

FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION, AND
OTHER FINANCIAL INFORMATION

West Virginia Retiree Health Benefit Trust Fund
Years Ended June 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

West Virginia Retiree Health Benefit Trust Fund

Financial Statements, Required Supplementary Information,
and Other Financial Information

Years Ended June 30, 2010 and 2009

Table of Contents

Report of Independent Auditors.....1

Management’s Discussion and Analysis3

Financial Statements

Statements of Plan Net Assets16

Statements of Changes in Plan Net Assets17

Notes to Financial Statements.....18

Required Supplementary Information

Schedule of Funding Progress38

Schedule of Employer Contributions.....39

Other Financial Information

Form 7, Deposits Disclosure.....40

Form 8, Investments Disclosure41

Form 8-A, Deposits and Investments Disclosure42

Form 9, Accounts Receivable43

Form 10, Due (To) From Primary Government.....44

Form 11, Component Unit – A/R Balances47

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.....48

Schedule of Findings and Responses50

Report of Independent Auditors

The Finance Board
West Virginia Retiree Health Benefit Trust Fund

We have audited the accompanying statements of plan net assets of the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia, as of June 30, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of RHBT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 of material misstatement. We were not engaged to perform an audit of RHBT's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RHBT's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of RHBT are intended to present the plan net assets and the changes in plan net assets of only that portion of the activities of the State of West Virginia that is attributable to the transactions of the RHBT. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2010 and 2009, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of RHBT, a fiduciary fund of the State of West Virginia, at June 30, 2010 and 2009, and the changes in its plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010, on our consideration of RHBT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 15 and the supplemental schedules of funding progress and employer contributions on pages 38 and 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits of the basic financial statements were conducted for the purpose of forming an opinion on the basic financial statements of RHBT, taken as a whole. Other financial information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of RHBT. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

October 15, 2010

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis

Year Ended June 30, 2010

The June 30, 2010 Annual Financial Report of the West Virginia Retiree Health Benefit Trust Fund (RHBT) presents the following management discussion and analysis as supplementary information to the basic financial statements.

FUND OVERVIEW

RHBT is a fiduciary fund of the State of West Virginia (State), established July 1, 2006, as an irrevocable trust (Code section 5-16D-2). Fund revenues pay costs of the defined benefit, cost-sharing, multiemployer Other Postemployment Benefit (OPEB) plan (the Plan). The Plan provides medical, prescription drug, and life insurance for retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code (Employers) and has approximately 35,000 policyholders and 52,000 covered lives.

The medical and prescription drug insurance is provided through two options:

Self Insured Preferred Provider Benefit Plan – primarily for non-Medicare eligible retirees and spouses

External Managed Care Organizations – primarily for Medicare eligible retirees and spouses

RHBT Medicare eligible members receive medical and prescription drug coverage from a Medicare Advantage Prescription Drug (MAPD) plan administered by Humana and Coventry. RHBT and Medicare make capitation payments to fund the MAPD claims costs. The MAPD plan assumes all risk and liability for Medicare policyholders.

Life insurance is provided through Minnesota Life Insurance Company and is fully funded by member contributions.

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

MAJOR DEVELOPMENTS

Customer Resource Management software was implemented

County Boards of Education continued legal action seeking relief from recognizing the OPEB liability in their financial statements.

Teachers unions continued legal action seeking to overturn the Finance Board of RHBT's decision to stop subsidizing OPEB premium contributions for employees hired after June 30, 2010.

The MAPD plan coverage was changed from Coventry to Humana for medical claims effective January 1, 2010. The coverage for prescription drug claims was changed from Coventry to Express Scripts effective July 1, 2010.

A West Virginia Senate legislative committee presented recommendations to reduce growth and increase funding for the OPEB liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

The two basic financial statements (described below) are presented on the accrual basis of accounting:

Statements of Plan Net Assets – Presents information reflecting assets, liabilities, and plan net assets. Plan net assets represent the amount of total assets less total liabilities. The Statements of Plan Net Assets is the government version of a for-profit balance sheet.

Statements of Changes in Plan Net Assets – Presents contributions and deductions to the Plan during the fiscal year. The primary source of contributions is premium income. The primary sources of deductions are medical and prescription drug claims costs. The Statements of Changes in Plan Net Assets is the government version of a for-profit income statement.

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

The following tables summarize the plan net assets and changes in plan net assets as of and for the years ended June 30:

Statement of Plan Net Assets (\$000's)

	2010	2009	Change 2010 – 2009	
			Amount	Percent
Assets				
Cash and cash equivalents	\$ 1,132	\$ 31,410	\$ (30,278)	(96)%
Equity position in internal investment pools	447,097	359,933	87,164	24
Due from PEIA	–	1,537	(1,537)	(100)
Contribution receivable	5,941	12,129	(6,188)	(51)
Other receivables	1,123	974	149	15
Total assets	455,293	405,983	49,310	12
Liabilities				
Claims payable	9,590	7,660	1,930	25
Due to PEIA	22,105	–	22,105	100
Other liabilities	963	909	54	6
Total liabilities	32,658	8,569	24,089	281
Net assets held in trust for OPEB	\$ 422,635	\$ 397,414	\$ 25,221	6 %

Comparative year-to-year major variance explanations (2010 vs. 2009) for the Statements of Plan Net Assets are:

Cash and cash equivalents (\$30.3 million decrease)

- \$30.3 million transferred to investment pools

Equity position in internal investment pools (\$87.2 million increase)

- \$29.2 million generated from investment earnings
- \$30.3 million transferred from cash and cash equivalents
- \$23.6 million advanced from Public Employees Insurance Agency (PEIA)

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

- \$4.1 million increase is due to timing of collections and payments

Due to/from PEIA (\$23.6 million increase)

- \$23.6 million increase is the change in the net result of payments to PEIA for allocated services and receipts from PEIA for monies collected on behalf of RHBT

Contributions receivable (\$6.2 million decrease)

- \$5.8 million decrease is attributable to improved cash collections
- \$0.4 million decrease is attributable to a reduction in allowance for bad debts

Claims payable (\$1.9 million increase)

- \$1.9 million increase in claims incurred but not yet paid

Statement of Plan Net Assets (\$000's)

	2009	2008	Change 2009 – 2008	
			Amount	Percent
Assets				
Cash and cash equivalents	\$ 31,410	\$ 9,197	\$ 22,213	242%
Equity position in internal investment pools	359,933	248,611	111,322	45
Due from PEIA	1,537	–	1,537	100
Contribution receivable	12,129	11,195	934	8
Other receivables	974	1,012	(38)	(4)
Total assets	405,983	270,015	135,968	50
Liabilities				
Claims payable	7,660	7,060	600	8
Due to PEIA	–	7,179	(7,179)	(100)
Other liabilities	909	958	(49)	(5)
Total liabilities	8,569	15,197	(6,628)	(44)
Net assets held in trust for OPEB	\$ 397,414	\$ 254,818	\$ 142,596	56%

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

Comparative year-to-year major variance explanations (2009 vs. 2008) for the Statements of Plan Net Assets are:

Cash and cash equivalents (\$22.2 million increase)

- \$22.2 million generated from operations

Equity position in internal investment pools (\$111.3 million increase)

- \$91.0 million additional funding transfer from state
- \$20.3 million generated from operations and investment earnings

Due to/from PEIA (\$5.7 million decrease)

- \$5.7 million decrease is the change in the net result of payments to PEIA for allocated services and receipts from PEIA for monies collected on behalf of RHBT

Contributions receivable (\$0.9 million increase)

- \$1.2 million increase is attributable to a reduction in allowance for bad debts
- \$0.3 million decrease due to timing

Claims payable (\$0.6 million increase)

- \$0.6 million increase in claims incurred but not yet paid

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

Statement of Changes in Plan Net Assets (\$000's)

	2010	2009	Change 2010 – 2009	
			Amount	Percent
Additions				
Employers	\$ 129,866	\$ 235,137	\$ (105,271)	(45)%
Plan members	63,450	63,655	(205)	–
Total contributions	193,316	298,792	(105,476)	(35)
Retiree drug subsidy	1,213	1,267	(54)	(4)
Interest and dividend income	6,800	5,456	1,344	25
Net change in fair value of investments	22,460	(2,324)	24,784	1,066
Total additions	223,789	303,191	(79,402)	(26)
Deductions				
Managed Care Organization – payments	108,732	75,947	32,785	43
Claims expense, net	84,220	81,335	2,885	4
Administrative service fees	2,135	1,384	751	54
Other expenses	3,481	1,929	1,552	80
Total deductions	198,568	160,595	37,973	24
Net increase	25,221	142,596	(117,375)	(82)
Net assets held in trust for OPEB:				
Beginning of period	397,414	254,818	142,596	56
End of period	\$ 422,635	\$ 397,414	\$ 25,221	6%

Comparative year-to-year variance explanations (2010 vs. 2009) for the Statements of Changes in Plan Net Assets are:

Employer contributions (\$105.3 million decrease)

- \$91.0 million decrease in fund transfers from PEIA and the State of West Virginia.
- \$15.5 million decrease in premium contributions because of 15% Pay Go premium rate decrease.
- \$1.2 million increase in retiree conversion.

West Virginia Retiree Health Benefit Trust Fund
Management's Discussion and Analysis (continued)

Plan member contributions (\$0.2 million decrease)

- Insignificant variance

Interest and dividend income (\$1.3 million increase)

- \$1.3 million increase is because of the growth in funds held for investment as a result of the increase in the trust fund net assets.

Net appreciation in fair value of investments (\$24.8 million increase)

- \$24.8 million increase is because of the growth in the fair value of funds held for investment resulting from improvement in the global financial and equity markets.

Managed Care Organization – payments (\$32.8 million increase)

- \$32.8 million increase is because of a 37% rate change in July 2009 and an 11% rate change in January 2010.

Claims expense (\$2.9 million increase)

- \$2.9 million increase results from inflationary cost increases of 2% for health and 9% for prescription drug claims.

Administrative service fees (\$0.8 million increase)

- \$0.8 million increase is a result of additional utilization review services provided by third-party administrators.

Other expenses (\$1.6 million increase)

- \$1.3 million decrease in bad debt expense reduction from improved collections.
- \$0.3 million increase in professional audit fees

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

Statement of Changes in Plan Net Assets (\$000's)

	2009	2008	Change 2009 – 2008	
			Amount	Percent
Additions				
Employers	\$ 235,137	\$ 324,098	\$ (88,961)	(27)%
Plan members	63,655	60,872	2,783	5
Total contributions	298,792	384,970	(86,178)	(22)
Retiree drug subsidy	1,267	437	830	190
Interest and dividend income	5,456	3,046	2,410	79
Net depreciation in fair value of investments	(2,324)	(2,462)	138	6
Total additions	303,191	385,991	(82,800)	(21)
Deductions				
Managed Care Organization – payments	75,947	57,996	17,951	31
Claims expense, net	81,335	70,215	11,120	16
Administrative service fees	1,384	1,762	(378)	(21)
Other expenses	1,929	4,367	(2,438)	(56)
Total deductions	160,595	134,340	26,255	20
Net increase	142,596	251,651	(109,055)	(43)
Net assets held in trust for OPEB:				
Beginning of period	254,818	3,167	251,651	7,946
End of period	\$ 397,414	\$ 254,818	\$ 142,596	56%

Comparative year-to-year variance explanations (2009 vs. 2008) for the Statements of Changes in Plan Net Assets are:

Employer contributions (\$89.0 million decrease)

- \$62.6 million decrease in fund transfers from PEIA and the State of West Virginia.
- \$1.4 million increase in annual required contribution payments.
- \$11.2 million increase in premium contributions because of 10% Pay Go premium rate increase.

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

- \$39.0 million decrease in premium contribution because of one-year pass-through of post-employment accrued actuarial liability fund from PEIA to RHBT.

Plan member contributions (\$2.8 million increase)

- \$2.8 million increase is the result of a 10% Pay Go premium rate increase.

Retiree drug subsidy (\$0.8 million increase)

- \$0.8 million increase is the result of additional revenues received for the fiscal year 2008 but recorded in fiscal year 2009 due to prior-year underestimate of retiree drug subsidy receivable.

Interest and dividend income (\$2.4 million increase)

- \$2.4 million increase is because of the growth in funds held for investment as a result of the increase in the trust fund net assets.

Net depreciation in fair value of investments

- Insignificant variance

Managed Care Organization – payments (\$18.0 million increase)

- \$18.0 million increase results from a 32% increase in the MAPD Plan capitation rates.

Claims expense (\$11.1 million increase)

- \$11.1 million increase results from inflationary cost increases of 7% for health and 12% for prescription drug claims.

Administrative service fees (\$0.4 million decrease)

- \$0.4 million decrease is a result of a reduction in precertification fees. The risk for MAPD retirees was transferred and the indemnity plan no longer needed to precertify the services.

West Virginia Retiree Health Benefit Trust Fund
Management's Discussion and Analysis (continued)

Other expenses (\$2.4 million decrease)

- \$4.2 million decrease in bad debt expense from improved collections.
- \$0.6 million increase in professional fees for miscellaneous software installation and support costs.
- \$0.4 million increase in information systems processing cost from increased volume.
- \$0.4 million increase in capital asset lease and building rental costs from PEIA due to office relocation and software usage.
- \$0.4 million increase in other general and administrative costs from increased volume.

ECONOMIC CONDITIONS

Health care cost inflation continued to significantly exceed general economic inflationary costs. The primary factors contributing to rising health care costs are:

- Medical equipment technology
- New drug therapies
- Consumer-driven advertising for health care services
- Aging population – Baby boomers reaching prime years of health care utilization
- Health insurance premium increases by insurance companies because of reduced investment earnings

West Virginia Retiree Health Benefit Trust Fund

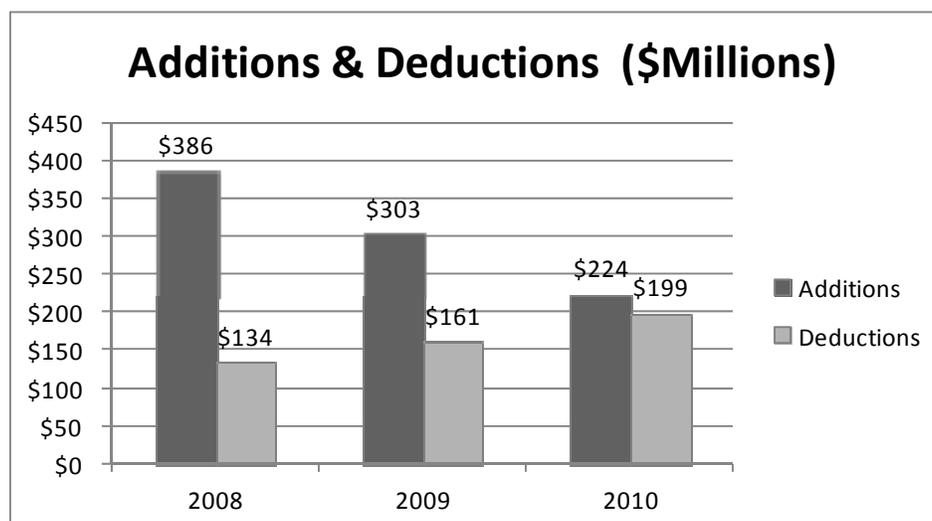
Management's Discussion and Analysis (continued)

OPEB LIABILITY

The OPEB liability, actuarial accrued liability (AAL), at June 30, 2009, is \$7.0 billion based on calculations as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The \$7.0 billion is a substantial unfunded liability for the Employers. The Employers are evaluating options to address this unfunded obligation and fulfill commitments made to current and retired employees and to attract and retain quality governmental employees in the future. The State has demonstrated its intent to deal with the substantial unfunded liability by the passage of Senate Bill 129, which became effective July 1, 2007. This bill amended West Virginia Code (the Code) Section 5-16-25, indicating that the PEIA excess reserve funds shall be transferred to RHBT. Funds totaling \$108.2 million were transferred to the Plan in fiscal year 2008 related to this provision in the Code. In fiscal year 2009, the State transferred \$91.0 million to pay for general funded employers' portion of the AAL.

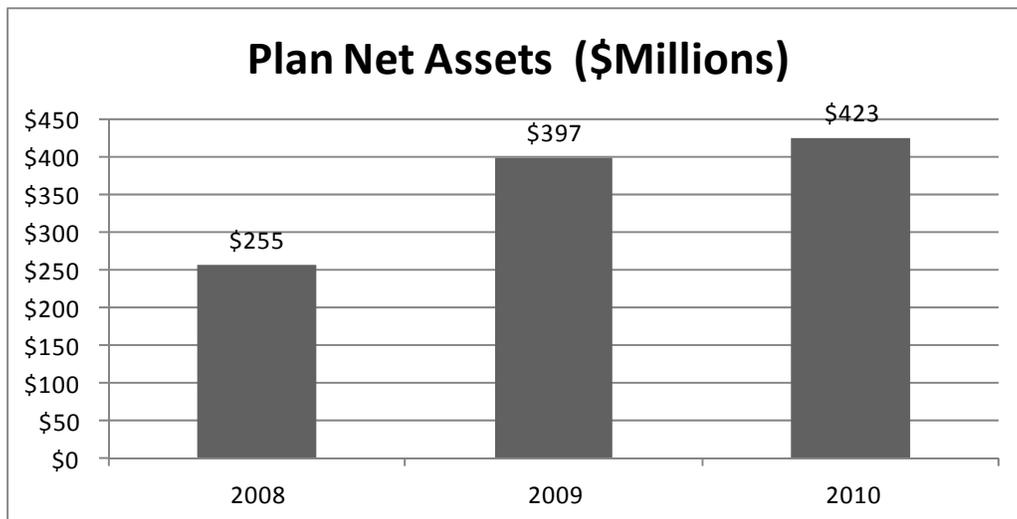
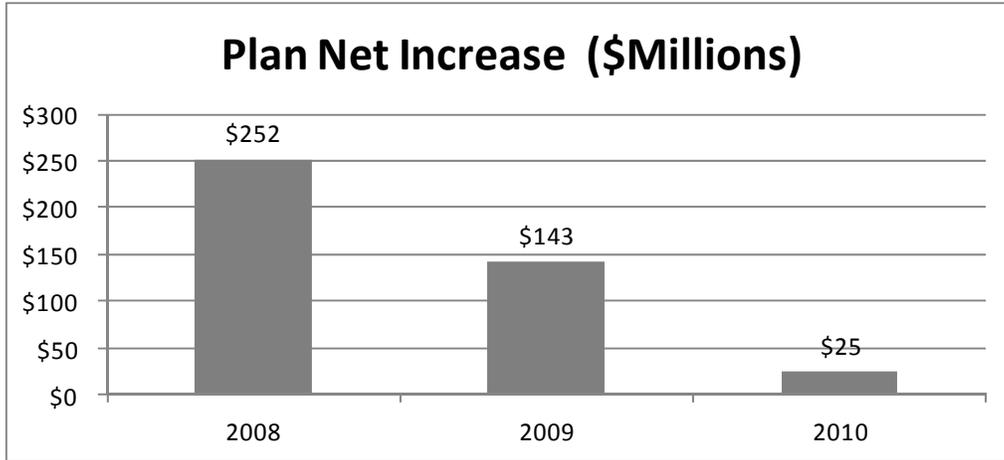
REQUESTS FOR INFORMATION

This financial report is designed to provide RHBT's participants, governing officials, legislators, citizens, and taxpayers with a general overview of RHBT's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Chief Financial Officer at (304) 558-7850, ext. 52642.



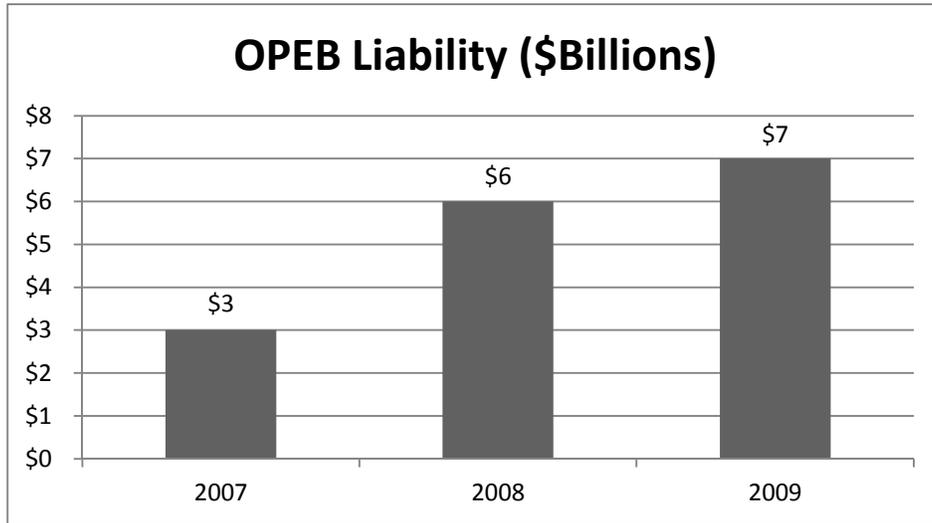
West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)



West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)



West Virginia Retiree Health Benefit Trust Fund

Statements of Plan Net Assets

	June 30	
	2010	2009
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 1,132	\$ 31,410
Equity position in internal investment pools	447,097	359,933
Due from PEIA	–	1,537
Contributions receivable – net of allowance for doubtful accounts of \$2,630 and \$3,000, respectively	5,941	12,129
Other receivables	1,123	974
Total assets	<u>455,293</u>	<u>405,983</u>
Claims payable	9,590	7,660
Other liabilities	963	909
Due to PEIA	22,105	–
Total liabilities	<u>32,658</u>	<u>8,569</u>
Net assets held in trust for other post-employment benefits	<u>\$ 422,635</u>	<u>\$ 397,414</u>

See accompanying notes.

West Virginia Retiree Health Benefit Trust Fund

Statements of Changes in Plan Net Assets

	Year Ended June 30	
	2010	2009
	<i>(In Thousands)</i>	
Additions:		
Employers	\$ 129,866	\$ 235,137
Plan members	63,450	63,655
Total contributions	193,316	298,792
Other additions:		
Retiree drug subsidy	1,213	1,267
Interest and dividend income	6,800	5,456
Net appreciation (depreciation) in fair value of investments	22,460	(2,324)
Total additions	223,789	303,191
Deductions:		
Payments to managed care organizations	108,732	75,947
Claims expense, net	84,220	81,335
Administrative service fees	2,135	1,384
Other expenses	3,481	1,929
Total deductions	198,568	160,595
Change in net assets	25,221	142,596
Net assets held in trust for other post-employment benefits:		
Beginning of period	397,414	254,818
End of period	\$ 422,635	\$ 397,414

See accompanying notes.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements

June 30, 2010

1. Reporting Entity

The West Virginia Retiree Health Benefit Trust Fund (RHBT) is a fiduciary fund of the State of West Virginia (State), established July 1, 2006, as an irrevocable trust (Code section 5-16D-2). RHBT's financial results are included in the State's Comprehensive Annual Financial Report.

RHBT's basic financial statements present the plan net assets and the changes in plan net assets for the State's activities attributable only to the transactions of RHBT. RHBT's basic financial statements do not purport to, and do not, present fairly the financial position of the State as of June 30, 2010 and 2009, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles (GAAP).

2. Plan Description and Contribution Information

The Plan is a cost-sharing, multiemployer, defined benefit other post-employment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code (the Code). Financial activities of the Plan are accounted for in the RHBT. The Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. Plan benefits are established and revised by PEIA and RHBT management with the approval of their Finance Boards.

The Plan provides the following benefits:

- Medical and Prescription Drug Insurance
- Life & Accidental Death Insurance

The Plan Medical and Prescription Drug benefits are provided through two options:

- Self Insured Preferred Provider Benefit Plan – primarily for non-Medicare eligible retirees and spouses
- External Managed Care Organizations – primarily for Medicare eligible retirees and spouses

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

2. Plan Description and Contribution Information (continued)

RHBT Medicare eligible members receive medical and prescription drug coverage from a Medicare Advantage Prescription Drug (MAPD) plan administered by Coventry Health Care and Humana. RHBT and Medicare make capitation payments to fund the MAPD claims costs. The MAPD plan assumes all risk and liability for Medicare policyholders.

RHBT collects employer contributions for Managed Care Organization (MCO) participants and remits capitation payments to the MCO. Medical and prescription drug benefits paid by the MCO are not reflected in RHBT's financial statements. Contributions earned by RHBT are included in employer and plan member contributions. MCO capitation fee payments are recorded as a deduction on the financial statements.

Survivors of retirees have the option of purchasing the medical and prescription drug coverage.

Life insurance is provided through Minnesota Life Insurance Company – fully funded by member contributions.

The Plan has the following characteristics:

- Other post-employment benefit plan
- Cost-sharing
- Multiemployer
- Defined benefit

Eligible participants of the Plan are retirees of:

- State government agencies
- State colleges and universities
- County boards of education
- Other government entities (towns, county commissions, etc.)

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

2. Plan Description and Contribution Information (continued)

Eligible participants hired after June 30, 2010, will be required to fully fund premium contributions upon retirement.

Plan administration is provided by:

- Claims adjudication – Wells Fargo (third-party administrator)
- The staff of PEIA and RHBT
- Finance Board comprised of nine members

Finance Board members are appointed by the governor, serve a term of four years, and are eligible for reappointment. The State Department of Administration cabinet secretary serves as chairman of the board. Four members represent labor, education, public employees, and public retirees, respectively. The four remaining members represent the public-at-large.

Members may obtain optional life insurance coverage from \$2,500 to \$150,000 depending on age; however, optional accidental death and dismemberment insurance is not available. Members may also elect dependent optional life coverage at levels up to \$20,000 for spouse and \$10,000 per child. Amounts collected by RHBT from members for optional coverage totaled \$10.5 million during the fiscal year ended June 30, 2010, and were remitted directly to the carrier. RHBT functions as an agent for these optional benefits and, accordingly, neither these premiums nor the related costs are reflected in the financial statements.

Membership consists of the following as of June 30, 2010:

	<u>Policyholders</u>	<u>Covered Lives</u>
Retirees and beneficiaries	35,344	52,062
Active members	75,493	163,057
Totals	<u>110,837</u>	<u>215,119</u>
Number of participating employers		693

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

2. Plan Description and Contribution Information (continued)

A non-Medicare plan member or beneficiaries receiving benefits contributes monthly health care premiums ranging from \$227 to \$812 per month for retiree-only coverage, and from \$457 to \$1,937 per month for retiree and spouse coverage. Medicare covered retirees are charged health care premiums ranging from \$46 to \$349 per month for retiree-only coverage, and from \$249 to \$1,176 per month for retiree and spouse coverage. Monthly premiums vary based on years of service and choice of coverage.

West Virginia Code section 5-16D-6 also assigns to the PEIA and RHBT Finance Boards the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by RHBT. The annual contractually required rate is the same for all participating employers. However, the annual contractually required rate for State general revenue funded agencies was lower because of additional transfers made by the State. The annual contractually required rate for State general revenue funded agencies was set at \$761.20 and \$236.91 per active employee per month effective June 30, 2010 and 2009, respectively. The annual contractually required rate for State non-general funded agencies and other participating employers was \$761.20 and \$388.21 per active policyholder per month effective June 30, 2010 and 2009, respectively.

West Virginia Code section 5-16-25 requires the Finance Board of PEIA to maintain a reserve of 10% of projected plan costs for general operation purposes and to provide future plan stability. In the event the reserve fund exceeds certain parameters specified in the Code, the excess is to be remitted to RHBT in accordance with Senate Bill 129, which became effective July 1, 2007. In fiscal year 2009, the State transferred \$91 million to pay for general funded employers' portion of the actuarial accrued liability (AAL).

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies

Basis of Reporting

RHBT is accounted for as a fiduciary fund. Accordingly, the basic financial statements are prepared using the accrual basis of accounting in conformity with GAAP for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB). RHBT implemented GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2007 as part of its initial basic financial statement presentation. The primary sources of revenue are plan members and employer contributions. Members' contributions are recognized in the period in which the contributions are due. Employer contributions and related receivables to the Trust are recognized pursuant to a formal commitment from the employer or statutory contractual requirement, when there is a reasonable expectation of collection. Benefits and refunds are recognized when due and payable.

Budgetary Requirements

The Code requires the RHBT Finance Board (the Board) to set the annual required contribution sufficient to maintain the fund in an actuarially sound manner. The Board shall annually allocate to the respective employers the employers' portion of the annual required contribution.

Cash and Cash Equivalents

Cash and cash equivalents are monies deposited on account with the West Virginia State Treasurer and used primarily to fund operating expenses.

Equity Position in Internal Investment Pools

RHBT owns equity positions in state government investment pools managed by the West Virginia Investment Management Board (WVIMB) and the Board of Treasury Investments (BTI). Some investment pool funds are subject to market risk because of changes in interest rates, bond prices, and stock prices. Investment earnings and losses are allocated to RHBT based on the balance of RHBT's investments maintained in relation to the total investments of all state agencies participating in the pool. The equity position in internal investment pools is reported at fair value and changes in fair value are included in investment income.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

A 13-member Board of Trustees governs the WVIMB. Three members of the Board serve by virtue of their office: the Governor, the Auditor, and the Treasurer. The other ten are appointed by the Governor and confirmed by the Senate. All appointees must have experience in pension management, institutional management or financial markets. In addition, one must be an attorney experienced in finance and investment matters and another must be a Certified Public Accountant. Only six of the ten appointed Trustees may be from the same political party. The Governor serves as Chairman of the Board. A Vice-Chairman is elected by the Trustees. A Secretary, who need not be a member of the Board, is also elected by the Trustees to keep a record of the proceedings of the Board. Details regarding these investment pools and a copy of the WVIMB financial report can be obtained by contacting: West Virginia Investment Management Board, 500 Virginia Street, East, Suite 200, Charleston, West Virginia 25301 or by calling +1 304 645 5939.

A five-member Board of Directors governs the BTI. The Governor, Treasurer, and Auditor serve as ex-officio members of the Board. The Governor appoints the two remaining members subject to the advice and consent of the State Senate. Of the two members appointed by the Governor, one shall be a certified public accountant and one shall be an attorney, and both shall have experience in finance, investing, and management. The State Treasurer is Chairman of the Board. The BTI prepares separately issued financial statements covering the pooled fund, which can be obtained from its website or a published copy from the West Virginia Board of Treasury Investments, 1900 Kanawha Boulevard, East, Building 1, Room E-122, Charleston, West Virginia 25305.

Due To/From PEIA

This balance represents the deficiency or excess of RHBT contributions collected by PEIA over expenses paid by PEIA for RHBT.

Contributions Receivable

Contributions receivable are reported net of an allowance for amounts estimated to be uncollectible based on management's review of the payment status of the underlying accounts and other economic factors that are deemed necessary in the circumstances.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Prescription Drug Rebates

Through arrangements with its Prescription Benefit Manager, RHBT collects rebates from prescription drug manufacturers. The estimated prescription rebates receivable is based on prescription claims counts and historical average rebate per claim. The receivable has been reduced by the estimated portion that is expected to be uncollectible based on management's review of the payment status of the underlying accounts and other factors that are deemed necessary in the circumstances.

Retiree Drug Subsidy

RHBT recorded retiree drug subsidy (RDS) revenue from the federal government under the provisions of Medicare Part D (primarily for fiscal year 2008). The MAPD provider, Coventry Health Care, assumed ownership of the retiree drug subsidy revenue when Medicare retirees were transferred to the MAPD plan. The RDS revenue has been accounted for as voluntary non-exchange transactions in accordance with GASB technical bulletin 2006-1. Accordingly, RDS estimated revenue is recognized as RHBT incurs Medicare-eligible retiree prescription drug expenditures.

Claims Payable and Expense

The liability for unpaid claims and claims processing costs is based on an actuarial estimate of the ultimate cost of settling such claims due and payable as of the statements of plan net assets date (including claims reported and in process of settlement, claims reported but not yet processed for settlement, and claims incurred for services provided but not yet reported or processed for settlement). The estimated actuarial liability reflects certain assumptions, which include such factors as enrollment and utilization. Adjustments to the estimated actuarial liability for the final settlement of claims will be reflected in the year that actual results of the settlement of the claims are made and are known. The estimated liability is adjusted periodically based on the most current claim incurrence and claim settlement history.

Claims relating to participants in MCOs, as well as claims relating to participants covered under the optional life insurance plan, are not considered in the liability as RHBT has no liability for the participants who elect such coverage. Additionally, the estimated liability for unpaid claims and claims processing costs is recorded net of amounts ceded to reinsurers for basic life benefits, as management believes these reinsured risks are fully recoverable. However, in the event a reinsurer is unable financially to satisfy an obligation, RHBT is responsible for such liability.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Administrative Service Fees

RHBT contracts with two external third-party administrators (TPA) for claims adjudication precertification reviews, utilization reviews, and various other duties. TPA fees are assessed monthly based upon the number of covered members without regard to the period in which a claim is incurred. TPA contracts are either on an annual or biannual basis.

Other Operating Expenses

Other operating expenses are comprised primarily of:

- Professional fees
- Personnel costs
- Lease costs from PEIA

RHBT and PEIA share:

- Office space
- Personnel
- Computer systems
- Third-party administrators

Expenses directly attributable to the OPEB plan are charged to RHBT. Shared expenses with PEIA are allocated based on membership count between PEIA and RHBT. Personnel expenses attributable to RHBT full-time dedicated employees are charged in full to RHBT; while the balance of the combined personnel expense is allocated between the two entities based on estimated time requirements.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures

Equity Position in Internal Investment Pool Managed by BTI

WV Money Market Pool (*Formerly Cash Liquidity Pool*)

RHBT's investment in the BTI West Virginia Money Market Pool of \$217,620,000 and \$159,395,000 at June 30, 2010 and 2009, respectively, represents approximately 8% and 6%, respectively, of total investments in this pool and is reported as part of equity position in internal investment pools on the statements of plan net assets.

Credit Risk

The BTI limits exposure to credit risk by requiring all corporate bonds held by their West Virginia Money Market Pool to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the credit ratings of the West Virginia Money Market Pool's investments at June 30, 2010 (in thousands).

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P1	A-1	\$ 855,844	29.75%
Corporate bonds and notes	Aa1	AA	10,000	0.35
	Aa2	AA	10,000	0.35
Total corporate bonds and notes			20,000	0.70
U.S. agency bonds	Aaa	AAA	246,990	8.59
U.S. Treasury notes *	Aaa	AAA	65,153	2.26
U.S. Treasury bills *	Aaa	AAA	476,670	16.57
Negotiable certificates of deposit	P1	A-1	281,000	9.77
U.S. agency discount notes	P1	A-1	606,048	21.07
Money market funds	Aaa	AAA	150,026	5.21
Repurchase agreements (underlying securities):				
U.S. Treasury notes *	Aaa	AAA	101,280	3.52
U.S. agency notes	Aaa	AAA	73,700	2.56
Total repurchase agreements			174,980	6.08
			<u>\$ 2,876,711</u>	<u>100.00%</u>

*U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Custodial Credit Risk

Repurchase agreements included in BTI's investment portfolio are collateralized by at least 102% of their value and the collateral is held in the name of the BTI. Securities lending collateral is invested in the lending agent's money market fund in BTI's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The West Virginia Money Market Pool is subject to interest rate risk.

The weighted-average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. The maturity of individual securities cannot exceed 397 days from the date of purchase.

The following table provides the weighted-average maturities (WAM) for the various asset types in the West Virginia Money Market Pool at June 30, 2010.

Security Type	Carrying Value	WAM (Days)
	<i>(In Thousands)</i>	
Repurchase agreements	\$ 174,980	1
U.S. Treasury notes	65,153	140
U.S. Treasury bills	476,670	35
Commercial paper	855,844	18
Negotiable certificates of deposit	281,000	45
U.S. agency discount notes	606,048	52
Corporate bonds and notes	20,000	19
U.S. agency bonds/notes	246,990	55
Money market funds	150,026	1
	<u>\$ 2,876,711</u>	<u>33</u>

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Equity Position in Internal Investment Pools Managed by WVIMB

RHBT's investments in the following pools are managed by the WVIMB. Such investments, which are stated at fair value (actual asset allocation), are reported as part of equity position in internal investment pools on the statements of plan net assets.

	June 30	
	2010	2009
	<i>(In Thousands)</i>	
Large cap domestic equity pool	\$ 4,194	\$ 4,254
Non-large cap domestic equity pool	795	762
International equity pool	3,550	3,687
International non-qualified pool	1,900	1,729
Total return fixed income pool	107,717	134,757
Core fixed income	111,321	55,347
Short-term fixed income pool	-	2
	<u>\$ 229,477</u>	<u>\$ 200,538</u>

Liquidity Needs and Investment Objectives

The RHBT is expected to have minimal liquidity needs until fiscal year 2011, upon which time annual liquidity needs are expected to increase. The investment objective is to provide for stable, long-term growth of assets, while seeking to minimize risk of loss. There is no specifically identified rate of return target.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Asset Allocation

Based upon the WVIMB's determination of the appropriate risk tolerance for the fund, the WVIMB adopted the following broad asset allocation guidelines for the assets managed for RHBT. (Policy targets are established on a market value basis.)

Asset Class	Policy Target	
	2010	2009
Domestic equity	2.5%	2.5%
International equity	2.5	2.5
Total equity	5.0%	5.0%
Fixed income	95.0%	95.0%
Cash (included in fixed income above)	*	*

* Cash levels to be reviewed as needed, at least annually, collaboratively with management staff from PEIA.

Asset Class Risk Disclosures

Large Cap Domestic Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. RHBT's amount invested in the large cap domestic pool of \$4,194,000 and \$4,254,000 at June 30, 2010 and 2009, respectively, represents approximately 0.2% and 0.2%, respectively, of total investments in this pool.

Non-Large Cap Domestic Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. RHBT's amount invested in the Non-Large Cap Domestic Pool of \$795,000 and \$762,000 at June 30, 2010 and 2009, respectively, represents approximately 0.2% and 0.2%, respectively, of total investments in this pool.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

International Equity Pool

The pool is not exposed to credit risk, interest rate risk, or custodial credit risk. At June 30, 2010, the pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5% of the value of the pool. The pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. At June 30, 2010, the WVIMB was in compliance with this limitation. The amounts at fair value (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30, 2010, were as follows:

Currency	Equity Securities	Cash	Total
	<i>(In Thousands)</i>		
Australian Dollar	\$ 28,001	\$ 8	\$ 28,009
Brazil Cruzeiros Real	82,624	1,605	84,229
British Pound Sterling	141,897	435	142,332
Canadian Dollar	58,467	59	58,526
Czech Koruna	10,106	5	10,111
Danish Krone	7,115	6	7,121
Egyptian Pound	741	12	753
Euro Currency Unit	242,635	379	243,014
Hong Kong Dollar	137,405	848	138,253
Hungarian Forint	11,994	39	12,033
Indian Rupee	1,938	1	1,939
Indonesian Rupian	4,049	24	4,073
Israeli Shekel	22,323	-	22,323
Japanese Yen	162,122	1,834	163,956
Malaysian Ringgit	10,960	206	11,166
Mexican New Peso	23,959	422	24,381
New Taiwan Dollar	51,582	2,875	54,457
New Turkish Lira	44,480	1	44,481
New Zealand Dollar	1,025	-	1,025
Norwegian Krone	11,570	33	11,603
Pakistan Rupee	923	-	923
Philippines Peso	6,158	15	6,173
Polish Zloty	7,912	5	7,917
Singapore Dollar	29,787	113	29,900
South African Rand	38,417	132	38,549
South Korean Won	103,072	1,207	104,279
Swedish Krona	18,257	45	18,302
Swiss Franc	41,481	417	41,898
Thailand Baht	8,775	180	8,955
Total	<u>\$ 1,309,775</u>	<u>\$ 10,906</u>	<u>\$ 1,320,681</u>

This table excludes cash and securities held by the pool that are denominated in U.S. dollars. The fair value of the U.S. dollar denominated cash and securities is \$185,968,000.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

RHBT's amount invested in the International Equity Pool of \$3,550,000 and \$3,687,000 at June 30, 2010 and 2009, respectively, represents approximately .2% and .2%, respectively, of total investments in this pool.

International Non-qualified Pool

The pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2010, was \$53,797,000. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. The specific currencies of the underlying investments were not available.

Funds are invested in Silchester International Investors' Value Equity Trust. The pool is expected to produce investment returns that exceed the Morgan Stanley Capital International's EAFE index by 200 basis points on an annualized basis over three- to five-year periods, net of external investment management fees. The pool exists for participants who are not "qualified" (as defined by the Internal Revenue Code).

West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. At June 30, 2010, the WVIMB was in compliance with this limitation. RHBT's amount invested in the International Non-qualified Pool of \$1,900,000 and \$1,729,000 at June 30, 2010 and 2009, respectively, represents approximately 3.5% and 1.7%, respectively, of total investments in this pool.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Total Return Fixed Income Pool

Credit Risk

The WVIMB limits the exposure to credit risk in the Total Return Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the nationally recognized statistical rating organizations. The following table provides the weighted-average credit ratings of the asset types in the fixed income pool as of June 30, 2010.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
<i>(In Thousands)</i>				
Corporate bonds and notes	Baa	BBB	\$ 572,512	31.8%
Money market funds	Aaa	AAA	268,245	14.9
Agency mortgage-backed securities	Aaa	AAA	200,978	11.2
U.S. Treasury bonds and notes	Aaa	AAA	165,854	9.2
Corporate collateralized mortgage obligations	Ba	BB	65,134	3.6
U.S. Treasury inflation protection bonds	Aaa	AAA	30,997	1.7
Municipal bonds	Aa	A	26,929	1.5
Corporate asset-backed securities	Aaa	AAA	13,213	0.7
Agency collateralized mortgage obligations	Aaa	AAA	7,258	0.4
Agency notes	Aa	A	4,004	0.2
Corporate preferred securities	NR	NR	891	0.0
Total rated investments			\$ 1,356,015	75.2%

Unrated securities include commingled investment pools valued at \$441,720 and an option contract purchased valued at \$1,349. These unrated securities represent 24.8% of the fair value of the pool's investments.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The WVIMB monitors interest rate risk of the Total Return Fixed Income Pool by evaluating the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the Total Return Fixed Income Pool as of June 30, 2010.

Security Type	Fair Value	Modified Duration
	<i>(In Thousands)</i>	<i>(years)</i>
Corporate bonds and notes	\$ 572,512	6.3
Commingled investment pools	441,720	0.5
Money market fund	268,245	0.0
Agency mortgage-backed securities	200,978	3.8
U.S. Treasury bonds and notes	165,854	3.9
Corporate collateralized mortgage obligations	65,134	4.8
U.S. Treasury inflation protection bonds	30,997	13.1
Municipal bonds	26,929	17.7
Corporate asset-backed securities	13,213	17.5
Agency collateralized mortgage obligations	7,258	5.2
Agency notes	4,004	2.0
Total assets	<u>\$ 1,796,844</u>	<u>4.1</u>

The pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2010, the pool held \$286,583 of these securities. This represents approximately 16% of the value of the pool's securities.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

RHBT's amount invested in the Total Return Fixed Income Pool of \$107,717,000 and \$134,757,000 at June 30, 2010 and 2009, respectively, represented approximately 6.0% and 5.0%, respectively, of total investments in the pool.

Core Fixed Income Pool

Credit Risk

The WVIMB limits the exposure to credit risk in the Core Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the nationally recognized statistical rating organizations. The following table provides the weighted-average credit ratings of the rated assets in the Core Fixed Income Pool as of June 30, 2010.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
			<i>(In Thousands)</i>	
U. S. Treasury bonds and notes	Aaa	AAA	\$ 334,152	21.4%
Agency collateralized mortgage obligations	Aaa	AAA	245,849	15.7
Corporate bonds and notes	A	A	153,804	9.9
Agency mortgage-backed securities	Aaa	AAA	138,487	8.9
Corporate collateralized mortgage obligations	Aa	AAA	122,349	7.9
Money market funds	Aaa	AAA	53,413	3.4
Corporate asset-backed securities	Aaa	AAA	10,679	.7
Agency notes	Aaa	AAA	13,494	.9
Municipal bonds	Aa	A	273	0.0
Total rated investments			\$ 1,072,500	68.8%

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The WVIMB monitors interest rate risk of the Core Fixed Income Pool by evaluating the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the Core Fixed Income Pool as of June 30, 2010.

Security Type	Fair Value	Modified Duration
	<i>(In Thousands)</i>	<i>(years)</i>
Commingled investment pools	\$ 488,243	4.3
U. S. Treasury bonds and notes	334,152	5.8
Agency collateralized mortgage obligations	245,849	3.7
Corporate bonds and notes	153,804	5.9
Agency mortgage backed securities	138,487	3.0
Corporate collateralized mortgage obligations	122,349	3.4
Money market funds	53,413	0.0
Corporate asset backed securities	10,679	1.7
Agency notes	13,494	6.0
Municipal bonds	273	12.0
Total assets	<u>\$ 1,560,743</u>	<u>4.4</u>

The Core Fixed Income Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2010, the Core Fixed Income Pool held \$517,363,000 of these securities. This represents approximately 33% of the value of the pool's securities.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

RHBT's amount invested in the Core Fixed Income Pool of \$111,321,000 and \$55,347,000 at June 30, 2010 and 2009, respectively, represented approximately 7% and 13%, respectively, of total investments in this pool.

5. Funded Status and Funding Progress

The funded status of the Plan as of the most recent actuarial valuation is as follows (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (A)	AAL – Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2009	\$ 397,414	\$ 7,410,241	\$ 7,012,827	5.3%	\$ 3,342,136	209.83%

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 health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The estimated actuarial accrued liability reflected above is based on the substantive plan in place at the time of the latest actuarial valuation. Accordingly, it reflects the impact of transferring Medicare covered participants to the MAPD plan. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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 purpose of the disclosure is to provide information that approximates the funding progress of the plan.

The accompanying schedule of employer contributions, also presented as required supplementary information, presents trend information about the amounts contributed to the plan by employers in comparison to the amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43 (the ARC). 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 any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

5. Funded Status and Funding Progress (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. 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. However, the preparation of any estimate of future postretirement costs requires consideration of a broad array of complex social and economic events. Future changes in the MAPD program, changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs option, changes in the investment rate of return, and other matters increase the level of uncertainty of such estimates. As such, the estimate of postretirement program costs contains considerable uncertainty and variability and actual experience may vary significantly by the current estimated obligation. Additional information for the latest actuarial valuations follows:

Valuation Date – June 30, 2009

Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Remaining amortization period	26 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	3.56% blended rate reflecting long-term expected returns on RHBT and State investments held by BTI
Health care cost trend rate	9.2% initial; 6.0% ultimate

Required Supplementary Information

West Virginia Retiree Health Benefit Trust Fund

Schedule of Funding Progress

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	AAL – Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2009	\$ 397,414	\$ 7,410,241	\$ 7,012,827	5.3%	\$ 3,342,136	209.83%
June 30, 2008	\$ 254,818	\$ 6,362,640	\$ 6,107,822	4.0%	\$ 3,298,252	185.18%
June 30, 2007	\$ 3,167	\$ 3,079,933	\$ 3,076,766	0.1%	\$ 3,312,102	92.89%

The estimated actuarial accrued liability reflected above is based on the substantive plan in place at the time of the latest actuarial valuation. Accordingly, it reflects the impact of transferring Medicare-covered participants to a Medicare Advantage Prescription Drug plan.

The investment rate of return changed from 3.72% as of June 30, 2008 to 3.56% as of June 30, 2009, due to the change in long-term expected returns on RHBT and State investments held by BTI.

West Virginia Retiree Health Benefit Trust Fund

Schedule of Employer Contributions

(In Thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2010	\$ 791,943	16%
2009	341,565	69
2008	397,975	81

Other Financial Information

West Virginia Retiree Health Benefit Trust Fund

Deposits Disclosure

Form 7

June 30, 2010

(In Thousands)

	<u>Carrying Amount</u>
Cash with Treasurer	\$ 1,132
Deposit in transit	-
Cash in outside bank accounts	-
Total carrying amount of deposits	<u>\$ 1,132</u> (1)

(1) Agrees to audited statement of net assets.

West Virginia Retiree Health Benefit Trust Fund

Investments Disclosure

Form 8

June 30, 2010
(In Thousands)

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value
West Virginia Board of Treasury				
Investments (BTI):				
West Virginia Money Market Pool	\$ 217,620	\$ -	\$ 217,620	\$ 217,620 (1)
Total equity position in internal investment pool with BTI	<u>\$ 217,620</u>	<u>\$ -</u>	<u>\$ 217,620</u>	<u>\$ 217,620</u>
West Virginia Investment Management Board (WVIMB) Investment Pool:				
Short-term fixed income	\$ -	\$ -	\$ -	\$ -
Fixed income	107,717	-	107,717	107,717
Core - fixed income	111,321	-	111,321	111,321
Large cap domestic	4,194	-	4,194	4,194
Non-large cap domestic	795	-	795	795
International non-qualified	1,900	-	1,900	1,900
International equity	3,550	-	3,550	3,550
Total equity position in internal investment pool with WVIMB	<u>\$ 229,477</u>	<u>\$ -</u>	<u>\$ 229,477</u>	<u>\$ 229,477 (1)</u>

(1) Agrees to audited statement of net assets as follows:

Equity position in internal investment pools	\$ 447,097 (2)
--	----------------

(2) Agrees to audited statement of net assets.

West Virginia Retiree Health Benefit Trust Fund

Deposits and Investments Disclosure

Form 8-A

June 30, 2010
(In Thousands)

Reconciliation of cash and cash equivalents and investments as reported
in the financial statements to the amounts disclosed in the footnotes:

Cash and cash equivalents as reported \$ 1,132 (1) (2)

Equity position in internal investment pools as reported \$ 447,097 (1) (3)

(1) Agrees to audited statement of net assets.

(2) Agrees to Form 7.

(3) Agrees to Form 8.

West Virginia Retiree Health Benefit Trust Fund

Accounts Receivable

Form 9

June 30, 2010
(In Thousands)

External accounts receivable:	
Premium contributions	\$ 6,271
Less allowance for doubtful accounts	<u>(2,630)</u>
Net receivable	<u>\$ 3,641</u>
Other receivables:	
Retiree drug subsidy	\$ 587
Prescription rebates	492
Other	<u>44</u>
Total other receivable	<u>\$ 1,123</u>
Form 9 - Net receivable	\$ 3,641
Form 10 - Net receivable	2,282
Form 11 - Net receivable	<u>18</u>
Total	<u>\$ 5,941</u> (1)

(1) Agrees to audited statement of net assets

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10

June 30, 2010
(In Thousands)

Agency	Total
Department of Highways	\$ 1,137
Department of Human Services	360
Division of Environmental Protection	31
Department of Administration	10
Motor Vehicles	109
Natural Resources	135
Health Department	13
Insurance Commission	10
Workforce WV/Payroll-05303	17
Department of Education	15
Division of Rehabilitation Services	26
Public Safety	16
Supreme Court/Judicial	21
Public Service Commission	43
Tax Department	1
Agriculture	7
WV Division of Juvenile Services	6
Welch Emergency Hospital	6
William R Sharpe Jr Hospital	45
Auditors Office	5
Mildred Mitchell-Bateman Hospital	61
Treasurer of State's Office	4
Mt Olive Correctional Facility	2
West Virginia Lottery Commission	(6)
Division of Tourism	(3)
Department of Corrections/St. Marys Corr	1
Pinecrest Hospital	25
Hopemont State Hospital	24
Lakin State Hospital	14

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

Agency	Total
Anthony Correctional Center	2
Attorney General	(7)
Criminal Justice/Highway Safety	2
Department of Corrections	6
Department of Labor	23
Dept of Corrections/Denmar Facility	1
Division of Protective Services	(2)
Health Care Authority	1
Homeland Security – Emergency Management	1
House of Delegates	(2)
Human Rights Commission	2
Huttonsville Correctional Center	10
John Manchin Sr. Health Care	17
Joint Comm on Govt & Finance	12
Lakin Correctional Facility	1
Library Commission	1
Martinsburg Correctional Center	(1)
Miners Health Safety & Training	(8)
Northern Correctional Facility	7
Off. of Miners Health, Safety & Training	30
Ohio Co Correctional Center	(2)
Pruntytown Correctional Center	6
Public Transit	14
Tax Dept. – Budget Office	(4)
Tax Dept. – Office of Appeals	8
Veterans Affairs	9
Workers’ Compensation Committee	21
WV Armory Board	1
WV Board of Social Worker Examiners	(2)

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

Agency	Total
WV Board of Pharmacy	(3)
WV Board of Physical Therapy	(1)
WV Development Office	1
WV School for the Deaf and Blind	3
Total due to/from	<u>2,282</u>
Less: Allowance for ARC	<u>-</u>
Net total – due to/from	<u><u>\$ 2,282</u></u>

West Virginia Retiree Health Benefit Trust Fund

Component Unit – A/R Balances

Form 11

June 30, 2010

(In Thousands)

Unit	Amount
Parkways, EDA, and Tourism	\$ 6
Regional Jail and Correction Facility Authority	(10)
Public Defender Corporation	5
Railroad Maintenance Authority	4
Racing Commission	<u>13</u>
	18
Less: Allowance for ARC receivables	–
Net accounts receivable – component units	<u><u>\$ 18</u></u>

**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 Finance Board
West Virginia Retiree Health Benefit Trust Fund

We have audited the financial statements of the West Virginia Retiree Health Benefit Trust Fund (RHBT) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered RHBT's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RHBT's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RHBT's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RHBT's financial statements are free of 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*.

RHBT's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit RHBT's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Finance Board, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

October 15, 2010

**STATE OF WEST VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES**

**2010-1 INFORMATION SYSTEM CONTROLS)
(Prior Year Finding 2009-1)**

State Agency
Retiree Health Benefits Trust (RHBT)

Criteria: Management is responsible for establishing and maintaining adequate controls over changes to and processes to maintain its information systems.

Condition: The following IT general controls findings related to the BAS and Great Plains applications were noted:

- Manage Changes – Authorization, Testing, and Approval
- During our fiscal year 2009 review of the Great Plains and BAS application change management process, management indicated that the change requests were to be authorized via the weekly task lists; however, we were unable to obtain any documentation surrounding the process. Additionally, no documentation was available to support that the changes/upgrades had been effectively tested and that the change/upgrade obtained final approval for migration to the production environment. Management has indicated that certain changes were recently made to this process and that such changes will be available for testing in future periods.
- Manage Changes – OS and DB Upgrades/Patches
- Logical Access – Password Settings

During the 2009 audit RHBT, it was determined that the process for applying operating system and database upgrades and/or patches (for the Great Plains application) is informal, and no documentation is maintained to support the operating system or database upgrades/patches were authorized, tested, and approved prior to production migration. Management has indicated that certain changes were recently made to this process and that such changes will be available for testing in future audit periods.

- Logical Access – Administrator Access
During the 2009 audit of RHBT, it was determined that access to the PROGRAMMER function (which grants users the ability to perform user administration for the BAS application) is not restricted to authorized individuals. This function is granted to three authorized administrators and four programmers. Management has indicated that certain changes were recently made to this process and that such changes will be available for testing in future audit periods.
- Logical Access – New User Access Authorization
During the 2009 audit of RHBT, it was determined that new user access is not consistently documented via e-mails or SATT forms for user access to Great Plains or BAS. Documentation is either not retained or does not include the system whereby access is required, or the type of access to be granted. Management has indicated that no changes have been made to this process..

Context: The information systems conditions noted above could affect the accuracy of processing RHBT financial information, including premiums/contributions.

Cause: During the time of our review for the 2009 audit, management was still in the process of defining and implementing their controls related to program change management and logical access processes. Additionally, management was working with the West Virginia Office of Technology to determine where controls are the responsibility of the agency versus the hosting facility.

**STATE OF WEST VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES**

**2010-1 INFORMATION SYSTEM CONTROLS
(Prior Year Finding 2009-1) (continued)**

Effect:

- **Manage Changes – Authorization, Testing, and Approval**
Lack of formal written policies and procedures for application changes and upgrades does not contribute to an effective environment and could lead to inconsistencies in protocol or documentation. Without proper documentation of authorization, user acceptance testing, and migration approval, implemented changes to the production environment may not be operating as intended.
- **Manage Changes – OS and DB Upgrades/Patches**
Lack of formal written policies and procedures for patches and upgrades does not contribute to an effective environment and could lead to inconsistencies in protocol or documentation. Without proper documentation of authorization, user acceptance testing, migration approval, and implemented changes to the production environment may not be operating as intended.
- **Logical Access – Password Settings**
The current password settings could lead to unauthorized access to sensitive and/or confidential information.
- **Logical Access – Administrator Access**
Improper administrator access could lead to inappropriate or excessive user access rights being granted to existing users.
- **Logical Access – New User Access Authorization**
The lack of controls surrounding the authorization and approval of system access could lead to inappropriate or excessive user access rights being granted to existing users.

Recommendation:

Based on the findings noted, outlined below are the recommendations:

- **Manage Changes – Authorization, Testing, and Approval**
Management should implement formal (written) policies and procedures surrounding Great Plains and BAS program changes (modifications or upgrades) to include documentation of authorization, testing, and approval.
- **Manage Changes – OS and DB Upgrades/Patches**
Management should implement formal (written) policies and procedures surrounding the upgrades and/or patches applied to the operating system and database upgrades supporting the Great Plains application.
- **Logical Access – Password Settings**
Management should work with the application vendor to enhance password security. The following are considered leading industry practice.
 - Require passwords to be six to eight characters in length.
 - Force passwords to expire every 60 to 90 days.
 - Automatically lock user accounts after three to five unsuccessful logon attempts.
 - Prevent users from reusing previously used passwords by maintaining a password history file.

**STATE OF WEST VIRGINIA
SCHEDULE OF FINDINGS AND RESPONSES**

**2010-1 INFORMATION SYSTEM CONTROLS
(Prior Year Finding 2009-1) (continued)**

- Logical Access – Administrator Access

Management should restrict access to the privileged roles within the BAS application and limit them to a select number of IT personnel who require such access.

If preventive measures cannot be taken, due to system limitations, management should consider performing a periodic review of all changes to user security for the BAS application to determine if the changes were performed by authorized individuals. Management should confirm that adequate documentation is maintained to provide evidence (sign-offs, hard-copy reports, etc.) of the review.
- Logical Access – New User Access Authorization

Management should enhance the current application access administration processes to verify that all user access is consistently documented with access details (access needed per system) and management approval is granted prior to gaining access to the systems. Management should verify that adequate documentation is maintained to provide evidence (sign-offs, e-mails, SATT forms, etc.) of the authorization and approval.

**Views of
Responsible
Officials and
Planned Corrective
Actions:**

Management had devoted substantial efforts to enhance the IT general control environment throughout fiscal year 2010 and some changes were made subsequent to June 30, 2010 to fully address the elements of the finding. Due to unavailability of the support and timing, we requested the auditors not to review IT controls in the current year and to perform a more substantive approach in this area. The following is our response regarding the items identified above:

- Manage Changes – Authorization, Testing, and Approval

RHBT believes this issue will be resolved for future audit periods as a result of its recent implementation of the fully functional project tracking system known as PITS (PEIA Issue Tracking System). All functional user requests must be submitted into PITS. The project is then tracked at various levels and may not proceed without user approval of the progress of the project.
- Manage Changes – OS and DB Upgrades/Patches

RHBT believes this will be resolved for future audit periods as a result of its recent implementation of a new process. The process has been set up as follows: Office of Technology (OT) notifies us of Upgrades/Patches. The Upgrades/Patches are automatically applied to our test servers. We test the Upgrades/Patches. Once we complete testing, we schedule with OT to apply upgrades/patches to our production servers.
- Logical Access – Password Settings

RHBT will need to upgrade to the most recent version of GP to resolve this issue. This upgrade will proceed when practical.
- Logical Access – Administrator Access

RHBT believes this matter will be resolved for future audit periods as a result of access being restricted to authorized users. Administrator Access can only be done by the DYNSA userid. The OT Project Manager controls access to that userid.
- Logical Access – New User Access Authorization

RHBT will continue to track access to its system through SATT. However such tracking will eventually be moved over to PITS, which will provide an appropriate level of documentation.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

