HSTA retirees transferred to the HSTA VEBA. HSTA employees that retired on or after March 1, 2006 were required to be enrolled with the HSTA VEBA.

As a result of Act 245 sunsetting on December 31, 2010, effective January 1, 2011, approximately, 12,500 HSTA VEBA active employees and 2,500 retirees were transferred to the Trust Fund. 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 Trust Fund on January 1, 2011. The enrollment of HSTA VEBA members into the newly created health and other benefit plans was done by the Trust Fund 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 Trust Fund reserves the right to move HSTA VEBA members into regular Trust Fund plans. See further discussion in Note I to the financial statements.

Overview of the Financial Statements

The financial statements of the Trust Fund include the following statements:

- Enterprise Fund - Active Employee Healthcare Benefits
    - Statements of net position - These statements summarize the assets and liabilities and presents an overall picture of the net financial position.
    - Statements of revenue, expenses and changes in net position – These statements summarize the financial results of the operations for the year.
    - Statements of cash flows – These statements identify the sources and uses of cash.
- Other Post-Employment Benefits
    - Agency Fund – OPEB Retiree Healthcare Benefits (pay-as-you-go)
        - Statements of fiduciary net position - These statements summarize the net financial position of the assets and liabilities reported as an agency fund.
    - OPEB Trust – OPEB Pre-Funding of Retiree Healthcare Benefits
        - Statement of net position - This statement summarizes the assets and liabilities and presents an overall picture of the net financial position.
        - Statement of changes in net position – This statement summarizes the financial results of the operations for the year.

Financial Highlights

For the fiscal years ended June 30, 2013 and 2012, the Trust Fund collected the following contributions and administrative fees:

	2013	2012
Employer Contributions (Enterprise and Agency)	$ 636,047,598	$ 629,045,740
Employee Contributions (Enterprise and Agency)	$ 233,273,179	$ 225,838,858
Administrative Fees Collected	$ 5,820,909	$ 5,854,676

Financial Highlights (continued)

For the fiscal years ended June 30, 2013 and 2012, the Trust Fund paid the following:

	2013	2012
Carrier Payments - Fully Insured Plans	$ 647,821,800	$ 479,613,688
Carrier Payments - Self Funded Plans	$ 164,745,552	$ 339,551,199
Medicare Part B Reimbursements	$ 55,150,160	$ 50,166,130
Administrative Operating Expenses	$ 5,156,681	$ 4,739,269

The administrative operating expenses budgeted for the Trust Fund totaled approximately $5,334,612 for the year ended June 30, 2013. Actual administrative operating expenses for the enterprise fund totaled $5,156,681 for the year ended June 30, 2013. The expenses included $2,741,393 for personnel services; $1,726,160 for consultant services; $29,314 for equipment; $324,955 for lease rent; and $334,859 for other expenses such as open enrollment, office supplies, telephone, travel, repairs and maintenance, copier rental and postage for the year ended June 30, 2013.

The administrative operating expenses budgeted for the Trust Fund totaled approximately $5,109,314 for the year ended June 30, 2012. Actual administrative operating expenses for the enterprise fund totaled $4,739,269 for the year ended June 30, 2012. The expenses included $2,459,610 for personnel services; $1,632,464 for consultant services; $18,676 for equipment; $320,963 for lease rent; and $307,556 for other expenses such as open enrollment, office supplies, telephone, travel, repairs and maintenance, copier rental and postage for the year ended June 30, 2012.

The presentation of the operations of the self-insured plans for active employees reported in the enterprise fund shows the aggregate amount of premium revenues recognized as operating revenues and related benefit claims expense incurred as operating expenses. This presentation is in accordance with the financial reporting criteria of GASBS 10, where the risk of loss for these self-insured plans transfers from the employers to the Trust Fund, 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 Trust Fund's net position for active employees is shown below as of June 30, 2013 and 2012:

	2013	2012	Change	% Change
Assets				
Current assets	$ 88,813,216	$ 51,632,927	$ 37,180,289	72.0%
Capital assets	4,806,574	6,182,012	(1,375,438)	-22.2%
Total assets	93,619,790	57,814,939	35,804,851	61.9%
Liabilities				
Current liabilities	40,503,589	48,587,874	(8,084,285)	-16.6%
Noncurrent liabilities	1,680,703	1,241,014	439,689	35.4%
Total liabilities	42,184,292	49,828,888	(7,644,596)	-15.3%
Net position				
Invested in capital assets	4,806,574	6,182,012	(1,375,438)	-22.2%
Unrestricted	46,628,924	1,804,039	44,824,885	2484.7%
Total net position	$ 51,435,498	$ 7,986,051	$ 43,449,447	544.1%

The enterprise fund's total assets increased by $35.8 million, or 61.9%, during the fiscal year ended June 30, 2013. The increase is primarily attributable to an increase in premium reserves held by insurance carriers in the amount of $36.4 million. The Trust Fund recorded experience gains for its health benefit plans held by insurance carriers. In addition, deposits decreased by $11.5 million due to the termination of medical self–funded plans and cash increased by $12.7 million. There was a decrease in capital assets of $1.3 million due to the recording of depreciation.

The enterprise fund's total liabilities decreased by $7.6 million, or 15.3%, during the fiscal year ended June 30, 2013. The decrease was primarily attributable to a $5.2 million decrease in the incurred but not reported ("IBNR") claims for the medical self-funded plans. Effective January 1, 2012, the prescription drug plan was the only plan with a self-funded arrangement. In addition, there was a $2.6 million decrease in the retrospective premiums payable as the Trust Fund does not currently have any plans with a retrospective premium arrangement.

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

Financial Analysis (continued)

Enterprise Fund (continued)

A summary of the Trust Fund's net position for active employees is shown below as of June 30, 2012 and 2011:

	2012	2011	Change	% Change
Assets				
Current assets	$ 51,632,927	$ 54,294,191	$ (2,661,264)	-4.9%
Capital assets	6,182,012	7,217,258	(1,035,246)	-14.3%
Total assets	57,814,939	61,511,449	(3,696,510)	-6.0%
Liabilities				
Current liabilities	48,587,874	62,685,806	(14,097,932)	-22.5%
Noncurrent liabilities	1,241,014	901,744	339,270	37.6%
Total liabilities	49,828,888	63,587,550	(13,758,662)	-21.6%
Net position				
Invested in capital assets	6,182,012	7,217,258	(1,035,246)	-14.3%
Unrestricted	1,804,039	(9,293,359)	11,097,398	119.4%
Total net position	$ 7,986,051	$ (2,076,101)	$ 10,062,152	484.7%

The enterprise fund's total assets decreased by $3.7 million, or 6.0%, during the fiscal year ended June 30, 2012. The decrease is primarily attributable to a decrease in cash and cash equivalents of approximately $10.2 million due to higher than projected claim benefit payments in the self-funded accounts and premium payments.

The enterprise fund's total liabilities decreased by $13. 8 million, or 21.6%, during the fiscal year ended June 30, 2012. The decrease was attributable to an increase to the premiums payable account in the amount of approximately $19.1 million and a decrease in the benefit claims payable in the amount of approximately $33.9 million. This was due to the changing of the HMSA and Health Management Association ("HMA") medical plans from self-funded to fully-insured effective January 1, 2012.

There was $10.1 million, or 484.7%, reduction of the total net position for the fiscal year ended June 30, 2012. This is primarily attributable to a $73.2 million net decrease in self-insured claims expense, $2.6 million increase in premium reserves of fully-insured risk sharing plans, and $6.0 million increase in subsidy from the Agency fund, offset by a decrease in self-insured premium revenues of $90.9 million.

Financial Analysis (continued)

Enterprise Fund (continued)

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

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

The enterprise fund's total revenues decreased by $70.5 million, or 42.1%, for the fiscal year ended June 30, 2013. The enterprise fund's operating revenues decreased by $101.6 million in premium revenue for self-insurance plans and there was an increase in premium reserves of $36.7 million. The enterprise fund's nonoperating revenues decreased by a total of $5.8 million due to a $220,000 favorable change in the fair value of its investments in the State pool, and the remaining $5.9 million difference is because there were no transfers from the agency fund to the enterprise fund in the current year.

The enterprise fund's operating expenses decreased by $103.8 million, or 66.1%, for the fiscal year ended June 30, 2013. There was $115.2 million decrease in claims expenses for the self-funded plans. The IBNR claims decreased by $16.6 million.

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

The enterprise fund's total net position increased by $44.9 million, or 563.2%, for the fiscal year ended June 30, 2013. This is primarily attributable to an increase in premium reserves which includes the experience gains held by insurance carriers and the finalization of premium reserves received from the insurance carriers.

Financial Analysis (continued)

Enterprise Fund (continued)

A summary of changes in net position for the years ended June 30, 2012 and 2011, for active employees follows:

	2012	2011	Change	% Change
Revenues				
Operating revenues	$ 161,062,458	$ 248,953,635	$ (87,891,177)	-35.3%
Nonoperating revenues	6,245,227	1,147,445	5,097,782	444.3%
Total revenues	167,307,685	250,101,080	(82,793,395)	-33.1%
Expenses				
Operating expenses	157,245,533	247,251,833	(90,006,300)	-36.4%
Total expenses	157,245,533	247,251,833	(90,006,300)	-36.4%
Increase in net position	10,062,152	2,849,247	7,212,905	253.2%
Net position beginning of year	(2,076,101)	(4,925,348)	2,849,247	-57.8%
Total net position at end of year	$ 7,986,051	$ (2,076,101)	$ 10,062,152	484.7%

The enterprise fund's total revenues decreased by $82.8 million, or 33.1%, for the fiscal year ended June 30, 2012. The enterprise fund's operating revenues decreased due to the decrease in premium revenue for self-insurance plans. In January 2012, self-funding HMSA and HMA medical plan carriers were converted into fully-insured contracts. The nonoperating revenues increased due to $6.0 million increase of subsidy from the agency fund. The interest income and other nonoperating revenue decreased by $0.9 million due to an unfavorable change in the fair value of investments held in the State pool in 2012 of $81,400 and a favorable change in the fair value of investments in 2011 of $743,900.

The enterprise fund's operating expenses decreased by $90.0 million, or 36.4%, for the fiscal year ended June 30, 2012. There was $73.2 million decrease in claims expenses. Effective January 1, 2012, since the HMSA and HMA medical plans changed from self-insured to fully-insured, both of the operating revenues and the operating expenses decreased. Also, the decrease in accrued IBNR claims for self-insured plans was part of the reason for the operating expenses decrease.

The enterprise fund's total net deficit changed by $10.1 million, or 484.7%, for the fiscal year ended June 30, 2012. This is primarily attributable to a $6.0 million increase in subsidy from agency fund, $2.6 million increase in premium reserves revenues, and $1.9 million net operating income from the self-insured plans.

Financial Analysis (continued)

Agency Fund

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

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

The agency fund's total assets decreased by $192.7 million, or 50.9%, for the fiscal year ended June 30, 2013. The agency fund's cash and cash equivalents increase of $34.4 million was mainly attributable to the net experience gain of self-funded prescription drug plan for medicare retirees in the amount of $31.0 million. There also was a $147,000 favorable change in the fair value of investments held in the State investment pool. Cash and investments held by fiscal custodian in the amount of $314.7 million was transferred to the OPEB Trust Fund at the end of fiscal year 2013. The agency fund's receivables increase of $13.6 million was attributable to the recording of an increase in premium reserves of fully-insured risk sharing health benefit plans and the finalization of medical self-funded plans. Deposits decreased by $3.8 million due to the termination of the medical self-funded plans and the informedRx prescription drug plans.

The agency fund's total liabilities decreased by $193.7 million, or 51.2%, for the fiscal year ended June 30, 2013. The agency fund's premiums payable increase of $0.8 million and the agency fund's benefit claims payable increase of approximately $3.0 million were primarily attributable to the increase in counts in enrollment and prescription drug claims cost. The decrease in the amounts held on behalf of employers for benefits of approximately $194.4 million was attributable to the transferring of the OPEB pre-funding contributions by various employers to the OPEB Trust Fund in the amount of $314.7 million, experience net gain in the retiree prescription drug plans of $31.0 million, and the increase in premium reserves for the retiree health benefit plans in the amount of $10.0 million. The decrease of $3.1 million in other liabilities was attributable to the $2.9 million decrease in the retrospective premiums payable as the Trust Fund does not currently have any plans with a retrospective premium arrangement.

Financial Analysis (continued)

Agency Fund (continued)

A summary of the Trust Fund's plan assets and liabilities for retirees is shown below as of June 30, 2012 and 2011:

	2012	2011	Change	% Change
Assets				
Cash and cash equivalents	$ 93,022,037	$ 90,800,499	$ 2,221,538	2.4%
Cash and investments held by fiscal custodian	236,947,610	169,272,987	67,674,623	40.0%
Receivables	36,388,825	37,806,413	(1,417,588)	-3.7%
Deposits	11,990,076	10,248,076	1,742,000	17.0%
Total assets	$ 378,348,548	$ 308,127,975	$ 70,220,573	22.8%
Liabilities				
Premiums payable	$ 17,717,627	$ 7,921,812	$ 9,795,815	123.7%
Benefit claims payable	4,651,669	15,275,791	(10,624,122)	-69.5%
Amounts held on behalf of employers for benefits	352,789,782	282,990,527	69,799,255	24.7%
Other	3,189,470	1,939,845	1,249,625	64.4%
Total liabilities	$ 378,348,548	$ 308,127,975	$ 70,220,573	22.8%

The agency fund's cash and cash equivalents increase of $2.2 million was mainly attributable to the net experience gain of self-funded plans for retirees. The net gain increase was approximately $13.2 million. There also was a $54,000 unfavorable change in the fair value of investments held in the State investment pool. At the end of fiscal year ended June 30, 2012, the OPEB pre-funding deposits by various employers were being held by a fiscal custodian. The cash and investments held by fiscal custodian increase of approximately $67.7 million was attributable to the collection of pre-funding deposits for OPEB by various employers. The agency fund's receivables account decrease of $1.4 million was attributable to the decrease in employer contributions for retirees effective January 1, 2012. Retiree premiums decreased for some health benefit plans such as medical and prescription drug.

The agency fund's premiums payable increase of $9.8 million and the agency fund's benefit claims payable decrease of approximately $10.6 million was attributable to the change of HMSA and HMA medical plans from self-funded to fully-insured effective January 1, 2012. The amounts held on behalf of employees for benefits increase of approximately $69.8 million was attributable to the following: 1) an increase in OPEB pre-funding deposits by various employers and 2) an increase in net gain from the self-funded plans due to the premium revenue being more than the benefit claims expense.

Financial Analysis (continued)

OPEB Trust

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

	2013	2012	Change	% Change
Assets				
Cash and cash equivalents	$ 5,556,912	$ -	$ 5,556,912	100.0%
Investments	309,220,839	-	309,220,839	100.0%
Total assets	314,777,751	-	314,777,751	100.0%
Liabilities				
Investment fees payables	14,175	-	14,175	100.0%
Total liabilities	14,175	-	14,175	100.0%
Net position				
Net position - restricted for other postemployment benefits	314,763,576	-	314,763,576	100.0%
Total net position	$ 314,763,576	$ -	$ 314,763,576	100.0%

The OPEB Trust Fund became effective June 30, 2013, therefore, there are no balances recorded as of June 30, 2012. Total assets includes contributions from the various employers to pre-fund retiree health benefits plus any interest earned and less any fees incurred such as investment consultant and banking. In addition, investments includes an increase of $18.6 million related to the investment valuation (difference between market value and book value of the Trust Fund's investments). Investment fee payable includes accrued investment consultant fees and banking custodial services fees.

A summary of changes in net position for the years ended June 30, 2013 and 2012, for OPEB retirees as follows:

	2013	2012	Change	% Change
Transfer of employer pre-funding contributions and related net investment earnings from agency fund	$ 314,763,576	$ -	$ 314,763,576	100.0%
Total net position at end of year	$ 314,763,576	$ -	$ 314,763,576	100.0%

Financial Analysis (continued)

OPEB Trust (continued)

The OPEB Trust Fund became effective June 30, 2013, therefore, no balances are recorded as of June 30, 2012. The net position balance includes pre-funded employer contributions, dividends, investment valuation, and the net of fees paid to the investment consultant and banking custodial services.

Capital Assets

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

The aggregated net capital assets was $6,182,012 as of June 30, 2012. The aggregated depreciation expense totaled $1,050,261 for the year ended June 30, 2012. The Trust Fund acquired $15,015 in office furniture and equipment during fiscal year 2012.

Economic Factors Affecting Next Fiscal Year

Factors Affecting Fiscal Year 2014

Active employees' health benefit contracts were extended for one year commencing on July 1, 2013 through June 30, 2014. New health benefit premium rates and collective bargaining agreements became effective July 1, 2013. Retroactive premium changes to July 1, 2013 for some bargaining units needs to be implemented.

Act 268, SLH 2013 establishes a task force to examine the unfunded liability of the Trust Fund; requires the Trust Fund to establish a separate trust fund for public employer contributions; requires the annual public employer contribution to be equal to the amount determined by an actuary commencing with fiscal year 2019; requires the use of a portion of the general excise tax revenues to supplement deficient state public employer contribution amounts commencing with FY2018-2019; requires the use of a portion of the transient accommodations tax revenues to supplement deficient county public employer contribution amounts commencing with FY 2018-2019; establishes a schedule to phase-in the annual required state public employer contribution requirement; and requires the director of finance to report to the legislature on an implementation plan to have both the Trust Fund and the Employees' Retirement System ("ERS") jointly sharing investment information and services for the benefit of the trust fund to establish disbursement channels for county public employer contributions into the Trust Fund.

The 2013 Legislature passed HB65, HD2, SD2, CD1 (Act 226, SLH2013) that, among other things, prohibited mandatory mail order. Trust Fund voluntarily implemented Act 226, SLH2013 on October 1, 2013 for active employees and will be implementing it on January 1, 2014 for retirees.

Request for Information

This financial report is designed to provide the Board of Trustees, State Auditor, and our membership, with a general overview of the Trust Fund'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
Acting Administrator

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

STATEMENTS OF NET POSITION - ENTERPRISE FUND

June 30,

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 12,669,096	$ -
Receivables		
Premiums receivable from State of Hawaii and counites	28,942,191	30,239,480
Premium reserves held by insurance companies	38,953,585	2,548,974
Rebates receivable	2,738,476	1,723,960
Accrued interest receivable	43,801	31,809
Other receivables	110,991	378,797
Prepaid expenses	344,179	243,227
Deposits	5,010,897	16,466,680
Total current assets	88,813,216	51,632,927
Capital assets, net of accumulated depreciation of $5,148,973 in 2013 and $3,773,535 in 2012	4,806,574	6,182,012
Total assets	93,619,790	57,814,939
LIABILITIES		
Current Liabilities		
Vouchers and contracts payable	191,259	431,607
Accrued wages and employee benefits payable	180,526	163,593
Due to State of Hawaii	69,822	87,994
Due to employees	1,559,765	1,381,268
Retrospective premiums payable	-	2,612,905
Premiums payable	35,770,593	36,360,785
Benefit claims payable	2,665,131	7,485,932
Compensated absences, current portion	66,493	63,790
Total current liabilities	40,503,589	48,587,874
Noncurrent Liabilities		
Compensated absences	204,700	186,741
Other postemployment benefits	1,476,003	1,054,273
Total liabilities	42,184,292	49,828,888
NET POSITION		
Invested in capital assets	4,806,574	6,182,012
Unrestricted	46,628,924	1,804,039
Total net position	$ 51,435,498	$ 7,986,051

The accompanying notes are in integral part of these 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,

	2013	2012
Operating revenues		
Premium revenue - self insurance	$ 50,842,544	$ 152,434,417
Administrative fee	3,488,720	3,536,970
Administrative fee - Agency Fund	2,332,189	2,317,706
Increase in premium reserves	39,540,334	2,773,365
COBRA revenue	207,620	-
Total operating revenues	96,411,407	161,062,458
Operating expenses		
Claims expense - self insurance	51,976,970	167,198,917
Change in incurred but not reported (IBNR) claims	(5,158,200)	(16,710,100)
Loss on carrier payment methodology	20,478	967,186
Depreciation	1,375,438	1,050,261
Administrative operating expenses	5,156,681	4,739,269
Total operating expenses	53,371,367	157,245,533
Operating income	43,040,040	3,816,925
Nonoperating revenues		
Interest income and other, net of write-up of investments held in State pool of $219,953 in 2013 and write-down of $81,446 in 2012	409,407	270,495
Subsidy from Agency Fund	-	5,974,732
Total nonoperating revenues	409,407	6,245,227
INCREASE IN NET POSITION	43,449,447	10,062,152
Net position at beginning of year	7,986,051	(2,076,101)
Net position at end of year	$ 51,435,498	$ 7,986,051

The accompanying notes are an integral part of these financial statements.

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

STATEMENTS OF CASH FLOWS - ENTERPRISE FUND

Years ended June 30,

	2013	2012
Cash flows from operating activities		
Cash paid to vendors	$ (2,756,588)	$ (2,168,390)
Cash paid to employees	(2,282,068)	(2,142,127)
Cash received from State of Hawaii, counties and individuals for premiums and benefits payments	487,681,353	500,858,008
Cash paid for premiums and benefit payments	(486,284,879)	(510,786,319)
Rebates received related to prescription drug plan	4,458,080	27,081
Reserves received from (paid to) insurance carriers	11,455,783	(2,288,398)
Net cash provided by (used in) operating activities	12,271,681	(16,500,145)
Cash flows from capital and related financing activities		
Purchase of furniture, equipment and software development	-	(15,015)
Net cash used in capital and related financing activities	-	(15,015)
Cash flows from non-capital and related financing activities		
Subsidy from Agency Fund	-	5,974,732
Net cash provided by non-capital and related financing activities	-	5,974,732
Cash flows from investing activities		
Interest received	397,415	335,238
Net cash provided by investing activities	397,415	335,238
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,669,096	(10,205,190)
Cash and cash equivalents at beginning of year	-	10,205,190
Cash and cash equivalents at end of year	$ 12,669,096	$ -

The accompanying notes are integral part of these financial statements.

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

STATEMENTS OF CASH FLOWS - ENTERPRISE FUND (continued)

Years ended June 30,

	2013	2012
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	$ 43,040,040	$ 3,816,925
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation	1,375,438	1,050,261
Decrease in premiums receivable from State of Hawaii and Counties	1,297,289	831,918
Increase in premium reserves held by insurance companies	(36,404,611)	(2,288,398)
Increase in rebates receivable	(1,014,516)	(815,095)
Decrease (increase) in other receivables	267,806	(378,797)
Increase in prepaid expenses	(100,952)	(297)
Decrease (increase) in deposits	11,455,783	(4,958,000)
(Decrease) increase in vouchers and contracts payable	(240,348)	111,566
Increase (decrease) in accrued wages and employee benefits payable	16,933	(17,413)
(Decrease) increase in amounts due to State of Hawaii	(18,172)	66,634
Increase in amounts due to employees	178,497	162,046
(Decrease) increase in retrospective premiums payable	(2,612,905)	358,378
(Decrease) increase in premiums payable	(590,192)	19,131,977
Decrease in benefits claims payable	(4,820,801)	(33,906,746)
Increase in compensated absences	20,662	15,821
Increase in other postemployment benefits	421,730	319,075
Total adjustments	(30,768,359)	(20,317,070)
Net cash provided by (used in) operating activities	$ 12,271,681	$ (16,500,145)

The accompanying notes are an integral part of these financial statements.

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

STATEMENTS OF FIDUCIARY NET POSITION - AGENCY FUND

June 30,

	2013	2012
ASSETS		
Cash and cash equivalents	$ 127,428,900	$ 93,022,037
Cash and investments held by fiscal custodian	-	236,947,610
Receivables		
Medicare reimbursements from individuals, net of allowance of $747,137 in 2013 and $685,035 in 2012	201,269	257,279
Premium receivable from State of Hawaii and Counties	32,599,082	31,473,876
Premium reserves held by insurance companies	11,388,874	30,230
Rebates receivable	5,772,264	4,606,234
Accrued interest receivable	29,201	21,206
Total receivables	49,990,690	36,388,825
Deposits	8,169,064	11,990,076
Total assets	$ 185,588,654	$ 378,348,548
LIABILITIES		
Due to State of Hawaii	$ 60	$ 188,857
Due to retirees	25,980	17,966
Investment fees payable	-	53,964
Other payables	26,778	-
Retrospective premium payable	-	2,928,683
Premiums payable	18,521,714	17,717,627
Benefit claims payable	7,674,651	4,651,669
Amounts held on behalf of employers for benefits	159,339,471	352,789,782
Total liabilities	$ 185,588,654	$ 378,348,548

The accompanying notes are integral part of these financial statements.

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

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

STATEMENT OF NET POSITION

June 30, 2013

ASSETS	
Cash and cash equivalents	$ 5,556,912
Investments	309,220,839
Total assets	314,777,751
LIABILITIES	
Investment fees payable	14,175
NET POSITION - restricted for other postemployment benefits	$ 314,763,576

The accompanying notes are an integral part of this financial statement.

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

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

STATEMENT OF CHANGES IN NET POSITION

Year ended June 30, 2013

Transfer of employer pre-funding contributions and related net investment earnings from Agency Fund	$ 314,763,576
NET INCREASE	314,763,576
Net position - restricted for other postemployment benefits	$ 314,763,576

The accompanying notes are an integral part of this financial statement.

NOTE A – FINANCIAL REPORTING ENTITY

Chapter 87A of the 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 ("State") and the Counties of Honolulu, Hawaii, Maui and Kauai employees, retirees and their eligible dependents beginning July 1, 2003. HRS Chapter 87 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 ("VEBA") trust pilot program for the administration of the healthcare benefits for active employees and retirees, which the Hawaii State Teachers Association ("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 benefit plan consultant and an investment consultant.

Chapter 87A of the 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 health and other benefit costs for retirees and their beneficiaries ("OPEB costs"). 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 OPEB benefits and are legally restricted from creditors. The OPEB Trust financial statements are included as part of the basic financial statements of the Trust Fund (collectively, 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 and group life insurance benefits. The medical plans include a statewide preferred provider organization benefit plan and a federally-qualified Health Maintenance Organization ("HMO") plan. Other benefit plans are offered on a statewide basis.

NOTE A – FINANCIAL REPORTING ENTITY (continued)

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 all other employees not covered by collective bargaining contracts and 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 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, 2013 and 2012:

	2013	2012
Active employees	68,061	67,051
Retirees	43,099	42,340
Dependents	77,763	77,901
Total	188,923	187,292

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Financial Statement Presentation

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

In December 2010, the GASB issued Statement No. 62 ("GASBS 62"), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASBS 62 incorporates into the GASB's authoritative literature certain accounting and financial

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants ("AICPA") Committee on Accounting Procedures.

In June 2011, the GASB issued Statement No. 63 ("GASBS 63"), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* GASBS 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASBS 63 also amends the net asset reporting requirements by incorporating the deferred outflows and deferred inflows of resources into the definitions of the requirement components of the residual measure and by remaining that measure as net position, rather than net assets.

These statements are effective for periods beginning after December 15, 2011. The adoption of GASBS 62 and GASBS 63 did not have a material impact on EUTF's financial statements.

The accounting for the active employee healthcare benefits are reported under the statements of net position – enterprise fund, statements of revenue, expenses and changes in net position – enterprise fund and statements of cash flows – enterprise fund. The accounting for the postemployment healthcare benefits are reported in the statements of fiduciary net position – agency fund. Effective June 30, 2013, the accounting for pre-funding contributions is reported in the statements of net position and changes in net position. Prior to June 30, 2013, the accounting for pre-funding contributions were reported in the statements of fiduciary net position – agency fund.

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 statements apply all effective pronouncements of the GASB. The EUTF has elected not to apply the FASB pronouncements on accounting and financial reporting that were issued after November 30, 1989.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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 Trust Fund are premium revenues, administrative fees and increase in premium reserves. Interest income from investments is reported as nonoperating income.

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 Trust 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 OPEB Trust reports plan assets and net position, as well as investment income and appreciation and its related administrative expenses from the pre-funding contributions made by the State and counties. The OPEB Trust is reported using the same basis of accounting as the enterprise fund. The OPEB Trust is reported using the accrual basis of accounting. The OPEB Trust meets the criteria of a trust of equivalent arrangement, thus the assets, liabilities and operations for the pre-funding contributions are reported in the statements of net position and changes in net position.

2. Capital Assets

The EUTF's capital assets consist of furniture, 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' useful life of seven years.

3. Cash and Cash Equivalents

Cash and cash equivalents represent amounts held in and by the State Treasury. The EUTF invests funds in the State Treasury cash and investment pool (the "State Pool"). Investments are reported in the accompanying statements of net position and fiduciary net position at fair value. Changes in fair value that occur during the fiscal year are recognized as interest income in the statements of revenues, expenses and changes in net position; change in amounts held on behalf of employers for benefits in the statement of fiduciary net position; and net appreciation in the fair value of investments in the statement of net position (OPEB Trust) reported for that fiscal year.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Cash and Cash Equivalents (continued)

During fiscal year 2013, cash and cash equivalents also include amounts held by the EUTF at a major financial institution located in Hawaii. As of June 30, 2013, premium collections from retirees and certain employers, reimbursements made to retirees and administrative expenses were processed through accounts outside of the State Treasury. These accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 and uninsured balances aggregate to approximately $25,626,000 as of June 30, 2013.

For the purposes of the accompanying statements of cash flows, the enterprise fund considers all highly liquid investments with maturities of three months or less when purchased, and their equity in the State Pool to be cash equivalents.

4. 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 financial statements present the cost of accumulated unpaid vacation as a liability. A reconciliation of changes in compensated absence liabilities for accumulated vacation is as follows for the years ended June 30, 2013 and 2012:

	Enterprise fund	
	2013	2012
Balance at beginning of year	$ 250,531	$ 234,710
Additions	127,709	121,831
Reductions	(107,047)	(106,010)
Balance at end of year	271,193	250,531
Less curent portion	(66,493)	(63,790)
Noncurrent portion	$ 204,700	$ 186,741

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 financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Compensated Absences (continued)

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. Accumulated sick leave as of June 30, 2013 and 2012, approximated $648,509 and $600,069.

5. Receivables

Receivables consist primarily of amounts due from employers and employees for health benefits premium contributions, as well as amounts due from individuals for 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 reimbursement receivables from individuals are reported as net receivables and were based on management's estimate of amounts considered collectible. Management considered receivables older than one year from individuals who are deceased and enrolled in Medicare Part B to be uncollectible.

6. 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.

7. Benefits Claims Expense and Cost

The benefits claims expense reported in the enterprise fund relates to the self-funded 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. In fiscal year 2012, these amounts also included the ultimate net cost related to the self-funded medical plans for active employee healthcare benefits for contracts which ended on December 31, 2011. 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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Benefits Claims Expense and Cost (continued)

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 $2,665,131 and $7,485,932 for active employees and $7,674,651 and $4,651,669 for retirees as of June 30, 2013 and 2012, respectively, based on the EUTF's consulting actuary's estimate for the liability for unpaid claims. These amounts include administrative fees payable to the contracted plan administrator for services provided and for benefit claims incurred as of June 30, 2013 and 2012.

8. 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, 2013 and 2012, respectively, the EUTF recognized (losses) gains of approximately $(20,478) and $(967,186), and $20,420 and $(759,932), related to active employees and retirees, respectively.

HRS Section 87A states that employer contributions are irrevocable. In addition, HRS Section 87A 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 premium reserves and the related receivable as other receivables held by insurance companies.

9. Administrative Fees

The EUTF assesses and collects administrative fees from the State and counties and employees to support the operations of the EUTF. The administrative fees are assessed each pay period and vary depending upon the type of collective bargaining agreements. For the years ended June 30, 2013 and 2012, respectively, the administrative fees charged to the State, counties, and employees to administer the plans were $3,488,720 and $3,536,970, and $2,332,189 and $2,317,706, 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Premium Revenues – Self-insurance

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

11. Increase in Premium Reserves

For health benefit contracts effective January 1, 2012, the EUTF recognized estimated increases in premium reserves for the fiscal year ended June 30, 2013. Management has made certain assumptions based on currently available information in determining the estimated increases in premium reserves. Accordingly, the ultimate gains may vary significantly from the estimated amounts reported in the financial statements. Previously, for contracts effective prior to January 1, 2012, increases in premium reserves were only recognized when the final accounting from the carriers was completed.

12. 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.

13. Reclassifications

Certain reclassifications have been made to the 2012 financial statements in order to conform to the current year presentation.

NOTE C - CASH AND INVESTMENTS

As of June 30, 2013 and 2012, the EUTF's cash and investments were distributed and reported in the financial statements as follows:

	2013			
	Enterprise fund	Agency fund	OPEB Trust	Total
Cash and cash equivalents				
Cash	$ 24,497,490	$ -	$ 5,556,912	$ 30,054,402
Equity in the State Pool	(11,828,394)	127,428,900	-	115,600,506
	12,669,096	127,428,900	5,556,912	145,654,908
Investments	-	-	309,220,839	309,220,839
Total	$ 12,669,096	$ 127,428,900	$ 314,777,751	$ 454,875,747

NOTE C - CASH AND INVESTMENTS (continued)

	2012		
	Enterprise fund	Agency fund	Total
Cash and cash equivalents			
Cash	$ 40,507	$ 43,574,253	$ 43,614,760
Equity in the State Pool	(40,507)	93,021,692	92,981,185
	-	136,595,945	136,595,945
Investments	-	193,373,702	193,373,702
Total	$ -	$ 329,969,647	$ 329,969,647

EUTF Investment Pool

The EUTF invests funds received from employers to fund future OPEB benefits. 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. Cash is pooled with funds from employers and 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;

NOTE C - CASH AND INVESTMENTS (continued)

EUTF Investment Pool (continued)

(b) Revenue bonds, whether or not permitted by any other provision hereof, of the State or any municipal or political subdivision thereof, including the board of water supply of the city and county of Honolulu, and street or improvement district bonds of any district or project in the State; and

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

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

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

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

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

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

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

In December 2011, the Board approved moving from a 50% risk oriented / 50% stable policy target to a 65% risk oriented / 35% stable policy target that was fully implemented during the first quarter of 2013. The shift to a more risk-oriented (equity) mix improves the portfolio's expected risk-adjusted return to approximately 7% while continuing to provide a reasonable level of principal protection during periods of market stress.

NOTE C - CASH AND INVESTMENTS (continued)

EUTF Investment Pool (continued)

The selected asset allocation for the EUTF's two asset pools is as follows:

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

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

Interest Rate Risk
Interest rate risk is the risk that changes in the market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The EUTF does not have a policy to manage interest rate risk. As of June 30, 2013 and 2012, the EUTF had monies invested short-term in the State Pool, mutual funds and money market funds.

Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As a means to manage credit risk, the EUTF's policy requires individual securities to be rated investment-grade (Baa3/BBB- or higher) by at least two of the three rating agencies (Moody's, S&P and/or Fitch) and for mutual funds to have an average rating above investment grade. As of June 30,

NOTE C - CASH AND INVESTMENTS (continued)

EUTF Investment Pool (continued)

2013 and 2012, the EUTF invested in two fixed-income oriented mutual funds, the Vanguard Total Bond Market Index Fund, which only invests in investment grade securities, and the BlackRock Inflation Protection Fund, which is not rated by nationally recognized statistical rating organizations.

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

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the EUTF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The EUTF's Investment Policy or the HRS do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. At June 30, 2013, the OPEB Trust had cash deposits of $5,549,000 that are in excess of the Federal Deposit Insurance Corporation limit, of which, $1,560,000 is held short-term (less than one month) until the monies can be invested with the custodian.

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. At June 30, 2013 and 2012, the EUTF's investment concentration was as follows:

Investment type/issuer	Investment type - percentage of portfolio	One issuer of investment instrument - percentage of portfolio
2013		
Mutual funds	68%	
Vanguard		56%
BlackRock		12%
2012		
Mutual funds	58%	
Vanguard		47%
BlackRock		11%

NOTE C - CASH AND INVESTMENTS (continued)

State Treasury Cash and Investment Pool

The State Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury ("cash pool"). The Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and is invested in accordance with the State Investment Policy. Cash accounts that participate in the State Pool accrue interest based on the weighted average cash balances of each account. The weighted average maturity of the cash pool at June 30, 2013 and 2012, respectively, was 373 and 370 days.

Investments Authorized by the State's Investment Policy
Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, student loan resource securities (including auction rate securities, asset backed securities, program revenue notes and bonds, securities issued pursuant to Rule 144A of the Securities Act of 1933), money market funds, repurchase agreements with federally-insured financial institutions, commercial paper and banker's acceptances.

Credit Risk
The State's Investment Policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptance, and money market funds and student loan resources securities maintaining a rating of AAA.

As of June 30, 2013 and 2012, the State Pool has not been rated by a nationally recognized statistical rating organization.

The State Pool included auction rate securities collateralized by student loans. Previously, a number of these auctions failed and companies without the ability to hold such securities until maturity have taken significant losses. During the year ended June 30, 2013, the State experienced a favorable change in the fair value of its investments in the auction rate securities due to improved market conditions, and the EUTF recorded an increase in the fair value of its investments of $366,588, of which $219,953 and $146,635 was allocated to the enterprise fund and agency fund, respectively. During the year ended June 30, 2012, the State experienced an unfavorable change in the fair value of its investments in the auction rate securities due to declining market conditions and the EUTF recorded a decrease in fair value of $135,743 of which $81,446 and $54,297 was allocated to the enterprise fund and agency fund, respectively. The EUTF's allocated share of the changes resulted in a total cumulative decrease of $-0- and $366,588 as of June 30, 2013 and 2012, respectively. These adjustments were recorded as an increase of cash and cash equivalents and interest income and other in the enterprise fund and cash and cash equivalents and amounts held on behalf of employers for benefits in the agency fund.

NOTE C - CASH AND INVESTMENTS (continued)

State Treasury Cash and Investment Pool (continued)

Additional information on the investment risks (interest rate risk, custodial credit risk, and concentration of credit risk) related to the State Pool are included in the State Comprehensive Annual Financial Report, which can be obtained from the State's Department of Accounting and General Services.

NOTE D - CAPITAL ASSETS

The enterprise fund's capital asset activity for the years ended June 30, 2013 and 2012 was as follows:

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

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
Capital assets being depreciated				
Office furniture and equipment	$ 464,813	$ 15,015	$ -	$ 479,828
Computer equipment and software	9,475,719	-	-	9,475,719
Less accumulated depreciation	(2,723,274)	(1,050,261)	-	(3,773,535)
Capital assets, net	$ 7,217,258	$ (1,035,246)	$ -	$ 6,182,012

NOTE E - HEALTH AND LIFE INSURANCE BENEFIT CONTRACTS

The EUTF's primary purpose is to provide employee-beneficiaries, retiree-beneficiaries and dependent-beneficiaries with a health benefits plan and group life insurance. To effectuate that purpose, the EUTF requested proposals in August 2006 and awarded multi-year health and life insurance benefit contracts commencing July 1, 2007 and continuing through June 30, 2009 and subsequently exercised its options to extend contracts through December 31, 2011. Upon expiration, the EUTF requested proposals in April 2011 and awarded multi-year health and life insurance benefit contracts commencing January 1, 2012, and continuing through June 30, 2013, for active employees and commencing January 1, 2012, and continuing through December 31, 2012, for retirees. All contracts were effective January 1, 2012, except for the prescription drug contract for active employees and retirees. The prescription drug contract for active employees was effective May 1, 2012, and continuing through June 30, 2013. The prescription drug contract for non-Medicare retirees was effective May 1, 2012, and continuing through December 31, 2012.

NOTE E - HEALTH AND LIFE INSURANCE BENEFIT CONTRACTS (continued)

The prescription drug contract for Medicare retirees was effective July 1, 2012, and continuing through December 31, 2012. All contracts have two (2) one-year options to extend. Effective January 1, 2013, the EUTF exercised its options to extend each of the retiree contracts through December 31, 2013.

Individual carriers / administrators are addressed below. The plans were offered with 3 different financial arrangements:

- Self-insured: Rates are experience rated and are set by the Board acting on the advice of the consultant/actuary. Due to the size of the pool there is no stop loss insurance associated with these plans. The EUTF pays administrative fees to the carriers and pays actual claim costs as claims are paid by the carriers. If claims are less than the amount projected and included in the premium collection from employers and employee beneficiaries, surplus funds remain in the EUTF. In addition, prescription drug rebates are received 6 to 9 months after they are realized.
- Fully-insured: Premiums are collected and paid to the carriers. There is no additional risk to the EUTF or funds to be paid to the EUTF. Rates are set by the carrier.
- Fully-insured with Retrospective Risk Sharing and Risk Sharing: Rates are set by carrier using the plans' experience. EUTF's retrospective risk sharing plans were effective through December 31, 2011. For these plans, the full premium is collected and 95% is paid to the carriers. At the end of the year, if claims and retention exceed the premium paid, the EUTF pays the carriers the amount of the excess up to the withheld five percent (5%), but is not liable for the excess.

  Risk sharing plans were effective January 1, 2012. For these plans, the full premium is collected and paid to the carriers.

  The annual accounting for active employees and retirees are maintained separately. As such, the premium surplus of one group cannot be used to offset the underwriting loss of another group. Upon expiration or termination of the contract, any premium surplus will be refunded to the EUTF and any underwriting losses will not be paid by the EUTF, except up to the excess up to the 5% withheld portion for the retrospective risk sharing plans.

Health Maintenance Organization – Closed Panel HMO

The EUTF's contract with Kaiser Foundation Health Plan, Inc. ("Kaiser") to provide active employees and retirees of the EUTF and the former HSTA VEBA trust ("HSTA VB") with HMO benefits expired December 31, 2011. The EUTF entered into a new contract with Kaiser effective January 1, 2012 through June 30, 2013 for active employees of the EUTF and HSTA VB; and effective January 1, 2012 through December 31, 2012 for retirees of the EUTF and HSTA VB. Effective January 1, 2013 the contract for retirees of the EUTF and HSTA VB was extended through December 31, 2013. The HMO is not a participating contract. Accordingly, there is no premium surplus or underwriting loss.

NOTE E - HEALTH AND LIFE INSURANCE BENEFIT CONTRACTS (continued)

Medical and Prescription Drug Benefits

The EUTF's contract with the Hawaii Medical Service Association ("HMSA") and Health Management Associates ("HMA") to provide claims administration services for active employees and retirees for medical plans expired December 31, 2011. The amounts paid for claims and administrative services to HMSA and HMA are reconciled with the payments made by HMSA and HMA and any remaining surplus or deficit will be remitted to or owed by the EUTF.

The EUTF entered into a contract with HMSA to provide HSTA VB active employees and retirees with medical and prescription drug benefits for the period January 1, 2011 through December 31, 2011. The prescription drug benefits with HMSA were extended through April 30, 2012 for active employees and non-Medicare retirees and through June 30, 2012 for Medicare retirees. The plans are fully-insured and therefore, there is no premium surplus or underwriting loss.

The EUTF entered into a new contract with HMSA to provide medical benefits effective January 1, 2012 to active employees and retirees of the EUTF. The plans included a 90/10 PPO plan, 80/20 PPO plan, HMO, HDHP, and Supplemental Medical plans for actives and a 90/10 PPO plan for retirees. The EUTF entered into a new contract with HMSA to provide medical benefits for HSTA VB active employees and retirees effective January 1, 2012. The plans included a 90/10 PPO plan, 80/20 PPO plan, and Supplemental Medical plans for actives and a 90/10 PPO plan for retirees. These plans are fully-insured with risk sharing and therefore, any premium surplus will be refunded to the EUTF and any underwriting losses will not be paid by the EUTF.

The EUTF's contract with informedRx expired on April 30, 2012 for active employees and non-Medicare retirees and on June 30, 2012 for Medicare retirees. The EUTF's contract with InformedRx entitles the EUTF to rebates from pharmaceutical manufacturers related to claims paid by the EUTF and processed by InformedRx.

The EUTF entered into a new contract with CVS Caremark to provide prescription drug benefits effective May 1, 2012 for active employees and non-Medicare retirees of the EUTF and HSTA VB. The EUTF's contract with CVS Caremark entitles the EUTF to rebates from pharmaceutical manufacturers related to claims paid by the EUTF and processed by CVS Caremark.

Effective July 1, 2012, the EUTF entered into a contract with Silverscript to provide prescription drug benefits for Medicare retirees for the EUTF and HSTA VB.

Effective January 1, 2013, the medical and prescription drug contracts for retirees of the EUTF and HSTA VB were extended through December 31, 2013.

NOTE E - HEALTH AND LIFE INSURANCE BENEFIT CONTRACTS (continued)

Vision Care Benefits

The EUTF's contract with Vision Service Plan ("VSP") to provide EUTF and HSTA VB active employees and retirees with vision benefits expired December 31, 2011. The contracts included a five percent (5%) retrospective premium agreement for both active employees and retirees. Under these agreements, the EUTF will pay VSP ninety-five percent (95%) of the premiums due each month. At the end of the plan year, if claims and retention exceed 95% of the premiums due for the plan year, the EUTF will pay VSP the amount of the excess up to the withheld 5%. Since VSP is still allowed to receive the retrospective premium if they experience losses for the plan year based on the final accounting, a payable to VSP was recorded.

The EUTF entered into a new contract with VSP effective January 1, 2012 for active employees and retirees of the EUTF and HSTA VB. Effective January 1, 2013, the retiree contracts were extended to December 31, 2013. This plan is fully-insured with risk sharing and therefore, any premium surplus will be refunded to the EUTF and any underwriting losses will not be paid by the EUTF.

Dental Benefits

The EUTF's contract with Hawaii Dental Service ("HDS") expired December 31, 2011. The contract included a five percent (5%) retrospective premium agreement for both active employees and retirees. Under these agreements, the EUTF will pay HDS ninety-five percent (95%) of the premiums due each month. At the end of the plan year, if claims and retention exceed 95% of the premiums due for the plan year, the EUTF will pay HDS the amount of the excess up to the withheld five percent (5%). Effective July 1, 2011, a contractual supplement with HDS combined active and retiree rate stabilization reserves to offset any deficits. Since HDS is still allowed to receive the retrospective premium if they experience losses for the plan year based on the final accounting, a payable to HDS was recorded.

The EUTF's contract with HDS to provide HSTA VB active employees and retirees primary dental benefits and for HSTA VB active employees' supplemental dental benefits expired December 31, 2011. There was no retrospective premium agreement for the HSTA VB contract.

The EUTF entered into a new contract with HDS effective January 1, 2012 for active employees and retirees of the EUTF and HSTA VB. Effective January 1, 2013, the retiree contracts were extended to December 31, 2013. This plan is fully-insured with risk sharing and therefore, any premium surplus will be refunded to the EUTF and any underwriting losses will not be paid by the EUTF.

NOTE E - HEALTH AND LIFE INSURANCE BENEFIT CONTRACTS (continued)

Life Insurance Benefits

The EUTF's contract with Standard Insurance Company ("Standard") to provide term life insurance benefits to all eligible active employees and retirees of the EUTF and HSTA VB expired December 31, 2011. The amounts paid for claims and administrative services are reconciled with the payments made to Standard and any remaining surplus will be refunded to the EUTF and any underwriting losses will not be paid by the EUTF.

The EUTF entered into a new contract with Royal State National Insurance Company, Ltd. ("RSN") to provide term life insurance benefits to all eligible active employees and retirees of the EUTF and HSTA VB effective January 1, 2012. Effective January 1, 2013, the retiree contracts were extended to December 31, 2013. The life insurance contract is not a participating contract. Accordingly, there is no premium surplus or underwriting loss.

Supplemental Medical and Prescription Drug Benefits (Dual-Coverage)

The EUTF's contract with RSN to provide active employees with supplemental medical and prescription drug benefits expired December 31, 2011. The EUTF entered into a new contract with RSN to provide active employees with supplemental medical and prescription drug benefits effective January 1, 2012. The amounts paid for claims and administrative services are reconciled with the payments made to RSN and any remaining surplus will be refunded to the EUTF and any underwriting losses will not be paid by the EUTF.

Chiropractic Plan

The EUTF's contract with RSN to provide active employees of the EUTF and HSTA VB with chiropractic benefits expired December 31, 2011. The Chiropractic plans are not participating contracts. Accordingly, there is no premium surplus or underwriting loss.

The EUTF entered into a new contract with RSN to provide active employees of the EUTF and HSTA VB and retirees of HSTA VB with chiropractic benefits effective January 1, 2012. Effective January 1, 2013, the contract for retirees of HSTA VB was extended to December 31, 2013. The amounts paid for claims and administrative services are reconciled with the payments made to RSN and any remaining surplus will be refunded to the EUTF and any underwriting losses will not be paid by the EUTF.

NOTE E - HEALTH AND LIFE INSURANCE BENEFIT CONTRACTS (continued)

All Contracts

The following is a summary of the premium reserves held by insurance companies, rebates receivable, retrospective premiums payable and premiums payable balances by insurance company at June 30, 2013 and 2012:

	2013		2012	
	Active employees	Retirees	Active employees	Retirees
Premium reserves held by insurance companies				
COBRA - CVS	$ -	$ 2,317	$ -	$ -
HDS	-	-	690,283	-
HMA	753,813	27,159	958,530	16,603
HMSA	36,231,690	8,964,998	565,129	13,627
InformedRx	(21,959)	164,843	-	-
RSN	1,339,565	-	335,032	-
Silverscript	-	2,036,619	-	-
VSP	650,476	192,938	-	-
	$ 38,953,585	$ 11,388,874	$ 2,548,974	$ 30,230
Rebates receivable				
Receivable from CVS	$ 2,709,411	$ 991,354	$ 842,176	$ 335,762
Receivable from InformedRx	29,065	187,669	881,784	4,270,472
Receivable from Silverscript	-	4,593,241	-	-
	$ 2,738,476	$ 5,772,264	$ 1,723,960	$ 4,606,234
Retrospective premiums payable				
HDS - dental contract	$ -	$ -	$ 2,470,407	$ 2,339,910
VSP - vision contract	-	-	142,498	588,773
	$ -	$ -	$ 2,612,905	$ 2,928,683

NOTE E - HEALTH AND LIFE INSURANCE BENEFIT CONTRACTS (continued)

All Contracts (continued)

	2013		2012	
	Active employees	Retirees	Active employees	Retirees
Premiums payable				
COBRA payable - HDS	$ 376	$ -	$ 376	$ -
COBRA payable - Kaiser	2,780	-	2,780	-
COBRA payable - RSN	641	-	641	-
COBRA payable - VSP	30	-	30	-
HDS	2,541,607	1,650,810	2,549,060	1,523,197
HDS - HSTA VB	512,804	111,073	544,852	106,692
HMSA	19,598,674	10,961,961	19,555,266	10,343,097
HMSA - HSTA VB	4,154,148	832,311	4,419,680	1,218,292
Kaiser Hawaii	6,927,208	4,321,933	6,976,158	4,053,950
Kaiser Hawaii - HSTA VB	1,124,309	165,007	1,226,186	175,058
RSN Chiro - HSTA VB	17,133	5,156	18,318	5,129
RSN Dual/Chiro	118,467	-	118,048	-
RSN Life	233,802	146,412	227,708	143,145
RSN Life - HSTA VB	43,268	10,399	46,160	10,490
VSP	413,938	297,114	588,269	118,692
VSP - HSTA VB	80,966	19,300	86,811	19,647
Standard	442	238	442	238
	$ 35,770,593	$ 18,521,714	$ 36,360,785	$ 17,717,627

NOTE F - BENEFIT CLAIMS EXPENSE

The EUTF's self-funded medical and prescription drug plan contracts, administered by HMSA, HMA, and InformedRx (collectively, the "contract administrators"), expired December 31, 2011, except for InformedRx, whose contracts for active employees of non-Medicare retirees ended effective April 30, 2012 and ended effective June 30, 2012 for Medicare retirees. CVS Caremark became the contract administrator for those plans effective May 1, 2012 and July 1, 2012, respectively. As of January 1, 2012, only the prescription drug plans remain self-funded by the EUTF. Under the self-funded arrangements, the contract administrators provide the EUTF provider networks, claims processing, cost containment and other services. Instead of premiums, the EUTF pays administrative fees to the contractor for the services rendered and reimburses

NOTE F - BENEFIT CLAIMS EXPENSE (continued)

the contractor for claims paid. Activity in the liability for unpaid benefit claims expense related to the self-funded medical and prescription drug plans is as follows for the two years ended June 30, 2013:

	Active employees	Retirees	Total
Balance at July 1, 2011	$ 41,392,678	$ 15,275,791	$ 56,668,469
Claims and changes in estimates	146,856,156	159,906,939	306,763,095
Contractor processing administrative fees	6,115,425	9,962,577	16,078,002
Paid (including rebates)	(186,878,327)	(180,493,638)	(367,371,965)
Balance at June 30, 2012	7,485,932	4,651,669	12,137,601
Claims and changes in estimates	51,359,035	100,985,168	152,344,203
Contractor processing administrative fees	932,331	3,693,358	4,625,689
Paid (including rebates) during current year	(57,112,167)	(101,655,544)	(158,767,711)
Balance at June 30, 2013	$ 2,665,131	$ 7,674,651	$ (1,797,819)

Below is a summary of benefit claims payable by carrier at June 30, 2013 and 2012:

	2013		2012	
	Active employees	Retirees	Active employees	Retirees
Benefit claims payable				
Benefit claims - CVS	$ 2,460,310	$ 2,896,719	$ 2,120,668	$ 764,502
Benefit claims - HMA	41,023	7,039	41,023	7,039
Benefit claims - InformedRx	-	-	(167)	3,603,006
Benefit claims - Silverscript	-	4,470,804	-	-
IBNR for Self Funded Plans	89,000	-	5,247,200	-
Admin fee - CVS	74,913	2	75,246	18,024
Admin fee - HMA	31	-	31	-
Admin fee - HMSA	(146)	144	1,931	(13,452)
Admin fee - InformedRx	-	-	-	272,550
Admin fee - Silverscript	-	299,943	-	-
	$ 2,665,131	$ 7,674,651	$ 7,485,932	$ 4,651,669

NOTE F - BENEFIT CLAIMS EXPENSE (continued)

According to the terms of contracts with HMSA, HMA, InformedRx, CVS Caremark and Silverscript, the EUTF was required to make a deposit to cover estimated claims costs for the self-funded medical and prescription drug plans. During fiscal year 2013, deposits for those plans that were no longer self-insured were refunded to the EUTF except for a portion of HMA. The deposits held by the carriers for the self-funded prescription drug plans as of June 30, 2013 and 2012, are as follows:

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

	2012		
	Active employees	Retirees	Total
HMSA - medical and drug contact	$ 6,300,000	$ 3,700,000	$ 10,000,000
informedRx - drug contract	3,008,000	6,392,000	9,400,000
CVS - drug contract	4,958,000	1,742,000	6,700,000
HMA - medical contract	2,200,680	156,076	2,356,756
	$ 16,466,680	$ 11,990,076	$ 28,456,756

NOTE G - SUMMARY OF CONTRIBUTIONS AND PRE-FUNDED CONTRIBUTIONS

The employer and employee contributions recognized and pre-funded contributions received for the years ended June 30, 2013 and 2012, are as follows:

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

NOTE G - SUMMARY OF CONTRIBUTIONS AND PRE-FUNDED CONTRIBUTIONS (continued)

	2012		
	Active employees	Retirees	Total
Required contributions			
Employer			
State of Hawaii	$ 140,959,768	$ 246,490,677	$ 387,450,445
State of Hawaii - HSTA VB	43,829,765	25,267,455	69,097,220
City & County of Honolulu	38,793,257	63,007,261	101,800,518
County of Hawaii	12,167,889	13,721,664	25,889,553
County of Maui	12,696,458	11,289,369	23,985,827
County of Kauai, including Department of Water	5,407,835	6,566,477	11,974,312
Board of Water Supply - Honolulu	2,138,054	5,126,550	7,264,604
County of Hawaii - Department of Water	814,775	768,487	1,583,262
	256,807,801	372,237,940	629,045,741
Employee	224,338,131	1,497,727	225,835,858
	481,145,932	373,735,667	854,881,599
Pre-funded deposits* - employer			
City & County of Honolulu	-	40,000,000	40,000,000
County of Kauai including Department of Water	-	10,785,959	10,785,959
Board of Water Supply - Honolulu	-	6,600,000	6,600,000
County of Hawaii - Department of Water	-	1,632,000	1,632,000
	-	59,017,959	59,017,959
	481,145,932	432,753,626	913,899,558
Less: administrative fees	(3,536,970)	(2,317,706)	(5,854,676)
	$ 477,608,962	$ 430,435,920	$ 908,044,882

* In fiscal year 2012, amounts are considered deposits as they were not held in a qualifying trust as defined within GASBS 43 (see Note L).

The required contributions include both contributions for self-insured and fully-insured plans. The self-insured contributions are reported as operating revenues in the statement 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 payable 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, 2013 for the enterprise fund and agency fund, respectively, were $432,011,926 and $215,809,906 and for the year ended June 30, 2012 for the enterprise fund and agency fund, respectively, were $325,174,545 and $153,831,741.

NOTE G - SUMMARY OF CONTRIBUTIONS AND PRE-FUNDED CONTRIBUTIONS (continued)

As a result of plan operations during fiscal year 2012, the EUTF utilized previously built-up reserves to cover the cost of healthcare benefits, resulting in a transfer from the agency fund to the enterprise fund of $5,974,732 for the year ended June 30, 2012.

NOTE H - RETIREMENT BENEFITS

Employees' Retirement System

Plan Description

All eligible employees of the State are required by Chapter 88 of the HRS to become members of the Employees' Retirement System of the State of Hawaii ("ERS"), a cost sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for ERS. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

The ERS consists of a contributory plan and a noncontributory plan. Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984, who are covered by Social Security, are generally required to join the noncontributory plan. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation ("AFC"). The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service excluding the payment of salary in lieu of vacation. Vesting requirements for the contributory and noncontributory plans are five years and ten years, respectively. All contributions, benefits and eligibility requirements are governed by Chapter 88.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 with 30 years of credited service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit options are similar to the current contributory plan. Approximately 60,345 current members, all members of the noncontributory plan and certain members of the contributory plan, are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 are required to join the hybrid plan.

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

NOTE H - RETIREMENT BENEFITS (continued)

Employees' Retirement System (continued)

Funding Policy
The contribution rate for State employees administering the EUTF is approximately 6.10% and 4.09% of pay for 2013 and 2012, respectively. The actuarial cost or funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the employer contribution rates are a fixed percentage of compensation, including normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The employer contribution rates for June 30, 2013 and 2012, were 15.5 % and 15.0%, respectively.

The EUTF's share of the aggregated pension expense was approximately $241,300, $223,848 and $197,900 for the years ended June 30, 2013, 2012 and 2011, respectively, and the annual expense is included in the financial statements. Refer to the State's basic financial statements for information regarding required supplementary information regarding the funding progress and plan information for State employees.

Postemployment Healthcare and Life Insurance Benefits

Plan Description
In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, provides certain healthcare and life insurance benefits to all qualified retirees under an agent multiple-employer defined benefit plan comprising of the State and counties.

For employees hired before July 1, 1996, and who retire with ten or more years of credited service, the State and counties pay 100% of the base monthly contribution set forth under HRS Section 87A- 33(b) for retirees enrolled in Medicare or non-Medicare health benefit plans. For retirees with fewer than ten years of credited service, the State and counties pay 50% of the base monthly contribution set forth under HRS Section 87A-33(b).

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with fewer than 10 years of service, the State and counties make no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State and counties pay a monthly contribution equal to 50% of the base monthly contribution set forth under HRS Section 87A-33(b). For employees retiring with at least 15 years but fewer than 25 years of service, the State and counties pay a monthly contribution equal to 75% of the base monthly contribution set forth under HRS Section 87A-33(b). For employees retiring with at least 25 years of service, the State and counties pay a monthly contribution equal to 100% of the base monthly contribution set forth under HRS Section 87A-33(b). The contribution rates for employees hired after June 30, 2001, are consistent with the contribution rates for those hired after June 30, 1996, but only self-coverage base monthly contribution rates are covered. Those retirees may elect to enroll additional dependents, but must pay the additional cost.

NOTE H - RETIREMENT BENEFITS (continued)

Postemployment Healthcare and Life Insurance Benefits (continued)

Funding
Contributions to the plan are made by the State, counties, and employees. Contribution amounts are established by statute and are currently based on the pay-as-you-go amounts billed by the EUTF to the employers; however, employers may elect to make additional contributions based on their respective actuarial valuations. The retirees are responsible to pay the difference if the base contribution is less than the cost of the monthly premium. The current contributions are not sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASBS 43.

Annual OPEB Cost and Net OPEB Obligation Related to the EUTF
The employees that administer the EUTF are employees of the State. The EUTF's annual other postemployment ("OPEB") cost (expense) is allocated by the State based on the EUTF's proportionate share of contributions for postemployment health benefits and was calculated at 0.0672% and 0.0510% of the State's annual required contribution ("ARC") for the years ended June 30, 2013 and 2012, respectively. The ARC is an amount actuarially determined in accordance with GASBS 45, which was implemented effective July 1, 2007.

The following table shows the components of the annual OPEB cost, the amount contributed to the plan, and changes in the EUTF's net OPEB obligation for the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011
Annual required contribution	$ 571,162	$ 432,795	$ 272,357
Interest on net OPEB obligation	74,966	44,770	16,901
Adjustment to annual required contribution	(65,713)	(40,700)	(15,365)
Annual OPEB cost	580,415	436,865	273,893
Contributions made	(158,685)	(117,790)	(82,385)
Increase in net OPEB obligation	421,730	319,075	191,508
Net OPEB obligation at beginning of year	1,054,273	735,198	543,690
Net OPEB obligation at end of year	$1,476,003	$1,054,273	$ 735,198

The percentage of annual OPEB cost contributed was 27.3%, 27.0% and 30.1% for the years ended June 30, 2013, 2012 and 2011, respectively.

NOTE H - RETIREMENT BENEFITS (continued)

Postemployment Healthcare and Life Insurance Benefits (continued)

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 L.

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

Deferred Compensation

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

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

NOTE I - 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.

NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

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. At the October 30, 2013 hearing, the Circuit Court took both motions under advisement and set a continued hearing on both motions for December 5, 2013. In late November, the Circuit Court informed the parties that it would issue an order on the motions for partial summary judgment and canceled the December 5, 2013 hearing. The Circuit Court's order is still pending.

No trial date has yet been set. 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, 2013 or 2012.

Kono, et al. v. Abercrombie, Civil No. 10-1-1966-09 KKS
On September 14, 2010, the Hawaii State Teachers Association Voluntary Employees Beneficiary Association Trust (the "VEBA Trust") and two participants in the VEBA Trust health plans filed a Complaint in the Circuit Court against the State alleging: (1) the State diminished and impaired accrued health benefits for the active and retired teachers participating in the VEBA Trust health plans in violation of Article XVI, Section 2 of the Hawaii Constitution, by enacting Act 106, Session Laws of Hawaii 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 that entered judgment in the case.

NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

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, 2012 and 2013.

InformedRx v. EUTF, State of Hawai'i, Civil Nos. 11-1-3162-12 (RAN) and 11-1-3163-12 (RAN)
On April 8, 2011, the EUTF issued a Request for Proposals ("RFP") for Pharmacy Benefit Management ("PBM") services for both the Employer-Group Waiver Program ("EGWP") contract covering medicare-eligible retirees and the non-EGWP contract covering active employees and non-medicare-eligible (or "early") retirees (the "Active" contract).

Following evaluation of proposals, the EUTF selected CVS Caremark for both the new EGWP and Active contracts. On August 8, 2011, informedRx, which was the incumbent for both contracts, filed an extensive Protest of the RFP (the "Protest"). On August 24, 2011, the EUTF sustained the Protest in part, and denied the remainder of the Protest. Despite correction to the scoring of the RFP that was done pursuant to informedRx's Protest, points that were sustained did not alter the proposed award of the contracts to CVS Caremark.

On August 31, 2011, informedRx filed a Request for Hearing with the Department of Commerce and Consumer Affairs ("DCCA") pursuant to Hawaii Administrative Rules ("HAR") § 3-126-7(c) and HRS § 103D-709, in Case No. PCH-2011-8, alleging twenty-six points of error. On December 16, 2011, the Special Hearings Officer issued a Decision that upheld the award of contract to CVS Caremark for the Active contract. For the EGWP contract, the Special Hearings Officer remanded to the EUTF for further scoring on four out of the twenty-six alleged points of error.

On December 23, 2012, informedRx appealed the Special Hearings Officer's Decision regarding the EGWP contract and Active contract in its entirety to the Circuit Court. Also on December 23, 2012, the EUTF appealed two of the Special Hearings Officer's four points on remand for the EGWP contract. The two Circuit Court appeals were consolidated for convenience.

NOTE I - COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

In the meantime, on remand from the DCCA, the EUTF re-evaluated the four specific points in the RFP as directed by the DCCA Special Hearings Officer for the EGWP contract. The final scoring remained the same, with CVS Caremark ranked as the highest proposer. On January 27, 2012, informedRx filed a protest (the "EGWP Protest") challenging the proposed award of the EGWP contract to CVS Caremark. The EGWP Protest was denied by the EUTF, and on February 7, 2012, informedRx filed a Request for Hearing with the DCCA in Case No. PCY-2012-4. On March 9, 2012, the DCCA Senior Hearings Officer issued a Decision affirming the EUTF's denial of the EGWP Protest, and dismissing the Request for Hearing in Case No. PCY-2012-4. The Senior Hearings Officer's Decision regarding the EGWP rescoring on remand was not appealed by informedRx to the Circuit Court. Thus, the EUTF proceeded with the proposed award of the EGWP contract to CVS Caremark.

After briefing was completed in the appeals before the Circuit Court, the Circuit Court heard oral arguments from the parties on June 8, 2012. On August 27, 2012, the Circuit Court issued a minute order denying both appeals on all points. The Circuit Court entered final judgment in the consolidated proceeding on November 8, 2012, upholding the decision of the Special Hearings Officer in its entirety. informedRx did not appeal this decision within the time allowed by law, and accordingly, this matter is closed.

NOTE J - RISK MANAGEMENT

The EUTF is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. In accordance with HRS 87A-25, the EUTF has obtained fiduciary liability insurance with an annual aggregate for losses of $10 million and a fidelity bond to cover employee dishonesty with an annual aggregate for losses of $1 million. In addition, the EUTF also obtained a public officials and employment practices insurance policy to cover any wrongful acts or employment practices violation in which the EUTF retains the first $25,000 per occurrence and the annual aggregate for losses is $3 million. In June 2013, the EUTF also obtained a cyber-risk insurance policy with an aggregate loss limit of $5 million and a $100,000 deductible.

The EUTF is covered under the State's self-insurance program for workers' compensation. During fiscal years 2013 and 2012, the EUTF paid $14,586 and $18,108, respectively, in workers' compensation premiums to the State's General Fund.

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

NOTE K - 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 is being paid for by the EUTF.

At June 30, 2013, the future minimum rental commitment under the noncancelable operating lease through October 31, 2014 is as follows:

Year ending June 30,	
2014	$ 306,000
2015	102,000
Total minimum payments	$ 408,000

The rent expense for the years ended June 30, 2013 and 2012 was $324,955 and $320,963, respectively.

NOTE L – FUNDED STATUS, FUNDING PROGRESS AND OTHER PLAN INFORMATION – OPEB PLAN

As of July 1, 2011, 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	31,281	4,873	49,616	85,770
City & County of Honolulu	6,597	689	8,522	15,808
County of Hawaii	1,366	139	2,315	3,820
County of Maui	1,147	183	2,460	3,790
County of Kauai, including Department of Water	708	90	1,186	1,984
Board of Water Supply - Honolulu	570	47	502	1,119
County of Hawaii - Department of Water	85	-	165	250
	41,754	6,021	64,766	112,541

NOTE L – FUNDED STATUS, FUNDING PROGRESS AND OTHER PLAN INFORMATION – OPEB PLAN (continued)

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, 2013 and 2012, based on the July 1, 2011 actuarial valuation, were as follows:

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

	2012		
	Required contribution for June 30, 2012 (pay as you go basis)	ARC for June 30, 2012	ARC as a percentage (%) of covered payroll[1]
Employer			
State of Hawaii	$ 271,758,132	$ 952,579,000	36.7%
City & County of Honolulu	63,007,261	155,778,000	28.4%
County of Hawaii	13,721,664	36,193,000	27.8%
County of Maui	11,289,369	32,878,000	24.8%
County of Kauai, including Department of Water	6,566,477	17,060,000	25.7%
Board of Water Supply - Honolulu	5,126,550	10,750,000	36.0%
County of Hawaii - Department of Water	768,487	2,400,000	30.0%
	$ 372,237,940	$ 1,207,638,000	

[1] Percentages are an estimate based on information included in the actuarial valuation dated July 1, 2011. Actual amounts for fiscal year 2013 and 2012 were not available.

NOTE L – FUNDED STATUS, FUNDING PROGRESS AND OTHER PLAN INFORMATION – OPEB PLAN (continued)

Contribution and Other Plan Information (continued)

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

The cumulative contributions and interest held by the EUTF in the OPEB Trust and agency fund for pre-funding as of June 30, 2013 and 2012, respectively, are as follows:

	2013	2012
Board of Water Supply - Honolulu	$ 25,637,678	$ 21,710,155
County of Hawaii	66,077,403	63,927,963
County of Maui	26,837,770	25,961,920
County of Kauai, including Department of Water	46,684,904	32,963,719
Hawaii County Department of Water Supply	7,471,357	6,257,153
City & County of Honolulu	123,415,281	81,493,345
	$ 296,124,393	$ 232,314,255

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)
7/1/2011	$ 178,200,000	$ 16,458,800,000	$ 16,280,600,000	1.1%	$ 3,743,000,000	435%

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.

NOTE L – FUNDED STATUS, FUNDING PROGRESS AND OTHER PLAN INFORMATION – OPEB PLAN (continued)

Funded Status and Funding Progress (continued)

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

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

Valuation date	7/1/2011
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Amortization period	30 years
Actuarial assumptions	
Investment rate of return	4%
Healthcare cost trend rate [1]	
Medical and prescription drug, pre 65	8% initial; 5% ultimate
Medical and prescription drug HSTA, pre 65	8.5% initial; 5% ultimate
Medical and prescription drug, post 65	8.5% initial; 5% ultimate
Medical and prescription drug HSTA, post 65	8.5% initial; 5% ultimate
Medicare Advantage, pre 65	8.5% initial; 5% ultimate
Medicare Advantage, post 65	15% initial; 5% ultimate
Dental	4% initial; 4% ultimate
Vision	3% initial; 3% ultimate
Medicare Part B	13.4% initial; 5% ultimate
Projected salary increases	3.5%

(1) Includes an inflation adjustment of 3%.

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.

NOTE M - SUBSEQUENT EVENTS

In July 2013, chapter 87A of the HRS was amended, by Act 268, Session Laws of Hawaii 2013, to require that the annual public employer contribution to be equal to the amount determined by an actuary commencing with fiscal 2019. General excise tax revenues and transient accommodations tax revenues are to be used to supplement deficient State and County employer contributions, respectively, commencing with fiscal 2019.

Effective July 1, 2013, the active contracts for medical, prescription drug, dental, vision, supplemental medical and drug and life insurance were extended through June 30, 2014.

The 2013 Legislature passed Act 226, Session Laws of Hawaii 2013, that, among other things, prohibited mandatory mail order. The EUTF voluntarily implemented Act 226 on October 1, 2013 for active employees and will implement Act 226 on January 1, 2014 for retirees.

PART II

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION
(unaudited)

June 30, 2013

Schedule of Funding Progress

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)
7/1/2011	$ 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

Year ended June 30,	Annual required contributions	Percentage contribution
2013	$ 1,219,917,000	31.2%
2012	1,207,638,000	30.8%
2011	1,300,757,000	27.6%

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

SIX-YEAR LOSS DEVELOPMENT INFORMATION
(UNAUDITED)

June 30, 2013 and 2012

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 six 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 six 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 five 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 five 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.

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

SIX-YEAR LOSS DEVELOPMENT INFORMATION
(unaudited)

June 30, 2013

Self-Insured Active Employee Healthcare Benefit Plans

	2008	2009	2010	2011	2012	2013
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
Ceded	-	-	-	-	-	-
Net earned	$ 195,936,354	$ 221,762,304	$ 256,755,699	$ 246,004,463	$ 153,831,438	$ 51,774,778
2. Unallocated expenses	$ 2,382,253	$ 2,324,705	$ 3,464,359	$ 3,828,417	$ 2,142,126	$ 1,241,104
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
Ceded	-	-	-	-	-	-
Net incurred	$ 233,857,827	$ 267,973,485	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770
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
One year later	231,169,876	283,354,922	239,959,499	234,225,771	144,371,143	
Two years later	231,157,984	283,378,367	239,959,499	234,225,771		
Three years later	231,157,984	283,378,367	239,959,499			
Four years later	231,157,984	283,378,367				
Five years later	231,157,984					
Six years later						
Seven years later						
Eight years later						
Nine years later						
5. Reestimated ceded claims and expenses	$ -	$ -	$ -	$ -	$ -	$ -
6. Reestimated net incurred claims and expenses:						
End of policy year	$ 233,857,827	$ 267,973,485	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770
One year later	231,169,876	283,354,922	239,959,499	234,225,771	144,371,143	
Two years later	231,157,984	283,378,367	239,959,499	234,225,771		
Three years later	231,157,984	283,378,367	239,959,499			
Four years later	231,157,984	283,378,367				
Five years later	231,157,984					
Six years later						
Seven years later						
Eight years later						
Nine years later						
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	$ (2,699,843)	$ 15,404,882	$ (5,012,488)	$ (6,822,877)	$ (6,117,774)	$ -

PART III

SUPPLEMENTARY INFORMATION

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

SCHEDULE OF ADMINISTRATIVE OPERATING EXPENSES - ENTERPRISE FUND

Years ended June 30,

	2013	2012
Administrative operating expenses		
Personal services	$ 2,741,393	$ 2,459,610
Contracted services	1,726,160	1,632,464
Equipment	29,314	18,676
Occupancy	324,955	320,963
Printing and binding	63,786	63,752
Insurance	91,490	81,863
Repairs and maintenance	9,433	6,309
Postage	61,079	82,563
Telephone	33,889	32,555
Transportation	25,360	15,817
Rental of equipment	20,852	1,412
Supplies	16,122	18,538
Training	11,450	3,770
Other	1,398	977
Total administrative operating expenses	$ 5,156,681	$ 4,739,269

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION - AGENCY FUND

Year ended June 30, 2013

	July 1, 2012	Additions	Deductions	June 30, 2013
Assets				
Cash and cash equivalents	$ 93,022,037	$ 657,410,966	$ (623,004,103)	$ 127,428,900
Cash and investments held by fiscal agent	236,947,610	95,571,094	(332,518,704)	-
Receivables				
Medicare reimbursements from individuals, net of allowance of $747,137 in 2013 and $685,035 in 2012	257,279	55,150,160	(55,206,170)	201,269
Premium receivable from State of Hawaii and counties	31,473,876	380,752,018	(379,626,812)	32,599,082
Other receivables held by insurane companies	30,230	12,250,567	(891,923)	11,388,874
Rebates receivable	4,606,234	11,169,308	(10,003,278)	5,772,264
Accrued interest receivable	21,206	121,745	(113,750)	29,201
Total receivables	36,388,825	459,443,798	(445,841,933)	49,990,690
Deposits	11,990,076	6,423,204	(10,244,216)	8,169,064
Total assets	$ 378,348,548	$ 1,218,849,062	$ (1,411,608,956)	$ 185,588,654
Liabilities				
Due to State of Hawaii	$ 188,857	$ -	$ (188,797)	$ 60
Due to retirees	17,966	2,350,827	(2,342,813)	25,980
Investment fees payable	53,964	283,270	(337,234)	-
Other payables	-	26,778	-	26,778
Retrospective premium payable	2,928,683	-	(2,928,683)	-
Premiums payable	17,717,627	215,809,906	(215,005,819)	18,521,714
Benefit claims payable	4,651,669	107,686,742	(104,663,760)	7,674,651
Amounts held on behalf of employers for benefits	352,789,782	196,052,082	(389,502,393)	159,339,471
Total liabilities	$ 378,348,548	$ 522,209,605	$ (714,969,499)	$ 185,588,654

PART IV

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

PKF Pacific Hawaii LLP
Accountants & Business Advisors

PKF

Independent Auditor's 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*

Board of Trustees
Hawaii Employer-Union Health Benefits Trust Fund
of the State of Hawaii
Ms. Jan K. Yamane
Office of the Auditor
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, the "EUTF") as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings as 2013-01 and 2013-02 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings as 2013-03 to be a significant deficiency.

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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*.

EUTF's Response to Findings

EUTF's response to the findings identified in our audit are described in the accompanying Response of the Affected Agency. EUTF's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

PKF Pacific Hawaii LLP

Honolulu, Hawaii
December 9, 2013

PART V

SCHEDULE OF FINDINGS

SCHEDULE OF FINDINGS

June 30, 2013

FINDING 2013-01 – RECONCILIATION OF REBATES RECEIVABLE

Criteria
In accordance with accounting principles generally accepted in the United States of America, revenues should be recorded when earned.

Condition
As a result of audit procedures performed, we brought to management's attention an adjustment to correct the recorded balance of rebates receivable from Silverscript as of June 30, 2013, in the agency fund.

Cause
The finding described above was primarily due to the lack of performing reconciliation procedures of the receivable account. Rebates are accrued based on estimates provided by Silverscript on a quarterly basis. Actual rebates received from Silverscript differed from the estimated amounts. However, the receivable account was not adjusted for these differences.

Effect
Rebates receivable was understated by approximately $2,400,000 as of June 30, 2013. We proposed an adjustment, which management recorded for this amount.

Recommendation
We recommend that management of the EUTF implement procedures to reconcile rebates receivable upon receipt and adjust the account for any differences between estimated and actual amounts received.

FINDING 2013-02 – REVIEW OF IBNR FOR SELF-INSURED PLANS

Criteria
Government Accounting Standards Board Statement No.10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* ("GASBS 10") states that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported ("IBNR") claims, should be accrued when insured events occur, or for claims-made policies, in the period in which the event triggers coverage under the policy or participation contract occurs. The EUTF engages a benefit plan consultant to assist them with determining the proper IBNR amounts to accrue each year end.

Condition
As a result of audit procedures performed, we brought to management's attention an adjustment to correct the recorded balance of IBNR as of June 30, 2013 in the enterprise fund.

Cause
The finding described above was primarily due to a lack of proper review of the consultant's report in determining the IBNR accrual. Management recorded the IBNR based upon the initial report received from their consultant. However, upon our inquiry, it was determined that the amount included known claims which have been billed to the EUTF.

Effect

Benefits claims payable was overstated by approximately $2,500,000 as of June 30, 2013. We proposed an adjustment, which management recorded for this amount.

Recommendation

We recommend that management of the EUTF implement procedures to review the IBNR reports prepared by the consultant. While management may engage consultants to obtain needed expertise, they should perform an evaluation of the work performed. Management should asses the relevance and reasonableness of consultants' findings or conclusions and consistency with other available information. Any significant assumptions and methods used should also be evaluated.

FINDING 2013-03 – RISK ASSESSMENT AND FINANCIAL REPORTING

Criteria

EUTF has a fiduciary responsibility of public funds. In order to fulfill this responsibility, the EUTF has designed and implemented internal controls to safeguard assets and to ensure effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

Condition

As noted in the prior year schedule of findings, the EUTF does not have a formal risk assessment or monitoring process and does not have current policies and procedure documented.

Cause

Management has experienced turnover in key positions and, as a result, there were limited resources to properly evaluate the EUTF's internal controls over financial reporting and document current policies and procedures.

Effect

The lack of a formal risk assessment or monitoring process over financial reporting and documented policies and procedures puts the EUTF at risk of not identifying deficiencies in the design and operation of the internal controls over financial reporting which may result in misstatements in the financial statements not being prevented, or detected and corrected in a timely manner.

Recommendation

The EUTF management has completed the State of Hawaii Department of Accounting and General Services Self-Assessment of Internal Controls Questionnaire. We recommend that the EUTF management continue to take steps to formalize the risk assessment and monitoring process and document their policies and procedures.

PART VI

RESPONSE OF AFFECTED AGENCY

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

RESPONSE OF THE AFFECTED AGENCY

June 30, 2013

FINDING 2013-01 – RECONCILIATION OF REBATES RECEIVABLE

Management Response
EUTF management will implement procedures to reconcile the actual rebates received which normally occur on a quarterly basis. A journal entry will be posted when there is a difference between estimated and actual rebate amounts received. This will ensure that the EUTF will properly record the actual rebates receivable.

FINDING 2013-02 – REVIEW OF IBNR FOR SELF-INSURED PLANS

Management Response
The EUTF management will improve and strengthen its procedures to assess, review, and evaluate the IBNR reports prepared by the consultant. Assumptions and methods used to determine the IBNR will be tested for reasonableness and consistency.

FINDING 2013-03 – RISK ASSESSMENT AND FINANCIAL REPORTING

Management Response
The EUTF management continues to work on developing a corrective action plan for each deficiency identified and to document its policies and procedures