STATE OF HAWAIʻI
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaiʻi 96813-2917

LESLIE H. KONDO
State Auditor

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DEPT. COMM. NO. 318

February 28, 2017

HAND DELIVER

The Honorable Ronald Kouchi
Senate President
415 S. Beretania Street
State Capitol, Room 409
Honolulu, Hawaiʻi 96813

Re: Audit of Hawaiʻi Employer-Union Health Benefits Trust Fund

Dear President Kouchi:

The financial audit report of the Hawaiʻi Employer-Union Health Benefits Trust Fund for the fiscal years ending 2015 and 2016, were issued on December 28, 2016. The Office of the Auditor retained KKDLY LLC to perform the financial audit. For your information, we are enclosing copies of the two-page summary and the report.

The Auditor's Summary may also be viewed electronically on our website at http://files.hawaii.gov/auditor/Reports/2016_Audit/EUTF_Summary_2016.pdf and the report is also accessible on our website at http://files.hawaii.gov/auditor/Reports/2016_Audit/EUTF2016.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:lfs

Enclosures

Auditor's Summary

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

Financial Statements, Fiscal Year Ended June 30, 2016

ILLUSTRATION: THINKSTOCK.COM

***THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Hawai‘i Employer-Union Health Benefits Trust Fund (EUTF), as of and for the fiscal year ended June 30, 2016. The audit was conducted by KKDLY LLC.*

About the Trust Fund

EUTF IS A STATE AGENCY that provides and administers health and other benefit plans for eligible State of Hawai‘i and county (Honolulu, Hawai‘i, Maui and Kauai) employees, retirees and their eligible dependents. EUTF is administered by a board of trustees composed of ten trustees appointed by the governor. The trust fund currently provides medical, prescription drug, dental, vision, chiropractic, supplemental medical and prescription, and group life insurance benefits. Effective June 30, 2013, the board established a separate trust fund (OPEB Trust Fund) to receive employer contributions that will pre-fund other post-employment benefits for retirees and their beneficiaries. EUTF is administratively attached to the Department of Budget and Finance.

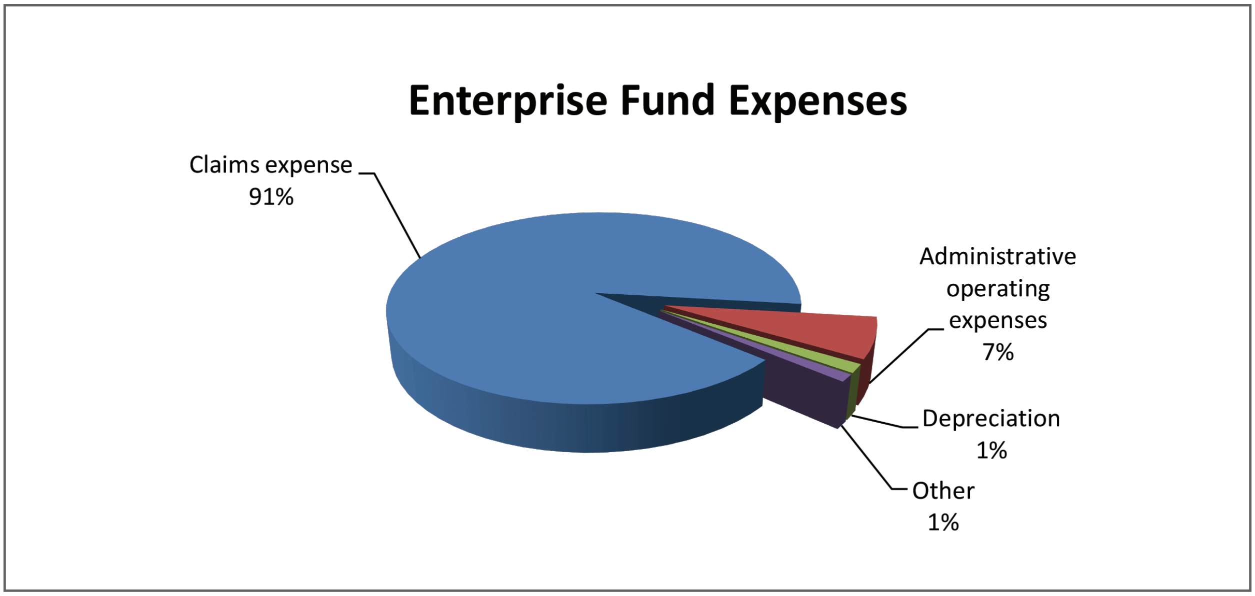
Financial Highlights

EUTF USES AN ENTERPRISE FUND to account for the revenues, expenses, net position, assets and liabilities for active employee healthcare benefits. For retiree beneficiaries, EUTF accounts for assets and liabilities associated with other post-employment health benefits in an agency fund. In addition, EUTF uses the OPEB Trust Fund to account for contributions received from the State and county government employers to pre-fund retiree health benefits, as well as the related assets, liabilities and net position.

ENTERPRISE FUND: For the fiscal year ended June 30, 2016, net operating revenues totaled $82.8 million and operating expenses totaled $97.6 million, resulting in a net operating loss of $14.8 million.

Enterprise Fund net operating revenues included $86.5 million related to premium revenue self-insurance and experience overpayments loss of $3.7 million.

Enterprise Fund operating expenses included $88.5 million related to claims, $6.5 million for administrative operating expenses, $1.4 million for depreciation, and $1.2 million for other operating expenses.



As of June 30, 2016, Enterprise Fund assets totaled $107.7 million and liabilities totaled $59.1 million, leaving a net position balance of $48.6 million.

AGENCY FUND: As of June 30, 2016, the EUTF's Agency Fund held $198.7 million in assets, which included $121 million in cash and investments, $69.5 million in receivables, and $8.2 million in deposits with insurance carriers. Agency Fund liabilities totaled $198.7 million, of which $162.3 million was held on behalf of employers for retiree benefits.

OPEB TRUST FUND: For the fiscal year ended June 30, 2016, total additions were $366.3 million, of which $338.5 million were from employer contributions and $27.8 million were from net investment earnings. As of June 30, 2016, the EUTF's OPEB Trust Fund net position balance totaled $1.21 billion.

Auditors' Opinion

EUTF RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Findings

There were no reported deficiencies in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2016_Audit/EUTF2016.pdf

ORIGINAL

KDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

DEPT. COMM. NO. 318

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

Management Letter

June 30, 2016

Submitted by
THE AUDITOR
STATE OF HAWAII

KKDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

December 28, 2016

The Auditor
State of Hawaii:

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

In planning and performing our audit of the financial statements of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii and the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits, collectively referred to as the EUTF, as of and for the year ended June 30, 2016, 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*, we considered the EUTF's internal control over financial reporting (internal control) as a basis for designing auditing 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.

In the current year, we reviewed management letter comments from the prior year audit and became aware of certain matters that were not fully remediated as of June 30, 2016. None of these matters communicated below were determined to be material weaknesses nor did they affect our opinions on the EUTF's financial statements.

Reviewing of Prescription Drug Claims

In the prior year, we noted that the EUTF began performing detailed reviews of prescription drug claims and related rebates for its self-funded prescription drug plans. Given the high volume of claims processed, the complexity of calculating prescription drug claims and rebates, the cost associated with these prescription drug plans, and the risks retained by the EUTF under these self-insured plans, it is vital that the EUTF ensure the completeness and accuracy of amounts incurred for these self-insured plans.

The EUTF procured the services of Segal Company, an outside consulting firm. The Segal Company performed a claims audit of the prescription drug program administered by CVS Health covering the period from May 2012 to June 2013 for the active and pre-65 retiree populations and the period from July 2012 to June 2013 for the Medicare retiree population. Segal Company also performed a rebate audit. The EUTF awarded the fiscal year 2014 and 2015 audits to Truven Health Analytics, Inc. and contract terms are currently being negotiated.

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Recommendation

We recommend that the EUTF continue using an outside consultant to perform audits of the prescription drug claims and rebates under its self-insured prescription drug plans covering fiscal year 2014 and thereafter. Once the EUTF is able to catch up with previous years' audits, we recommend that such audits be performed in a timely fashion.

Views of Responsible Officials and Planned Corrective Action

A contract with Truven Health Analytics, Inc. to audit the self-funded prescription drug plan for the period from July 1, 2013 to June 30, 2015 active employees and July 1, 2013 to December 31, 2014 retirees has been executed and a kick off meeting has been conducted between the respective parties. Audits of subsequent periods will be conducted after this audit is completed.

Reconciling and Disposing of Net Amounts Due to Employees and Retirees

During our prior year audits, we noted that the EUTF did not reconcile amounts due from or payable to employees and retirees on a periodic basis. In fiscal year 2016, the EUTF was able to generate a report from the V3 system that materially agreed to the general ledger. The EUTF continues to develop a process that simplifies the accounting for employee receivables/payables. Periodic reconciliation of amounts due from and payables to employees and retirees to the subsidiary ledger will ensure the accuracy of amounts reported in the EUTF's financial statement and enable the EUTF to identify any posting errors in a timely fashion.

The EUTF is responsible for ensuring that former employees, active employees, or retirees are reimbursed for excess premiums withheld from their paychecks in a timely manner. In 2016, the EUTF modified its formal process for the identification and reimbursement of excess premium amounts due to former employees, active employees, or retirees, which requires coordination with the State and county employers to ensure the timely processing of reimbursement checks. As a result, the EUTF has been able to process the current refunds in a timelier manner; however, the EUTF is still working on disposing the older employee payable balances.

Recommendation

We recommend that the EUTF periodically reconcile amounts due from or payable to employees and retirees between the general ledger and the detailed subsidiary ledger. Any differences identified should be disposed of in a timely manner.

In addition, we recommend that the EUTF take immediate steps to process reimbursements to former employees for excess premiums previously withheld from their paychecks. We also recommend that the EUTF continue to evaluate the existing reimbursement process to improve the timeliness of reimbursements to former employees.

Views of Responsible Officials and Planned Corrective Action

We concur. The EUTF continues to work with the vendor of the V3 system to identify differences between the aging report and the general ledger. The EUTF Participant Accounting Section has been able to resolve current refunds and has been able to reduce some of the backlog. Once the current refunds are completed, the staff has been able to utilize the aging report to research and initiate older refund amounts. In addition, staff has identified amounts in the aging report that are a result of system errors and not actual refunds owed to employees and retirees. The EUTF is working with the vendor to have these amounts corrected in the V3 system. From January 2015 through December 2016, the EUTF processed approximately 6,000 refunds in the amount of $1.8 million. As of June 30, 2015 and 2016, the net amount due to employees and retirees was $2.2 million and $2.0 million, respectively.

Monitoring Eligibility for Student Dependents

During our prior year audit, we noted that the EUTF did not consistently maintain documentation supporting the eligibility of student dependents of active employees covered under dental and/or vision plans and of retirees covered under medical, prescription drug, dental, and/or vision plans between ages 19-23 receiving health coverage. In addition, the EUTF did not have a process in place for monitoring or testing the eligibility for student dependents. Monitoring student dependent eligibility ensures the accuracy of dependent coverage.

In fiscal year 2016, the EUTF mailed letters to all retirees with student dependents requesting documentation to support the eligibility of student dependents. If acceptable responses were not received, the EUTF automatically terminated the eligibility of those student dependents. The EUTF also implemented an annual process requiring that the same proof of eligibility be submitted to the EUTF. Failure to do so will result in the termination of the eligibility of student dependents.

The EUTF is currently working to complete the process to verify eligibility of student dependents for active employees. This initiative is expected to take place in fiscal year 2017.

Recommendation

We recommend that the EUTF complete the process to verify the eligibility of student dependents for active employees. In addition, the EUTF should continue the annual process requiring proof of eligibility for all student dependents.

Views of Responsible Officials and Planned Corrective Action

We concur. In April 2016, the EUTF implemented changes to the benefits administration system to terminate active employee dependents reaching age 19 from the dental and vision plans and retiree dependents reaching age 19 from medical, prescription drug, dental and vision plans if they do not turn in student certifications. A similar process will be implemented in March 2017 for dependents between the ages of 20-24. Verification of student eligibility will be updated on an annual basis.

* * * * *

The EUTF's responses to the management letter comments were not subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on the responses.

This communication is intended solely for the information and use of the Auditor, State of Hawaii, and the Board of Trustees and the management of the EUTF and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

KKDLY LLC

KKDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

Hawaii Employer-Union Health Benefits Trust Fund
State of Hawaii

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

June 30, 2016 and 2015

Submitted by

THE AUDITOR
STATE OF HAWAII

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Financial Statements and Supplementary Information

June 30, 2016 and 2015

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HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Financial Statements and Supplementary Information

June 30, 2016 and 2015

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PART I

INTRODUCTION SECTION

KKDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

December 28, 2016

The Auditor
State of Hawaii:

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

We have completed our audit of the financial statements of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the EUTF), as of and for the years ended June 30, 2016 and 2015. We transmit herewith our independent auditors' reports containing our opinions on those financial statements and our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Audit Objectives

The objectives of the audit were as follows:

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

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

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

Scope of Audit

We performed an audit of the EUTF's financial statements as of and for the years ended June 30, 2016 and 2015, 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.

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

Organization of Report

This report has been organized into three parts as follows:

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

2. The Financial Section includes management's discussion and analysis, the EUTF's financial statements and the related notes, required supplementary information, and other supplementary information as of and for the years ended June 30, 2016 and 2015, and our independent auditors' report thereon.

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

* * * * * * *

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

Very truly yours,

KKDLY LLC

PART II

FINANCIAL SECTION

KKDLY LLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

The Auditor
State of Hawaii:

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

Report on the Financial Statements

We have audited the accompanying statements of net position for the enterprise fund and fiduciary net position for the agency fund of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the Trust Fund) and the statements of net position of the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the OPEB Trust), collectively referred to as the EUTF, as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the enterprise fund, as well as the statements of changes in net position for the OPEB Trust for the years then ended, and the related notes to financial statements, which collectively comprise the EUTF's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and agency fund of the Trust Fund, as well as the financial position of the OPEB Trust, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, the cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Relationship to the State of Hawaii

As discussed in Note 1 to the financial statements, the financial statements of the EUTF are intended to present the respective financial position, the changes in financial position, and where applicable, the cash flows of the State of Hawaii that is attributable to the transactions of the EUTF. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2016 and 2015, and the changes in its financial position and, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress and employer contributions, and the nine-year loss development information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016, on our consideration of the EUTF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the EUTF's internal control over financial reporting and compliance.

KKDLY LLC

Honolulu, Hawaii
December 28, 2016

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Management's Discussion and Analysis

June 30, 2016 and 2015

This section of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii (the EUTF) financial report presents the reader with an introduction and overview of the EUTF's financial performance for the fiscal years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in connection with the financial statements and the notes thereto, which follow this section.

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

Active employee healthcare benefits, other postemployment benefits (OPEB) retiree healthcare benefits (including their respective beneficiaries), and OPEB pre-funding of retiree healthcare benefits are reported separately for accounting purposes. Accordingly, the EUTF reports the active employee healthcare benefits as risk financing in conformity with Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, (Statement No. 10), as amended, the OPEB retiree healthcare benefits in conformity with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (Statement No. 43), and OPEB pre-funding of retiree healthcare benefits, which meets the requirements of a qualifying trust, under Statement No. 43.

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

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

The following plans are fully-insured with one-way risk sharing (rates are experience rated and are set by the carrier; surpluses [premiums exceed claims, administrative fees, and retention charged by the insurance carrier] are retained by the EUTF and the carrier is responsible for any shortfalls [claims, administrative fees, and retention exceed premiums], and risk is retained by the carrier): All Hawaii Medical Service Association (HMSA) medical plans; Hawaii Dental Service (HDS) dental plans; Vision Service Plan (VSP) vision plans; and the Royal State National Insurance Company (RSN) supplemental medical and prescription drug plan. Effective July 1, 2015 for active employee plans and January 1, 2015 for retiree plans on the HMSA contract, surpluses are netted against shortfalls on all plans offered by HMSA (e.g., 90/10, 80/20, 75/25, and HMO).

The following plans are fully-insured (rates are experience rated and are set by the carrier, surpluses and shortfalls are retained by the carrier, and risk is retained by the carrier): Kaiser medical and prescription drug plans; RSN chiropractic plans; and RSN life insurance plans. Effective January 1, 2015, two (2) new carriers were added: UnitedHealthcare Medicare Advantage Medical Plan and USAble Life for life insurance for retirees replacing RSN.

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

Act 030, SLH 2016 expanded the permissible investments of the EUTF. The Board approved a revised asset allocation that adds newly permissible asset classes such as private equity, private real estate, global options, and trend following strategies.

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

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

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

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

Overview of the Financial Statements

The financial statements of the EUTF include the following statements:

- Enterprise Fund - Active Employee Healthcare Benefits
    - Statements of net position - These statements summarize the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of this enterprise fund.
    - Statements of revenues, expenses, and changes in net position - These statements summarize the financial results of the operations for the years.
    - Statements of cash flows - These statements identify the sources and uses of cash.
- Other Post-Employment Benefits
    - Agency Fund - OPEB Retiree Healthcare Benefits (pay-as-you-go)
        - Statements of fiduciary net position - These statements summarize the assets and liabilities of this agency fund.

- OPEB Trust - OPEB Pre-Funding of Retiree Healthcare Benefits
    - Statements of net position - These statements summarize the assets, liabilities, and net position of this fiduciary fund.
    - Statements of changes in net position - These statements summarize the financial results of the operations for the years.

Financial Highlights

For the fiscal years ended June 30, 2016 and 2015, the EUTF collected the following contributions:

	2016	2015
Employer contributions (Enterprise and Agency)	$ 763,498,408	$ 713,496,326
Employee contributions (Enterprise and Agency)	242,559,449	231,486,186

For the fiscal years ended June 30, 2016 and 2015, the EUTF paid the following:

	2016	2015
Carrier payments - fully insured plans	$ 744,243,520	$ 718,685,128
Carrier payments - self funded plans	197,735,283	165,401,239
Medicare Part B reimbursements	63,994,758	60,882,319
Administrative operating expenses	6,503,608	6,204,143

The administrative operating expenses budgeted for the EUTF totaled $6.9 million for the year ended June 30, 2016. Actual administrative operating expenses for the enterprise fund totaled $6.5 million for the year ended June 30, 2016. The expenses included $4.0 million for personnel services, $1.7 million for contracted services, $366,000 for occupancy, $109,000 for insurance, and $304,000 for other expenses such as postage, printing and binding, office supplies, telephone, rental of equipment, repairs and maintenance, and transportation.

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

The presentation of the operations of the self-insured plans for active employees reported in the enterprise fund shows the aggregate amount of premium revenues recognized as operating revenues and related benefit claims expense incurred as operating expenses. This presentation is in accordance with the financial reporting criteria of Statement No. 10, where the risk of loss for these self-insured plans transfers from the employers to the EUTF, thus the activity should be reported in aggregate in the statements of revenues, expenses, and changes in net position.

Financial Analysis

Enterprise Fund

A summary of the EUTF's net position for active employees is shown below as of June 30, 2016 and 2015:

	2016	2015	Change	% Change
Assets:				
Current assets	$ 105,768,805	$ 118,122,877	$ (12,354,072)	-10.5%
Capital assets, net	1,218,747	2,127,279	(908,532)	-42.7%
Total assets	106,987,552	120,250,156	(13,262,604)	-11.0%
Deferred outflows of resources related to pension	702,539	540,930	161,609	29.9%
Liabilities:				
Current liabilities	52,062,592	51,849,441	213,151	0.4%
Noncurrent liabilities	6,866,986	5,997,668	869,318	14.5%
Total liabilities	58,929,578	57,847,109	1,082,469	1.9%
Deferred inflows of resources related to pension	197,825	383,422	(185,597)	-48.4%
Net position:				
Net investment in capital assets	1,218,747	2,127,279	(908,532)	-42.7%
Unrestricted	47,343,941	60,433,276	(13,089,335)	-21.7%
Total net position	$ 48,562,688	$ 62,560,555	$ (13,997,867)	-22.4%

The enterprise fund's total assets decreased by $13.3 million or 11.0% during the fiscal year ended June 30, 2016. The decrease is primarily attributable to a decrease in experience refunds due from insurance companies of $50.8 million due to an increase in claims expense and receipts of experience refunds due from insurance companies as of June 30, 2015, and minimal experience refunds from insurance companies during the fiscal year ended June 30, 2016. This was partially offset by an increase in cash and cash equivalents and investments of $36.7 million due to the receipt of prior year's experience refunds due from insurance companies as of June 30, 2015.

The enterprise fund's deferred outflows of resources increased by $162,000 and deferred inflows of resources decreased by $186,000 due to the current year pension activity. The deferred outflows of resources related to pension are primarily attributable to contributions made subsequent to the measurement date of June 30, 2015. The deferred inflows of resources related to pension are primarily attributable to the net difference between the projected and actual earnings on pension plan investments and the differences between expected and actual experience.

The total net position decreased by $14.0 million, or 22.4%, for the fiscal year ended June 30, 2016. This is primarily attributable to operating loss of $14.8 million for the year ended June 30, 2016, offset by investment income of $762,000.

A summary of the EUTF's net position for active employees is shown below as of June 30, 2015 and 2014:

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

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

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

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

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

A summary of changes in net position for the years ended June 30, 2016 and 2015, for active employees follows:

	2016	2015	Change	% Change
Revenues:				
Operating revenues	$ 82,830,615	$ 109,882,101	$ (27,051,486)	-24.6%
Nonoperating revenues	762,307	224,878	537,429	239.0%
Total revenues	83,592,922	110,106,979	(26,514,057)	-24.1%
Operating expenses	97,590,789	95,450,738	2,140,051	2.2%
Increase (decrease) in net position	$ (13,997,867)	$ 14,656,241	$ (28,654,108)	-195.5%

The enterprise fund's total revenues decreased by $26.5 million, or 24.1%, for the fiscal year ended June 30, 2016. The enterprise fund's experience refunds (overpayments), net were $40.2 million less than the previous year due to an increase in claims expense and benefit administration fees, and a decrease in surpluses on fully-insured with one-way risk sharing plans. This was offset by a $11.4 million increase in premium revenues for self-insured plans primarily due to an increase in prescription drug premiums and a $1.8 million increase in other revenue (loss) due primarily to the receipt of performance penalties.

The enterprise fund's operating expenses increased by $2.1 million, or 2.2%, for the fiscal year ended June 30, 2016. There was a $9.7 million or 12.3% increase in claims expenses for the self-insured prescription drug plans primarily due to an increase in specialty drug cost. This was offset by a $7.9 million or 87.4% decrease in insurer fees which was mainly attributable to decreases in ACA fees.

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

	2015	2014	Change	% Change
Revenues:				
Operating revenues	$ 109,882,101	$ 77,308,942	$ 32,573,159	42.1%
Nonoperating revenues	224,878	266,188	(41,310)	-15.5%
Total revenues	110,106,979	77,575,130	32,531,849	41.9%
Operating expenses	95,450,738	77,882,461	17,568,277	22.6%
Increase (decrease) in net position	$ 14,656,241	$ (307,331)	$ 14,963,572	4868.9%

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

The enterprise fund's operating expenses increased by $17.6 million, or 22.6%, for the fiscal year ended June 30, 2015. There was a $9.8 million or 14.2% increase in claims expenses for the self-insured prescription drug plans primarily due to the continued impact of Act 226, SLH 2013, that among other things prohibited mandatory mail order and increased specialty drug costs. The EUTF implemented Act 226, SLH 2013 on October 1, 2013 for active employees and January 1, 2014 for retirees. For the year ended June 30, 2015, the EUTF's prescription drug plan TPA estimated the additional claims expense due to Act 226, SLH 2013 to be $10.3 million. In addition, there was a $1.1 million or 21.5% increase in administrative operating expenses which was mainly attributable to filling personnel positions that were previously vacant and an increase in wages under collective bargaining agreements.

Agency Fund

A summary of the EUTF's plan assets and liabilities for retirees is shown below as of June 30, 2016 and 2015:

	2016	2015	Change	% Change
Assets:				
Cash and cash equivalents	$ 16,227,624	$ 22,231,017	$ (6,003,393)	-27.0%
Investments	104,809,473	123,874,560	(19,065,087)	-15.4%
Receivables, net	69,544,633	90,539,767	(20,995,134)	-23.2%
Deposits	8,165,204	8,165,204	-	0.0%
Total assets	$ 198,746,934	$ 244,810,548	$ (46,063,614)	-18.8%
Liabilities:				
Premiums payable	$ 21,839,653	$ 21,001,286	$ 838,367	4.0%
Benefit claims payable	14,330,392	10,940,042	3,390,350	31.0%
Amounts held on behalf of employers for benefits	162,269,405	212,614,647	(50,345,242)	-23.7%
Other	307,484	254,573	52,911	20.8%
Total liabilities	$ 198,746,934	$ 244,810,548	$ (46,063,614)	-18.8%

The agency fund's total assets and total liabilities decreased by $46.1 million or 18.8%. Experience refunds due from insurance companies decreased by $27.4 million due to an increase in claims expense. In addition, cash and cash equivalents and investments decreased by $25.1 million. This was primarily due to a transfer of $75 million to the OPEB Trust offset by surpluses generated from the self-insured plans.

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

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

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

OPEB Trust

A summary of the OPEB Trust's net position as of June 30, 2016 and 2015 follows:

	2016	2015	Change	% Change
Assets:				
Cash and cash equivalents	$ 2,099,353	$ 86,464,297	$ (84,364,944)	-97.6%
Investments	1,208,118,987	757,270,203	450,848,784	59.5%
Invested securities lending collateral	81,122,461	-	81,122,461	100.0%
Total assets	1,291,340,801	843,734,500	447,606,301	53.1%
Liabilities:				
Securities lending collateral	81,122,461	-	81,122,461	100.0%
Investment fees payable	373,397	214,255	159,142	74.3%
Total liabilities	81,495,858	214,255	81,281,603	37,936.9%
Net Position:				
Restricted for other postemployment benefits	$ 1,209,844,943	$ 843,520,245	$ 366,324,698	43.4%

A summary of the changes in the OPEB Trust's net position for the years ended June 30, 2016 and 2015 follows:

	2016	2015	Change	% Change
Additions:				
Employer contributions	$ 338,498,294	$ 199,789,992	$ 138,708,302	69.4%
Investment earnings, net	27,826,404	17,662,238	10,164,166	57.5%
Changes in net position	366,324,698	217,452,230	148,872,468	68.5%
Net position beginning of year	843,520,245	626,068,015	217,452,230	34.7%
Net position ending of year	$ 1,209,844,943	$ 843,520,245	$ 366,324,698	43.4%

During the fiscal year ended June 30, 2016, the net position of the OPEB Trust increased by $366.3 million or 43.4%. The OPEB Trust received $338.5 million of employer pre-funding contributions, which included a transfer of $75 million from the Agency Fund for employer pre-funding contributions and related net investment income. In addition, investment earnings, net of investment expenses, amounted to $27.8 million (including net investment income from securities lending activities of $146,000).

During the fiscal year ended June 30, 2016, the EUTF participated in a securities lending program through its custodian bank as a way to earn incremental income to enhance the investment portfolio yield. As of June 30, 2016, the cash collateral invested in a money market fund and the related liability for securities lending collateral amounted to $81.1 million.

A summary of the OPEB Trust's net position as of June 30, 2015 and 2014 follows:

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

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

	2015	2014	Change	% Change
Additions:				
Employer contributions	$ 199,789,992	$ 262,625,686	$ (62,835,694)	-23.9%
Investment earnings, net	17,662,238	48,678,753	(31,016,515)	-63.7%
Changes in net position	217,452,230	311,304,439	(93,852,209)	-30.1%
Net position beginning of year	626,068,015	314,763,576	311,304,439	98.9%
Net position ending of year	$ 843,520,245	$ 626,068,015	$ 217,452,230	34.7%

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

Capital Assets

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

The aggregate net capital assets was $1.2 million as of June 30, 2016. Depreciation expense totaled $1.4 million for the year ended June 30, 2016. There were no significant additions or disposals of capital assets during fiscal year 2016.

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

Economic Factors Affecting Next Fiscal Year

Factors Affecting Fiscal Year 2017

New active employee health benefit contracts will be implemented effective July 1, 2016 through June 30, 2017.

Retiree health benefit contracts will be extended effective January 1, 2017 to December 31, 2017.

The revised asset allocation adds newly permissible asset classes such as private equity, private real estate, global options, and trend following strategies.

Request for Information

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

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

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statements of Net Position - Enterprise Fund

June 30, 2016 and 2015

	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	$ 19,151,047	$ 5,991,920
Investments	36,214,194	12,643,485
Receivables:		
Premiums receivable from State of Hawaii and counties	32,146,017	34,395,592
Experience refunds due from insurance companies	206,788	50,971,838
Rebates receivable	12,769,699	8,707,315
Other receivables, net	3,436	20,522
Prepaid expenses	319,624	434,205
Deposits	4,958,000	4,958,000
Total current assets	105,768,805	118,122,877
Capital assets, net of accumulated depreciation of $9,271,792 in 2016 and $7,885,475 in 2015	1,218,747	2,127,279
Total assets	106,987,552	120,250,156
Deferred Outflows of Resources:		
Deferred outflows related to pension	702,539	540,930
Liabilities:		
Current liabilities:		
Premiums payable	43,430,989	43,958,246
Benefit claims payable	4,712,149	4,458,284
Due to employees, net	2,073,424	2,220,267
Experience refund overpayments due to insurance companies	833,270	-
Vouchers and contracts payable	495,883	546,682
Accrued wages and employee benefits payable	264,898	407,375
Due to State of Hawaii	176,598	169,105
Compensated absences, current portion	75,381	89,482
Total current liabilities	52,062,592	51,849,441
Noncurrent liabilities:		
Net pension liability	3,581,620	3,279,499
Other postemployment benefits	3,099,884	2,509,057
Compensated absences, less current portion	185,482	209,112
Total liabilities	58,929,578	57,847,109
Deferred Inflows of Resources:		
Deferred inflows related to pension	197,825	383,422
Net Position:		
Net investment in capital assets	1,218,747	2,127,279
Unrestricted	47,343,941	60,433,276
Total net position	$ 48,562,688	$ 62,560,555

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

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

Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Premium revenue - self-insured	$ 84,504,417	$ 73,141,017
Experience refunds (overpayments), net	(3,700,777)	36,526,791
Gain (loss) on carrier payment methodology	(20,330)	44,601
COBRA revenue	247,542	177,603
Other revenue (loss)	1,799,763	(7,911)
Total operating revenues	82,830,615	109,882,101
Operating expenses:		
Claims expense - self insured	88,543,157	78,879,468
Administrative operating expenses	6,503,608	6,204,143
Depreciation	1,386,317	1,365,367
Insurer ACA fees	1,130,107	8,991,360
Change in incurred but not reported (IBNR) claims	27,600	10,400
Total operating expenses	97,590,789	95,450,738
Operating income (loss)	(14,760,174)	14,431,363
Nonoperating revenues:		
Investment income	762,307	224,878
Increase (decrease) in net position	(13,997,867)	14,656,241
Net position at beginning of year	62,560,555	47,904,314
Net position at end of year	$ 48,562,688	$ 62,560,555

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statements of Cash Flows - Enterprise Fund

Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash paid to vendors	$ (2,425,817)	$ (4,240,316)
Cash paid to employees	(3,648,475)	(808,639)
Cash received from State of Hawaii, counties and individuals for premiums and benefits payments	626,674,305	522,996,925
Cash paid for premiums and benefit payments	(593,767,264)	(544,733,278)
Rebates received related to prescription drug plans	9,612,565	8,281,229
Net cash provided by (used in) operating activities	36,445,314	(18,504,079)
Cash flows used in capital and related financing activities:		
Purchase of office furniture and equipment	(477,785)	(57,207)
Cash flows from investing activities:		
Purchase of securities	(23,570,709)	(5,851,604)
Interest received	762,307	224,878
Net cash used in investing activities	(22,808,402)	(5,626,726)
Net increase (decrease) in cash and cash equivalents	13,159,127	(24,188,012)
Cash and cash equivalents at beginning of year	5,991,920	30,179,932
Cash and cash equivalents at end of year	$ 19,151,047	$ 5,991,920

See accompanying notes to financial statements.

(Continued)

Statements of Cash Flows - Enterprise Fund (Continued)

Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	$ (14,760,174)	$ 14,431,363
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,386,317	1,365,367
Decrease (increase) in premiums receivable from State of Hawaii and counties	2,249,575	(949,104)
Decrease (increase) in experience refunds due from insurance companies	50,765,050	(35,170,129)
Increase in rebates receivable	(4,062,384)	(3,926,575)
Decrease in other receivables, net	17,086	76,661
Decrease in prepaid expenses	114,581	8,865
Increase in deferred outflows of resources	(161,609)	(540,930)
Increase (decrease) in premiums payable	(527,257)	3,868,802
Increase in benefit claims payable	253,865	509,193
Increase (decrease) in amounts due to employees	(146,843)	110,315
Increase in experience refund overpayments due to insurance companies	833,270	-
Increase (decrease) in vouchers and contracts payable	(50,799)	411,431
Increase (decrease) in accrued wages and employee benefits benefits payable	(142,477)	183,647
Increase in amounts due to State of Hawaii	7,493	24,841
Increase (decrease) in compensated absences	(37,731)	43,552
Increase in net pension liability	302,121	55,646
Increase in other postemployment benefits	590,827	609,554
Increase in deferred inflows of resources	(185,597)	383,422
Total adjustments	51,205,488	(32,935,442)
Net cash provided by (used in) operating activities	$ 36,445,314	$ (18,504,079)

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Statements of Fiduciary Net Position - Agency Fund

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	$ 16,227,624	$ 22,231,017
Investments	104,809,473	123,874,560
Receivables:		
Premiums receivable from State of Hawaii and counties	30,115,411	31,741,489
Experience refunds due from insurance companies	562,135	28,001,810
Rebates receivable	38,749,159	30,668,429
Medicare reimbursements from individuals, net of allowance of $854,124 in 2016 and $826,750 in 2015	117,928	128,039
Total receivables	69,544,633	90,539,767
Deposits	8,165,204	8,165,204
Total assets	$ 198,746,934	$ 244,810,548
Liabilities		
Premiums payable	$ 21,839,653	$ 21,001,286
Benefit claims payable	14,330,392	10,940,042
Due to retirees, net	20,944	22,427
Other payables	286,540	232,146
Amounts held on behalf of employers for benefits	162,269,405	212,614,647
Total liabilities	$ 198,746,934	$ 244,810,548

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

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

Statements of Net Position - OPEB Trust

June 30, 2016 and 2015

	2016	2015
Assets:		
Cash and cash equivalents	$ 2,099,353	$ 86,464,297
Investments	1,208,118,987	757,270,203
Total cash and cash equivalents and investments	1,210,218,340	843,734,500
Invested securities lending collateral	81,122,461	-
Total assets	1,291,340,801	843,734,500
Liabilities:		
Securities lending collateral	81,122,461	-
Investment fees payable	373,397	214,255
Total liabilities	81,495,858	214,255
Net position - restricted for other postemployment benefits	$ 1,209,844,943	$ 843,520,245

See accompanying notes to financial statements.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

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

Statements of Changes in Net Position - OPEB Trust

Years Ended June 30, 2016 and 2015

	2016	2015
Additions:		
Employer contributions	$ 338,498,294	$ 199,789,992
Investment income:		
From investing activities:		
Interest and dividends	21,568,878	13,659,449
Net appreciation in the fair value of investments	7,518,312	4,762,140
	29,087,190	18,421,589
Less: investment expenses	1,406,510	759,351
Net investment income from investing activities	27,680,680	17,662,238
From securities lending activities:		
Securities lending income	194,176	-
Securities lending expenses	48,452	-
Net investment income from securities lending activities	145,724	-
Total net investment income	27,826,404	17,662,238
Changes in net position	366,324,698	217,452,230
Net position - beginning	843,520,245	626,068,015
Net position - ending	$ 1,209,844,943	$ 843,520,245

See accompanying notes to financial statements.

(1) Financial Reporting Entity

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

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

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

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

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

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

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

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

The EUTF provided insurance coverage to the following individuals as of June 30, 2016 and 2015:

	2016	2015
Active employees	68,568	68,632
Retirees	45,869	44,818
Dependents	84,551	85,783
Total	198,988	199,233

(2) Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Financial Statement Presentation

The reporting of active and postemployment (including their respective beneficiaries) healthcare benefits provided through the same plan should separate the two benefits for accounting purposes between active and postemployment healthcare benefits. Accordingly, the EUTF reports the postemployment healthcare benefits in conformity with Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (Statement No. 43), and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (Statement No. 10), as amended. The EUTF administers postemployment healthcare benefits under an agent multiple-employer defined benefit plan as defined by Statement No. 43.

Proprietary Fund (Enterprise Fund)

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

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

Fiduciary Fund (Agency Fund)

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

OPEB Trust

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

Cash Equivalents

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

Investments

Investments are reported at fair value. Investments consist of equity and fixed income commingled funds, mutual funds, and equity securities.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Unrealized gains and losses are recorded in the accompanying financial statements based on the difference between the fair value of assets at the beginning of the year, or at the time of purchase for assets purchased during the year, and the last day of the year.

Securities Lending

The EUTF records cash collateral received under securities lending agreements where the EUTF has the ability to spend, pledge, or sell the collateral without borrower default. Cash collateral received under securities lending agreements are invested in a money market fund and are reported at fair value. Liabilities resulting from these transactions are also recorded. Additionally, costs associated with securities transactions, broker commissions paid, and lending agent management fees are reported as investment expenses from securities lending activities in the accompanying financial statements.

Receivables

Receivables consist primarily of amounts due from employers for health benefits premium contributions, as well as amounts due from individuals for overpayment of Medicare Part B reimbursements. An allowance for employer receivables is not considered necessary based on past collection experience. The Medicare Part B reimbursement receivables from individuals are reported as net receivables and were based on management's estimate of amounts considered collectible. Management considers Medicare Part B receivables older than nine months from individuals who are deceased without a surviving spouse continuing to receive Medicare Part B reimbursements from the EUTF to be uncollectible.

Capital Assets and Depreciation

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

Deferred Outflows/Inflows of Resources

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

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

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

Compensated Absences

All employees earn vacation at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of 90 days. Employees are entitled to receive cash payment for accumulated vacation upon termination. The accompanying enterprise fund financial statements present the cost of accumulated unpaid vacation as a liability. A reconciliation of changes in compensated absences liabilities for accumulated vacation is as follows for the years ended June 30, 2016 and 2015:

	Enterprise Fund	
	2016	**2015**
Balance at beginning of year	$ 298,594	$ 255,042
Additions	149,415	156,677
Reductions	(187,146)	(113,125)
Balance at end of year	260,863	298,594
Less curent portion	(75,381)	(89,482)
Noncurrent portion	$ 185,482	$ 209,112

All employees earn sick leave credits at the rate of one and three-quarters working days for each month of service. Sick leave credits may be accumulated without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for unpaid sick leave credits is reported in the accompanying enterprise fund financial statements. However, an EUTF employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii at the rate of one additional month of service for each 20 days of unused sick leave. Accumulated sick leave as of June 30, 2016 and 2015 amounted to approximately $531,000 and $682,000, respectively.

Risk Management

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

Benefits Claims Expense and Cost

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

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

Management recorded its best estimate for the obligation of unpaid claims of $4,712,149 and $4,458,284 for active employees and $14,330,392 and $10,940,042 for retirees as of June 30, 2016 and 2015, respectively, based on the EUTF's benefits consultant's estimate for the liability for unpaid claims. These amounts include administrative fees payable to the third party administrator for services provided and for benefit claims incurred as of June 30, 2016 and 2015.

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, 2016 and 2015, respectively, the EUTF recognized gains (losses) of ($20,330) and $44,601, and ($20,705) and $29,734, related to active employees and retirees, respectively.

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

Premium Revenues - Self-insured

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

Experience Refunds

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

Pension

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

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), 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.

Recently Issued Accounting Pronouncements

GASB Statement No. 72

The EUTF adopted GASB Statement No. 72, *Fair Value Measurement and Application* (Statement No. 72), effective July 1, 2015. This statement requires governments to measure certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and disclosures. This statement did not have a material effect on the EUTF's financial statements.

GASB Statement No. 74

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which will become effective for financial statements for the fiscal years beginning after June 15, 2016. The scope of this statement includes other postemployment benefits (OPEB) plans administered through trusts that meet the certain criteria, such as the EUTF.

For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, this statement requires the following:

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

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

Required supplementary information - includes information about the annual money-weighted rate of return on OPEB plan investments; the sources of changes in the net OPEB liability; and information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll. Additionally, the information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios are required.

Measurement of the net OPEB liability - the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The total OPEB liability generally is required to be determined through an actuarial valuation.

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

GASB Statement No. 75

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will become effective for financial statements for the fiscal years beginning after June 15, 2017. This statement addresses accounting and financial reporting for OPEB plans that are provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

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

GASB Statement No. 76

The EUTF adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective July 1, 2015. The statement supersedes GASB No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement reduces GAAP to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event in not specified within a source of authoritative GAAP. This statement did not have a material effect on the EUTF's financial statements.

GASB Statement No. 82

The GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The EUTF is currently evaluating the impact that this statement will have on its financial statements.

Reclassifications

Certain 2015 amounts have been reclassified to conform with the 2016 presentation. Such reclassifications had no effect on the previously reported changes in net position.

(3) Cash and Cash Equivalents and Investments

As of June 30, 2016 and 2015, the EUTF's cash and cash equivalents and investments were distributed and reported in the financial statements as follows:

	2016			
	Enterprise fund	Agency fund	OPEB Trust	Total
Cash and cash equivalents	$ 19,151,047	$ 16,227,624	$ 2,099,353	$ 37,478,024
Investments	36,214,194	104,809,473	1,208,118,987	1,349,142,654
Total	$ 55,365,241	$ 121,037,097	$1,210,218,340	$1,386,620,678
Invested securities lending collateral	$ -	$ -	$ 81,122,461	$ 81,122,461

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

Cash and Cash Equivalents

The EUTF maintains bank accounts at a major financial institution located in Hawaii and a cash management account with a broker-dealer. As of June 30, 2016 and 2015, the carrying amounts of these accounts were $37,478,024 and $114,687,234 respectively, and the related bank balances were $37,975,257 and $115,638,645 respectively.

Investments

EUTF Investment Pool

The EUTF maintains an investment pool amounting to $1,349,142,654 and $893,788,248 as of June 30, 2016 and 2015, respectively.

The EUTF's investment pool, at fair value, consists of the following investments as of June 30, 2016 and 2015:

	2016	2015
Commingled funds:		
Domestic equity	$ 294,662,278	$ 185,081,322
International equity	234,594,443	146,584,709
Domestic core fixed income	175,885,654	-
Domestic inflation - linked fixed income	199,847,882	-
Equity securities:		
Domestic	300,886,584	68,635,465
International	2,242,146	-
Mutual funds:		
Fixed income - domestic	141,023,667	379,538,343
Equity - domestic	-	113,948,409
Total investments	$ 1,349,142,654	$ 893,788,248

Invested Securities Lending Collateral

Cash received under the EUTF's securities lending program is invested in a money market fund and reported at fair value as follows:

	2016	2015
Money market fund	$ 81,122,461	$ -

<u>Commingled Funds</u>

Domestic equity - Northern Trust Russell 3000 Index Fund - Lending - primary objective is to approximate the risk and return characteristics of the Russell 3000 Index. This index is commonly used to represent the broad U.S. equity market.

International equity - Northern Trust Common All Country World Index (ACWI) US Fund - Lending - primary objective is to provide investment results that approximate the overall performance of the MSCI All Country World EX-US Index.

Domestic core fixed income - BlackRock U.S. Debt Index Fund B - primary objective is to provide investment results that correspond generally to the price and yield performance of Barclays US Aggregate Bond index.

Domestic inflation - linked fixed income - BlackRock U.S. Inflation-Linked Bond Fund B - primary objective is to maximize real return by investing in inflation-linked fixed income securities issued by the U.S. government.

Mutual Funds

Fixed income - domestic - Vanguard Short-Term Corporate Bond Index Fund - seeks to track the performance of a market-weighted corporate bond index with a short-term dollar-weighted average maturity. This index includes U.S. dollar-denominated, investment-grade, fixed-rate, taxable securities issued by industrial, utility, and financial companies, with maturities between one and five years.

Fixed income - domestic - Blackrock Inflation Protected Bond Institutional – seeks to maximize real return, consistent with preservation of real capital and prudent investment management. The fund invests at least 80% of its assets in inflation-indexed bonds of varying maturities issued by the U.S. and non U.S. governments, their agencies or instrumentalities, and U.S. and non-U.S. corporations.

Fixed income - domestic - Vanguard Total Bond Market Index Institutional - seeks the performance of a broad, market-weighted bond index. The fund employs an indexing investment approach designed to track the performance of the Barclays US Aggregate Float Adjusted Index.

Equity - domestic - Vanguard REIT Index Institutional - seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs. The fund employs an indexing approach designed to track the performance of the MSCI US REIT Index.

Money Market Fund

The Northern Trust Corporation Liquid Asset Portfolio is a money market fund that seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing exclusively in high quality money market investments.

Investments Authorized

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

Section 87A-24(2) of the HRS empowers the Board to invest monies "in the same manner specified in section 88-119." 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;

(d) Other obligations secured by first mortgages on unencumbered improved real estate owned in fee simple; provided that the amount of the obligation at the time investment is made therein shall not exceed eighty percent of the value of the real estate and improvements mortgaged to secure it, and except that the amount of the obligation at the time investment is made therein may exceed eighty percent but no more than ninety percent of the value of the real estate and improvements mortgaged to secure it; provided further that the obligation is insured or guaranteed against default or loss under a mortgage insurance policy issued by a casualty insurance company licensed to do business in the State. The coverage provided by the insurer shall be sufficient to reduce the system's exposure to not more than eighty percent of the value of the real estate and improvements mortgaged to secure it. The insurance coverage shall remain in force until the principal amount of the obligation is reduced to eighty percent of the market value of the real estate and improvements mortgaged to secure it, at which time the coverage shall be subject to cancellation solely at the option of the board. Real estate shall not be deemed to be encumbered within the meaning of this subparagraph by reason of the existence of any of the restrictions, charges, or claims described in section 431:6-308;

(e) Other obligations secured by first mortgages of leasehold interests in improved real estate; provided that:

(i) Each leasehold interest at the time shall have a current term extending at least two years beyond the stated maturity of the obligation it secures; and

(ii) The amount of the obligation at the time investment is made therein shall not exceed eighty per cent of the value of the respective leasehold interest and improvements, and except that the amount of the obligation at the time investment is made therein may exceed eighty percent but no more than ninety percent of the value of the leasehold interest and improvements mortgaged to secure it; provided further that the obligation is insured or guaranteed against default or loss under a mortgage insurance policy issued by a casualty insurance company licensed to do business in the State.

The coverage provided by the insurer shall be sufficient to reduce the system's exposure to not more than eighty percent of the value of the leasehold interest and improvements mortgaged to secure it. The insurance coverage shall remain in force until the principal amount of the obligation is reduced to eighty percent of the market value of the leasehold interest and improvements mortgaged to secure it, at which time the coverage shall be subject to cancellation solely at the option of the Board;

(f) Obligations for the repayment of home loans guaranteed by the Department of Hawaiian Home Lands pursuant to section 214(b) of the Hawaiian Homes Commission Act, 1920; and

(g) Obligations secured by second mortgages on improved real estate for which the mortgagor procures a second mortgage on the improved real estate for the purpose of acquiring the leaseholder's fee simple interest in the improved real estate; provided that any prior mortgage shall not contain provisions that might jeopardize the security position of the retirement system or the borrower's ability to repay the mortgage loan.

The Board may retain the real estate, including leasehold interests therein, as it may acquire by foreclosure of mortgages or in enforcement of security, or as may be conveyed to it in satisfaction of debts previously contracted; provided that all the real estate, other than leasehold interests, shall be sold within five years after acquiring the same, subject to extension by the governor for additional periods not exceeding five years each, and that all the leasehold interests shall be sold within one year after acquiring the same, subject to extension by the governor for additional periods not exceeding one year each;

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

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

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

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

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

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

(5) Obligations eligible by law for purchase in the open market by Federal Reserve banks;

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

(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;

(8) Insurance company obligations. Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in Hawaii, including its separate accounts, and whether the investments allocated thereto are comprised of stocks or other securities or of real or personal property or interests therein;

(9) Interests in real property. Interests in improved or productive real property in which, in the informed opinion of the Board, it is prudent to invest funds of the system. For purposes of this paragraph, "real property" includes any property treated as real property either by local law or for federal income tax purposes. Investments in improved or productive real property may be made directly or through pooled funds, including common or collective trust funds of banks and trust companies, group or unit trusts, limited partnerships, limited liability companies, investment trusts, title-holding corporations recognized under section 501(c) of the Internal Revenue Code of 1986, as amended, similar entities that would protect the system's interest, and other pooled funds invested on behalf of the system by investment managers retained by the system;

(10) Other securities and futures contracts. Securities and futures contracts in which in the informed opinion of the Board, it is prudent to invest funds of the system, including currency, interest rate, bond, and stock index futures contracts and options on the contracts to hedge against anticipated changes in currencies, interest rates, and bond and stock prices that might otherwise have an adverse effect upon the value of the system's securities portfolios; covered put and call options on securities; and stock; whether or not the securities, stock, futures contracts, or options on futures are expressly authorized by or qualify under the foregoing paragraphs, and notwithstanding any limitation of any of the foregoing paragraphs (including paragraph (4)); and

(11) Private placements. Investments in institutional blind pool limited partnerships, limited liability companies, or direct investments that make private debt and equity investments in privately held companies, including but not limited to investments in Hawaii high technology businesses or venture capital investments that, in the informed opinion of the Board, are appropriate to invest funds of the system. In evaluating venture capital investments, the Board shall consider, among other things, the impact an investment may have on job creation in Hawaii and on the state economy. The Board shall report annually to the legislature on any Hawaii venture capital investments it has made; provided that if the Board determines it is not prudent to invest in any Hawaii venture capital investments the Board shall report the rationale for the decision. The Board, by January 1, 2008, shall develop criteria to determine the amount of funds that may be prudently invested in Hawaii private placement investments.

Strategic Allocation

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

The selected strategic allocation for the EUTF's two asset pools as of June 30, 2016, is as follows:

Strategic Classification	**Target**	**Minimum**	**Maximum**
Short-term liquidity/operating asset pool:			
Cash and cash equivalents and short-duration fixed income	100%	0%	100%
Long-term investment portfolio:			
U.S. equities	24%	19%	29%
International equities	19%	15%	23%
U.S. fixed income	15%	12%	18%
Inflation linked securities	17%	14%	20%
U.S. real estate securities	16%	13%	19%
U.S. microcap equities	9%	7%	11%
Cash & equivalents	0%	0%	2%

Rebalancing

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

Fair Value Hierarchy

The EUTF categorizes its fair value measurements within the fair value hierarchy established by GAAP outlined in Statement No. 72. There were no restatements to the reported values of the EUTF's assets or liabilities as of June 30, 2015 resulting from implementation of Statement No. 72, as the fair market valuation was unchanged from what was reported in 2015. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs (the EUTF does not value any of its investments using Level 3 inputs).

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Notes to Financial Statements

June 30, 2016 and 2015

The following is a summary of the EUTF's fair value measurements as of June 30, 2016 and 2015:

	June 30, 2016			
		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Equity securities:				
Domestic	$ 300,886,584	$ 300,886,584	$ -	$ -
International	2,242,146	2,242,146	-	-
Mutual funds:				
Fixed income - domestic	141,023,667	141,023,667	-	-
Total investments measured by fair value levels	444,152,397	$ 444,152,397	$ -	$ -
Investments measured at net asset value (NAV):				
Commingled funds:				
Domestic equity	294,662,278			
International equity	234,594,443			
Domestic core fixed income	175,885,654			
Domestic inflation - linked fixed income	199,847,882			
Total investments measured at NAV	904,990,257			
Total investments measured at fair value	$ 1,349,142,654			
Invested securities lending collateral - measured at NAV - money market fund	$ 81,122,461			

	June 30, 2015			
		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Equity securities - domestic	$ 68,635,465	$ 68,635,465	$ -	$ -
Mutual funds:				
Fixed income - domestic	379,538,343	379,538,343		
Equity - domestic	113,948,409	113,948,409	-	-
Total investments measured by fair value levels	562,122,217	$ 562,122,217	$ -	$ -
Investments measured at net asset value (NAV):				
Commingled funds:				
Domestic equity	185,081,322			
International equity	146,584,709			
Total investments measured at NAV	331,666,031			
Total investments measured at fair value	$ 893,788,248			

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

Investments in commingled funds are valued at the NAV of units of a bank commingled investment vehicle. Investments in a money market fund are valued at the NAV of the custodian bank liquid asset portfolio. The NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the value of the EUTF's investments has fluctuated since June 30, 2016.

Investments Measured at NAV	Fair Value	Unfunded Commitments	Redemption Frequency	Required Redemption Notice
Commingled funds:				
Domestic equity	$294,662,278	None	Daily	Same as trade date
International equity	234,594,443	None	Daily	Trade date - 1
Domestic core fixed income	175,885,654	None	Daily	Trade date - 2
Domestic inflation - linked fixed income	199,847,882	None	Daily	Trade date - 2
Total investments measured at NAV	$904,990,257			
Invested securities lending collateral - money market mutual fund - measured at NAV	$ 81,122,461	None	Daily	Same as trade date

Interest Rate Risk

Interest rate risk is the risk that changes in the market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The EUTF manages interest rate risk through a portfolio of short, intermediate, and long maturities, resulting in a portfolio of intermediate duration. The current weighted average duration for the EUTF's fixed income funds is 5.8 years.

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. At June 30, 2016, the EUTF invested in two fixed income oriented commingled funds and one fixed income oriented mutual fund: the BlackRock U.S. Debt Index Fund, with ratings ranging from AAA to BBB, the BlackRock U.S. Inflation Linked Bond Fund with ratings ranging from AAA to BBB, and the Vanguard Short-Term Corporate Bond Index Fund with ratings ranging from AAA to BBB.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the EUTF will not be able to recover the value of its investments residing at its custodian bank or collateral securities that are lent by the custodian bank to outside party(ies). The

EUTF's investments are held at a custodian bank. The EUTF's custodians are Northern Trust Corporation (Northern Trust) and Bank of Hawaii (BOH). BOH and Northern Trust 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, commingled funds, equity securities, and securities lending activities.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the EUTF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The EUTF's Investment Policy or the HRS do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. At times and as of June 30, 2016 and 2015, the EUTF had deposits in excess of Federal Deposit Insurance Corporation (FDIC) and SIPC limits.

Concentration of Credit Risk

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

Securities Lending

The EUTF participates in a securities lending program administered by its custodian bank, Northern Trust. Under this program, which is permissible by State statutes and the Investment policy, certain equity securities are lent to participating broker-dealers and banks (borrowers). In return, the EUTF receives cash, securities, and/or letters of credit as collateral at 102% to 105% of the principal plus accrued interest for reinvestment. The collateral is marked to market daily. If the market value of the collateral falls below the minimum collateral requirements, additional collateral is provided. Accordingly, management believes that the EUTF had no credit risk exposure to borrowers because the amounts the EUTF owed the borrowers equaled or exceeded the amounts the borrowers owed the EUTF. The contract with the EUTF requires the custodian bank to indemnify the EUTF. In the situation when a borrower goes into default, the custodian bank will liquidate the collateral to purchase replacement securities. Any shortfall between the replacement securities cost and the collateral value is covered by the custodian bank. All securities loans can be terminated on demand within a period specified in each agreement by either the EUTF or the borrowers.

Cash collateral is invested in a separate account by the custodian bank using approved lender's investment guidelines. As such, maturities of the investments made with cash collateral generally do not match the maturities of the securities loans. The EUTF does not impose any restrictions on the amount of loans the bank custodian makes on behalf of the EUTF. The securities lending program in which the EUTF participates only allows pledging or selling securities in the case of borrower default.

At June 30, 2016, the total securities lent for collateral amounted to $81,654,833. The total cash and noncash collateral received amounted to $81,122,461 and $2,899,530, respectively.

In addition, each of the four commingled funds held in the EUTF investment pool participates in securities lending.

(4) Capital Assets

The enterprise fund's capital asset activity for the years ended June 30, 2016 and 2015 was as follows:

	Balance at July 1, 2015	Additions	Disposals	Balance at June 30, 2016
Office furniture and equipment	$ 537,035	$ 396,443	$ -	$ 933,478
Computer equipment and software	9,475,719	81,342	-	9,557,061
Less accumulated depreciation	(7,885,475)	(1,386,317)	-	(9,271,792)
Capital assets, net	$ 2,127,279	$ (908,532)	$ -	$ 1,218,747

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

(5) Health and Life Insurance Benefit Contracts

The EUTF's primary purpose is to provide active employees, retirees, and dependent-beneficiaries with health benefit plans and group life insurance. To effectuate this purpose, the EUTF enters in multi-year health benefit and life insurance contracts with carriers and administrators. The active employee and retiree contracts are on a fiscal year and calendar year, respectively.

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

Self-insured

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

Fully-insured

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

Fully-insured with One-Way Risk Sharing

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

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

Medical

Hawaii Medical Service Association (HMSA) - *Fully-insured with one-way risk sharing - effective July 1, 2015, surpluses are netted against shortfalls*

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

UnitedHealthcare - *Fully-insured*

- Medicare Advantage PPO plan - EUTF Medicare retirees

Medical and Prescription Drug

Kaiser Permanente (Kaiser) - *Fully-insured*

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

Prescription Drug

CVS Caremark - *Self-insured*

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

Silverscript - *Self-insured*

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

Dental

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

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

Vision

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

- EUTF and HSTA VB active employees and retirees

Chiropractic

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

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

Life Insurance

Royal State National Insurance Company - *Fully-insured*

- Term life insurance - EUTF and HSTA VB active employees (ended June 30, 2015)
- Term life insurance - EUTF and HSTA VB retirees (ended December 31, 2014)

USAble Life - *Fully-insured*

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

Supplemental

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

- EUTF active employees

All Contracts

The following is a summary of the experience refunds due from/to insurance companies, rebates receivable, and premiums payable balances by insurance company at June 30, 2016 and 2015:

	2016		2015	
	Active Employees	Retirees	Active Employees	Retirees
Experience refunds due from insurance companies:				
HDS	$ 3,203	$ 93,051	$ 2,350,950	$ 858,453
HMSA	-	-	47,805,513	26,677,786
RSN	203,585	-	288,817	-
VSP	-	469,084	526,558	465,571
	$ 206,788	$ 562,135	$ 50,971,838	$ 28,001,810
Experience refund overpayments due to insurance companies:				
HMSA	$ 833,270	$ -	$ -	$ -
Rebates receivable:				
Receivable from CVS	$ 12,769,699	$ 21,241,330	$ 8,707,315	$ 2,527,496
Receivable from Silverscript	-	17,507,829	-	28,140,933
	$ 12,769,699	$ 38,749,159	$ 8,707,315	$ 30,668,429

	2016		2015	
	Active Employees	Retirees	Active Employees	Retirees
Premiums payable:				
HDS	$ 2,774,653	$ 2,231,973	$ 2,896,567	$ 3,122,015
HDS - HSTA VB	463,396	126,433	496,900	122,261
HMSA	24,281,169	13,204,799	24,679,197	11,711,511
HMSA - HSTA VB	3,888,921	690,256	3,990,136	681,343
Kaiser Hawaii	10,004,133	4,901,701	9,870,131	4,700,676
Kaiser Hawaii - HSTA VB	1,038,071	158,034	1,046,650	158,632
RSN Chiro - HSTA VB	14,381	5,239	15,380	5,238
RSN Dual/Chiro	159,060	-	151,280	-
RSN Life	-	148	244,023	62
RSN Life - HSTA VB	-	-	36,647	-
UnitedHealthcare	-	4,351	-	2,156
USAble	245,054	157,227	-	153,305
USAble - HSTA VB	33,549	10,098	-	10,255
VSP	456,711	329,560	454,044	314,159
VSP - HSTA VB	71,891	19,834	77,291	19,673
	$ 43,430,989	$ 21,839,653	$ 43,958,246	$ 21,001,286

(6) Benefit Claims Expense

The EUTF is self-insured for the prescription drug plans. Under the self-insured arrangement, the TPA provides the EUTF with provider networks, claims processing, cost containment and other services. Instead of premiums, the EUTF pays administrative fees to the TPA for the services rendered and reimburses the TPA for claims paid.

Activity in the liability for unpaid benefit claims expense related to the self-insured prescription drug plans is as follows for the two years ended June 30, 2016:

	Active Employees	Retirees	Total
Balance at July 1, 2014	$ 3,949,091	$ 8,902,229	$ 12,851,320
Claims and changes in estimates	90,646,846	145,434,584	236,081,430
Contractor processing administrative fees	1,017,509	3,921,181	4,938,690
Paid (including rebates) during the year	(91,155,162)	(147,317,952)	(238,473,114)
Balance at June 30, 2015	4,458,284	10,940,042	15,398,326
Claims and changes in estimates	101,208,411	157,283,774	258,492,185
Contractor processing administrative fees	1,009,695	3,951,402	4,961,097
Paid (including rebates) during the year	(101,964,241)	(157,844,826)	(259,809,067)
Balance at June 30, 2016	$ 4,712,149	$ 14,330,392	$ 19,042,541

Below is a summary of benefit claims payable by TPA at June 30, 2016 and 2015:

	2016		2015	
	Active Employees	Retirees	Active Employees	Retirees
Benefit claims - CVS	$ 4,460,820	$ 4,634,936	$ 4,216,259	$ 4,858,292
Benefit claims - HMA	54,118	2,255	72,173	3,007
Benefit claims - Silverscript	-	9,060,812	-	5,452,833
IBNR for self-insured plans	113,600	-	86,000	-
Admin fee - CVS	83,611	14,644	83,852	14,743
Admin fee - Silverscript	-	617,745	-	611,167
	$ 4,712,149	$ 14,330,392	$ 4,458,284	$ 10,940,042

According to the terms of contracts with TPA's, the EUTF was required to make a deposit to cover estimated claims costs for the self-insured prescription drug plans. The deposits held by the TPAs for the self-insured prescription drug plans as of June 30, 2016 and 2015 are as follows:

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

(7) Summary of Required Premium Contributions and OPEB Trust Pre-Funding Contributions

The employer and employee required premium contributions recognized and the OPEB Trust pre-funding contributions received for the years ended June 30, 2016 and 2015, are as follows:

	2016		
	Active Employees	Retirees	Total
Required premium contributions:			
Employer:			
State of Hawaii	$ 255,889,726	$ 300,654,770	$ 556,544,496
State of Hawaii - HSTA VB	4,016,797	232,574	4,249,371
City & County of Honolulu	49,250,465	69,462,243	118,712,708
County of Hawaii	14,558,282	15,566,940	30,125,222
County of Maui	15,091,407	14,161,176	29,252,583
County of Kauai, including Department of Water	6,903,279	7,699,110	14,602,389
Board of Water Supply - Honolulu	2,927,199	5,328,539	8,255,738
County of Hawaii - Department of Water	913,856	842,045	1,755,901
	349,551,011	413,947,397	763,498,408
Employee	239,188,050	3,371,399	242,559,449
	588,739,061	417,318,796	1,006,057,857
OPEB Trust pre-funding contributions - Employer:			
State of Hawaii	-	194,615,000	194,615,000
City & County of Honolulu	-	30,845,000	30,845,000
County of Hawaii	-	7,180,400	7,180,400
County of Maui	-	14,930,000	14,930,000
County of Kauai, including Department of Water	-	8,261,894	8,261,894
Board of Water Supply - Honolulu	-	6,400,000	6,400,000
County of Hawaii - Department of Water	-	1,071,000	1,071,000
Honolulu Authority for Rapid Transportation	-	195,000	195,000
Transfer from Agency Fund to OPEB Trust on behalf of employers	-	75,000,000	75,000,000
	-	338,498,294	338,498,294
	$ 588,739,061	$ 755,817,090	$ 1,344,556,151

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

The required premium contributions include both contributions for self-insured and fully-insured plans. The self-insured contributions are reported as operating revenues in the statements of revenues, expenses, and changes in net position for the enterprise fund. The contributions related to the fully-insured plans are included as a component of the premiums receivable on the statements of net position for the enterprise fund and the statements of fiduciary net position for the agency fund. Contributions related to the fully-insured plans for the year ended June 30, 2016 for the enterprise fund and agency fund, respectively, were $504,234,644 and $240,052,523 and for the year ended June 30, 2015 for the enterprise fund and agency fund, respectively, were $489,203,099 and $229,495,856.

(8) Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, which includes the EUTF, are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability, and death benefits with three membership classes known as the noncontributory, contributory, and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

Retirement Benefits

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

Disability Benefits

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

Death Benefits

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

Ordinary death benefits are available to employees who were active at the time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

Retirement Benefits

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

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

Disability Benefits

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

Death Benefits

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

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

Contributory Class for Members Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

Disability and Death Benefits

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

Retirement Benefits

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

Disability Benefits

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

Death Benefits

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

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

Hybrid Class for Members Hired After June 30, 2012

Retirement Benefits

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

Disability and Death Benefits

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

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal years 2016 and 2015 were 25.0% and 24.0%, respectively, for police officers and firefighters, and 17.0% and 16.5%, respectively, for all other employees. Contributions to the ERS from the EUTF were $395,936 and $345,879 for the fiscal years ended June 30, 2016 and 2015, respectively.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012, are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

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

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the EUTF. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by Statement Nos. 68 and 71 pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's Comprehensive Annual Financial Report (CAFR).

At June 30, 2016 and 2015, the EUTF reported a net pension liability of $3,581,620 and $3,279,499, respectively, for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

The EUTF's proportionate share of the State's net pension liability was based on a projection of the EUTF's share of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015, the State's proportion was 57.24%, which was a decrease of 1.24% from its proportion measured as of June 30, 2014. The EUTF's share of the State's net pension liability at June 30, 2015 was .07%

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65% and will continue to decrease to 7.55% in fiscal year 2017 and to 7.50% in fiscal year 2018, and will remain at 7.50% thereafter. There were no other changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the EUTF's proportionate share of the State's net pension liability.

For the years ended June 30, 2016 and 2015, the EUTF recognized pension expense of $367,319 and $280,762, respectively. At June 30, 2016 and 2015, the EUTF reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	
	2016	2015
Contributions subsequent to the measurement date	$ 560,187	$ 493,662
Changes in assumptions	106,455	-
Differences between expected and actual experience	31,553	41,320
Changes in proportion and differences between contributions and proportionate share of contributions	4,344	5,948
	$ 702,539	$ 540,930

	Deferred Inflows of Resources	
	2016	2015
Differences between expected and actual experience	$ 125,206	$ 932
Net difference between projected and actual earnings on pension plan investments	44,700	382,490
Changes in proportion and differences between contributions and proportionate share of contributions	27,919	-
	$ 197,825	$ 383,422

The $560,187 reported as deferred outflows of resources related to pension at June 30, 2016 resulting from the EUTF's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension at June 30, 2016 will be recognized in pension expense as follows:

Year Ending June 30:		
2017	$	(24,311)
2018		(24,311)
2019		(24,311)
2020		19,296
2021		(1,836)
	$	(55,473)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.50%
Investment rate of return	7.65% per year compounded annually including inflation

The investment rate of return changed from 7.75% used in the June 30, 2014 actuarial valuation to 7.65% used in the June 30, 2015 actuarial valuation.

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including cost of living adjustment.

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the most recent experience study dated December 20, 2010. Between experience studies, the Board of Trustees of the ERS elected to lower the investment return assumption effective with the June 30, 2015 valuation.

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	30.0%	8.5%
International equity	26.0%	9.3%
Total fixed-income	20.0%	3.1%
Real estate	7.0% *	9.2%
Private equity	7.0% *	11.9%
Real return	5.0% *	6.7%
Covered calls	5.0%	7.7%
Total investments	100.0%	

* The real estate, private equity, and real return targets will be the percentage actually invested up to 7.0%, 7.0%, and 5.0%, respectively, of the total fund. Changes in the real estate private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the net pension liability was 7.65%, a decrease from the 7.75% rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State, which includes the EUTF, will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the EUTF's proportionate share of the State's net pension liability calculated using the discount rate of 7.65%, as well as what the EUTF's proportionate share of the State's net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.65%) or one-percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
EUTF's proportionate share of the State's net pension liability	$ 5,665,838	$ 3,581,620	$ 3,331,566

Pension Plan Fiduciary Net Position

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

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

Postemployment Health Care and Life Insurance Benefits

Plan Description

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

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents. The State's contribution is based on the plan selected by the retiree (single, two-party, or family plans).

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents. The State's contribution is based on the plan selected by the retiree (single, two-party, or family plans).

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

Funding

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

Annual OPEB Cost and Net OPEB Obligation Related to the EUTF

Measurement of the actuarial valuation and the annual required contribution (ARC) is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the EUTF. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The EUTF's contributions for the years ended June 30, 2016, 2015, and 2014 were $269,583, $213,559, and $174,100, respectively, which represented 31%, 26%, and 29%, respectively, of the EUTF's share of the ARC for postemployment health care and life insurance benefits.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2016 and 2015:

	2016	2015
Annual required contribution	$ 860,410	$ 823,113
Contributions made	(269,583)	(213,559)
Increase in net OPEB obligation	590,827	609,554
Net OPEB obligation at beginning of year	2,509,057	1,899,503
Net OPEB obligation at end of year	$ 3,099,884	$ 2,509,057
Actual contributions made as a percentage of ARC	31%	26%

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

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

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

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

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

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

Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees (excluding part-time, temporary, and casual/seasonal), permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

(9) Commitments and Contingencies

Litigation

Dannenberg, et al. v. State of Hawaii, Hawaii Supreme Court, No. SCAP-15-0000084

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

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

The Circuit Court denied the motion. Plaintiffs subsequently stipulated to dismiss their claims premised on the contribution cap, which readied the case for final judgment. Plaintiffs appealed to the Intermediate Court of Appeals. On Defendant's request, the Hawaii Supreme Court accepted the case on transfer. Briefing of the appeal and cross-appeal has been completed. In May 2016, the case was argued before the Hawaii Supreme Court, which, on October 21, 2016, remanded the case back to the Circuit Court for further proceedings.

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, 2016 or 2015. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

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

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

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

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

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

No trial date has yet been set. The State intends to vigorously defend against the plaintiffs' claims in this lawsuit. The outcome of this lawsuit cannot be determined and no amount has been recorded in the financial statements as of or for the years ended June 30, 2016 and 2015. Management believes that an unfavorable outcome, if any, will not have a material adverse effect on the EUTF's financial position.

(10) Risk Management

The EUTF is exposed to various risks of loss related to, among other risks, torts; theft of, damage to, or destruction of assets; errors and omissions; and workers' compensation. In accordance with HRS 87A-25, the EUTF has obtained fiduciary liability insurance with an annual aggregate for losses of $10 million. Additionally, the EUTF obtained a cyber-risk insurance policy with an aggregate loss limit of $5 million and a $100,000 deductible.

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

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

The EUTF is covered under the State's self-insurance program for workers' compensation. During fiscal years 2016 and 2015, the EUTF paid $29,605 and $23,120, respectively, in workers' compensation premiums to the State's General Fund.

There have been no claims against the EUTF under the insurance coverage for the past three fiscal years.

(11) Lease Commitment

The EUTF's office is located in the City Financial Tower. The State Department of Accounting and General Services (Lessee) leases the EUTF's office from the ERS (Lessor). The lease was amended on July 20, 2015 increasing the total rental area to 13,601 square feet and extending the term for seven years starting 60 days after completion of the improvements to the suites which was February 1, 2016. Rent on this lease is paid by the EUTF.

At June 30, 2016, the future minimum rental commitment under the noncancelable operating lease through 2023 is as follows:

Year Ending June 30:	
2017	$ 452,000
2018	453,000
2019	459,000
2020	465,000
2021	471,000
Thereafter	837,000
	$ 3,137,000

Minimum rent payments are recognized on a straight-line basis over the term of the lease. The rent expense for the years ended June 30, 2016 and 2015 was $365,805 and $315,833, respectively.

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

As of July 1, 2015, 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	33,938	5,281	51,097	90,316
City & County of Honolulu	6,974	782	8,786	16,542
County of Hawaii	1,520	192	2,420	4,132
County of Maui	1,343	215	2,511	4,069
County of Kauai, including Department of Water	789	105	1,245	2,139
Board of Water Supply - Honolulu	572	57	551	1,180
County of Hawaii - Department of Water	92	4	160	256
Honolulu Authority for Rapid Transportation	6	3	99	108
	45,234	6,639	66,869	118,742

Contributions and Other Plan Information

The State and counties required premium contributions to the EUTF are based on the pay-as-you-go basis and the ARC amount for the years ended June 30, 2016 and 2015, based on the July 1, 2015 and July 1, 2013 actuarial valuations, respectively, were as follows:

	2016		
	Required premium contributions for June 30, 2016 (pay as you go basis)	**ARC for June 30, 2016**	**ARC as a percentage (%) of the covered payroll**
Employer:			
State of Hawaii	$ 300,887,344	$ 742,808,000	24.0%
City & County of Honolulu	69,462,243	152,205,000	24.8%
County of Hawaii	15,566,940	33,614,000	21.1%
County of Maui	14,161,176	29,229,000	17.7%
County of Kauai, including Department of Water	7,699,110	16,382,000	20.9%
Board of Water Supply - Honolulu	5,328,539	8,826,000	25.8%
County of Hawaii - Department of Water Supply	842,045	1,914,000	20.6%
Honolulu Authority for Rapid Transportation	-	551,000	7.6%
	$ 413,947,397	$ 985,529,000	

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

The fair value of the OPEB Trust by employer as of June 30, 2016 and 2015, respectively, are as follows:

	2016	2015
State of Hawaii	$ 480,628,502	$ 221,193,812
City & County of Honolulu	291,892,315	242,592,504
County of Hawaii	104,201,680	91,579,237
County of Maui	171,504,145	148,982,952
County of Kauai, including Department of Water	88,654,548	76,863,393
Board of Water Supply - Honolulu	59,573,594	50,688,924
County of Hawaii - Department of Water Supply	13,069,793	11,524,221
Honolulu Authority for Rapid Transportation	320,366	95,202
	$ 1,209,844,943	$ 843,520,245

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)
July 1, 2015	$ 843,520,000	$ 12,615,528,000	$11,772,008,000	6.7%	$4,161,386,000	283%

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

The accompanying schedule of employer contributions presents information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize 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 plan 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:

Actuarial valuation date	July 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent, closed
Remaining amortization period	28 years
Actuarial assumptions:	
Investment rate of return	7%
Healthcare cost trend rate:	
Medical and prescription drug - HMO Kaiser	7.0% initial; 5% ultimate
Medical and prescription drug - PPO HMSA	9% initial; 5% ultimate
Dental	4% initial; 4% ultimate
Vision	3% initial; 3% ultimate
Medicare Part B	3% initial; 5% ultimate
Projected salary increases	3.5%

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

(13) Subsequent Events

The EUTF has evaluated subsequent events from the statements of net position date through December 28, 2016, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
July 1, 2007 through 2016

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)
7/1/2015	$ 843,520,000	$ 12,615,528,000	$ 11,772,008,000	6.7%	$ 4,161,386,000	282.9%
7/1/2013	296,124,000	11,477,633,000	11,181,509,000	2.6	3,881,223,000	288.1
7/1/2011	178,200,000	16,458,800,000	16,280,600,000	1.1	3,743,000,000	435.0
7/1/2009	115,500,000	14,662,100,000	14,546,600,000	0.8	2,758,000,000	527.4
7/1/2007	-	9,194,300,000	9,194,300,000	0.0	2,789,000,000	329.7

Schedule of Employer Contributions
Years Ended June 30, 2011 through 2016

June 30,	Annual Required Contributions	Percentage contribution
2016	$ 985,529,000	42.0%
2015	952,205,000	39.9
2014	1,271,562,000	30.3
2013	1,219,917,000	31.2
2012	1,207,638,000	30.8
2011	1,300,757,000	27.6

See accompanying independent auditors' report.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information (Unaudited)

Nine-Year Loss Development Information

June 30, 2008 through 2016

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

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

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information (Unaudited)

Nine-Year Loss Development Information

June 30, 2008 through 2016

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

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Required Supplementary Information (Unaudited)

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

June 30, 2008 through 2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Required contribution and investment revenue:									
Earned	$ 195,936,354	$ 221,762,304	$ 256,755,699	$ 246,004,463	$ 153,831,438	$ 51,774,778	$ 58,365,379	$ 73,318,620	$ 84,751,959
Ceded	-	-	-	-	-	-	-	-	-
Net earned	$ 195,936,354	$ 221,762,304	$ 256,755,699	$ 246,004,463	$ 153,831,438	$ 51,774,778	$ 58,365,379	$ 73,318,620	$ 84,751,959
2. Unallocated expenses	$ 2,382,253	$ 2,324,705	$ 3,464,359	$ 3,828,417	$ 2,142,126	$ 1,241,104	$ 1,101,332	$ 1,324,632	$ 1,545,900
3. Estimated claims and expenses, end of policy year:									
Incurred	$ 233,857,827	$ 267,973,485	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849	$ 78,889,868	$ 88,570,757
Ceded	-	-	-	-	-	-	-	-	-
Net incurred	$ 233,857,827	$ 267,973,485	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849	$ 78,889,868	$ 88,570,757
4. Net paid (cumulative) as of:									
End of policy year	$ 196,730,425	$ 262,097,745	$ 251,299,883	$ 237,215,369	$ 185,234,570	$ 52,654,087	$ 69,825,153	$ 82,307,251	$ 92,379,275
One year later	231,169,876	283,354,922	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468	
Two years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249		
Three years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143	51,976,970			
Four years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143				
Five years later	231,157,984	283,378,367	239,959,499	234,225,771					
Six years later	231,157,984	283,378,367	239,959,499						
Seven years later	231,157,984	283,378,367							
Eight years later	231,157,984								
Nine years later									
5. Reestimated ceded claims and expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6. Reestimated net incurred claims and expenses:									
End of policy year	$ 233,857,827	$ 267,973,485	$ 244,971,987	$ 241,048,648	$ 150,488,917	$ 46,818,770	$ 69,066,849	$ 78,889,868	$ 88,570,757
One year later	231,169,876	283,354,922	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249	78,879,468	
Two years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143	51,976,970	69,080,249		
Three years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143	51,976,970			
Four years later	231,157,984	283,378,367	239,959,499	234,225,771	144,371,143				
Five years later	231,157,984	283,378,367	239,959,499	234,225,771					
Six years later	231,157,984	283,378,367	239,959,499						
Seven years later	231,157,984	283,378,367							
Eight years later	231,157,984								
Nine years later									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	$ (2,699,843)	$ 15,404,882	$ (5,012,488)	$ (6,822,877)	$ (6,117,774)	$ 5,158,200	$ 13,400	$ (10,400)	$ -

See accompanying independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Schedules of Administrative Operating Expenses - Enterprise Fund

Years Ended June 30, 2016 and 2015

	2016	2015
Administrative operating expenses:		
Personnel services	$ 4,014,009	$ 3,798,958
Contracted services	1,710,328	1,645,392
Occupancy	365,805	315,833
Insurance	109,017	145,443
Postage	80,316	93,557
Printing and binding	79,342	61,784
Telephone	32,758	38,905
Supplies	20,272	19,624
Rental of equipment	20,157	22,466
Repairs and maintenance	16,018	30,638
Transportation	11,347	22,226
Other	44,239	9,317
Total administrative operating expenses	$ 6,503,608	$ 6,204,143

See accompanying independent auditors' report.

HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
STATE OF HAWAII

Schedule of Changes in Fiduciary Net Position - Agency Fund

Year Ended June 30, 2016

	July 1, 2015	Additions	Deductions	June 30, 2016
Assets:				
Cash and cash equivalents	$ 22,231,017	$ 466,430,338	$ (472,433,731)	$ 16,227,624
Investments	123,874,560	185,383	(19,250,470)	104,809,473
Receivables:				
Premiums receivable from State of Hawaii and counties	31,741,489	372,166,850	(373,792,928)	30,115,411
Experience refunds due from insurance companies	28,001,810	589,469	(28,029,144)	562,135
Rebates receivable	30,668,429	62,668,221	(54,587,491)	38,749,159
Medicare reimbursements from individuals, net of allowance of $854,124 in 2016 and $826,750 in 2015	128,039	64,504,228	(64,514,339)	117,928
Total receivables	90,539,767	499,928,768	(520,923,902)	69,544,633
Deposits	8,165,204	-	-	8,165,204
Total assets	$ 244,810,548	$ 966,544,489	$ (1,012,608,103)	$ 198,746,934
Liabilities:				
Premiums payable	$ 21,001,286	$ 243,895,855	$ (243,057,488)	$ 21,839,653
Benefit claims payable	10,940,042	161,235,176	(157,844,826)	14,330,392
Due to retirees	22,427	2,431,143	(2,432,626)	20,944
Other payables	232,146	633,682	(579,288)	286,540
Amounts held on behalf of employers for benefits	212,614,647	189,018,136	(239,363,378)	162,269,405
Total liabilities	$ 244,810,548	$ 597,213,992	$ (643,277,606)	$ 198,746,934

See accompanying independent auditors' report.

PART III

INTERNAL CONTROL AND COMPLIANCE SECTION

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

The Auditor
State of Hawaii:

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii and the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (collectively referred to as the EUTF) as of and for the years ended June 30, 2016 and 2015, and the related notes to financial statements, and have issued our report thereon dated December 28, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KKDLY LLC

Honolulu, Hawaii
December 28, 2016