Financial Statements, Required Supplementary Information, and Other Financial Information

West Virginia Retiree Health Benefit Trust Fund
Years Ended June 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

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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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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 26, 2011, 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 42 and 43 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 26, 2011

The June 30, 2011 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). RHBT 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 37,000 policyholders and 54,000 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

Effective January 1, 2010, RHBT Medicare eligible members receive medical coverage from a Medicare Advantage (MA) plan administered by Humana. RHBT and Medicare make capitation payments to fund the MA claims costs. The MA plan assumes all risk and liability for Medicare policyholders. The prescription drug coverage for Medicare eligible members during this same period was the Medicare Part D Prescription Drug Program (PDP), Advantra Rx, administered by Coventry on a capitated basis.

Effective July 1, 2010, prescription drug coverage was converted from Coventry to a Medicare PDP, administered by Express Scripts. The Plan was no longer capitated coverage as PEIA assumed the risk and paid the claims.

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

MAJOR DEVELOPMENTS

Effective January 1, 2011, the Affordable Care Act, provides a 50% discount on covered brand name drugs for Medicare Part D enrollees who have reached the coverage gap (Donut Hole). The coverage gap begins when plan drug costs have reached $2,840 per enrollee. RHBT recorded a $2 million receivable for the 50% "Donut Hole" coverage discount in fiscal year 2011 reducing drug plan costs.

Effective June 1, 2010, the Affordable Care Act established the Early Retiree Reinsurance Program (ERRP), earmarking $5 billion in financial assistance to health plans providing insurance coverage for early retirees age 55 to 65. RHBT received $3.9 million in fiscal year 2011 from ERRP, which will be used to reduce member premiums in 2013.

Effective January 1, 2010, the Humana Medicare Advantage Prescription Drug (MAPD) contract provided sharing of financial incentives with RBHT based on favorable medical loss ratios. For fiscal year 2011, RHBT recorded $8.4 million in reduced capitation payment cost savings from the Humana contract financial incentives.

Fifty County Boards of Education have appealed to the WV Supreme Court – the Kanawha County Circuit Court ruling dismissing the legal action seeking relief from recognizing the OPEB liability in their financial statements. The WV Supreme Court should rule by June 30, 2012, to uphold the Kanawha Circuit Court decision, try the case at the Supreme Court, or remand back to Kanawha Circuit Court to be adjudicated.

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.

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:

Statements of Plan Net Assets ($000's)

			Change 2011 – 2010	
	2011	**2010**	**Amount**	**Percent**
Assets				
Cash and cash equivalents	**$ 398**	$ 1,132	$ (734)	(65)%
Equity position in internal investment pools	**497,639**	447,097	50,542	11
Contribution receivable	**4,181**	5,941	(1,760)	(30)
Other receivables	**13,412**	1,123	12,289	1,094
Total assets	**515,630**	455,293	60,337	13
Liabilities				
Claims payable	**11,630**	9,590	2,040	21
Due to PEIA	**20,307**	22,105	(1,798)	(8)
Other liabilities	**7,689**	963	6,726	698
Funds held in trust	**3,926**	–	3,926	100
Total liabilities	**43,552**	32,658	10,894	33
Net assets held in trust for OPEB	**$ 472,078**	$ 422,635	$ 49,443	12%

Comparative year-to-year major variance explanations (2011 vs. 2010) for the statements of plan net assets are:

Cash and cash equivalents ($0.7 million decrease)

- $0.7 million transferred to investment pools.

Equity position in internal investment pools ($50.5 million increase)

- $43.0 million generated from investment earnings.

- $7.5 million invested from positive cash flow from net fund increase.

Contributions receivable ($1.8 million decrease)

- $0.2 million decrease is attributable to improved cash collections.
- $1.6 million decrease is attributable to a reduction in allowance for bad debts resulting from improved cash collections and a 40% decrease in gross contributions receivable.

Other receivables ($12.2 million increase)

- $4.4 million increase is attributable to Humana Gain Share contract.
- $1.7 million increase is attributable to drug subsidies.
- $6.1 million increase is attributable to prescription rebates resulting from the July 1, 2010, conversion to the self-insured PDP.

Claims payable ($2.0 million increase)

- $2.0 million increase in claims incurred but not yet paid.

Due to PEIA ($1.8 million decrease)

- $1.8 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.

Funds held in trust ($3.9 million increase)

- $3.9 million increase is due to the receipt of Early Retiree Reinsurance Program revenues in fiscal year 2011 which will be utilized in fiscal year 2013 to reduce member premiums.

Other liabilities ($6.7 million increase)

- $6.7 million increase is due to accrual of Humana and Express Scripts services performed in fiscal year 2011 not yet paid.

Statements 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).
- $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.

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

	2011	2010	Change 2011 – 2010 Amount	Change 2011 – 2010 Percent
Additions				
Employers	**$ 147,068**	$ 129,866	$ 17,202	13%
Plan members	**70,608**	63,450	7,158	11
Total contributions	**217,676**	193,316	24,360	13
Retiree drug subsidy	**1,229**	1,213	16	1
Interest and dividend income	**6,898**	6,800	98	1
Net change in fair value of investments	**36,239**	22,460	13,779	61
Total additions	**262,042**	223,789	38,253	17
Deductions				
Managed Care Organization – payments	**41,224**	108,732	(67,508)	(62)
Claims expense, net	**160,887**	84,220	76,667	91
Administrative service fees	**8,925**	2,135	6,790	318
Other expenses	**1,563**	3,481	(1,918)	(55)
Total deductions	**212,599**	198,568	14,031	7
Net increase	**49,443**	25,221	24,222	96
Net assets held in trust for OPEB:				
Beginning of period	**422,635**	397,414	25,221	6
End of period	**$ 472,078**	$ 422,635	$ 49,443	12%

Comparative year-to-year major variance explanations (2011 vs. 2010) for the statements of changes in plan net assets are:

Employer contributions ($17.2 million increase)

- 16% Paygo premium increase and 3% volume growth.

Plan member contributions ($7.2 million increase)

- 16% Paygo premium increase and 3% volume growth.

Net change in fair value of investments ($13.8 million increase)

- $13.8 million increase is due to transferring $165 million from WV Board of Treasury Investments to WV Investment Management Board, a more aggressive investment strategy, coupled with stock market growth.

Managed Care Organization – payments ($67.5 million decrease)

- $67.5 million decrease results from changing the drug benefit risk from Coventry to the Retiree Trust's Prescription Drug Plan and $8.4 million in reduced capitation payment cost savings from the Humana contract financial incentives.

Claims expense, net (76.7 million increase)

- $76.7 million increase results from changing the drug benefit risk from Coventry to the Retiree Trust's Prescription Drug Plan – and Trend Rates of 9.8% (Medical) and 15.8% (Drugs).

Administrative service fees ($6.8 million increase)

- $6.8 million increase is a result of administrative fees paid to Express Scripts for the Prescription Drug Plan.

Other expenses ($1.9 million decrease)

- $1.2 million reduction in bad debt expense.

- $0.7 million reduction in professional fees for audit, actuary, and information services.

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

	2010	2009	Change 2010 – 2009 Amount	Change 2010 – 2009 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 major variance explanations (2010 vs. 2009) for the statements of changes in plan net assets are:

<u>Employer contributions ($105.3 million decrease)</u>

- $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% Paygo premium rate decrease.
- $1.2 million increase in retiree conversion.

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.

ECONOMIC CONDITIONS

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

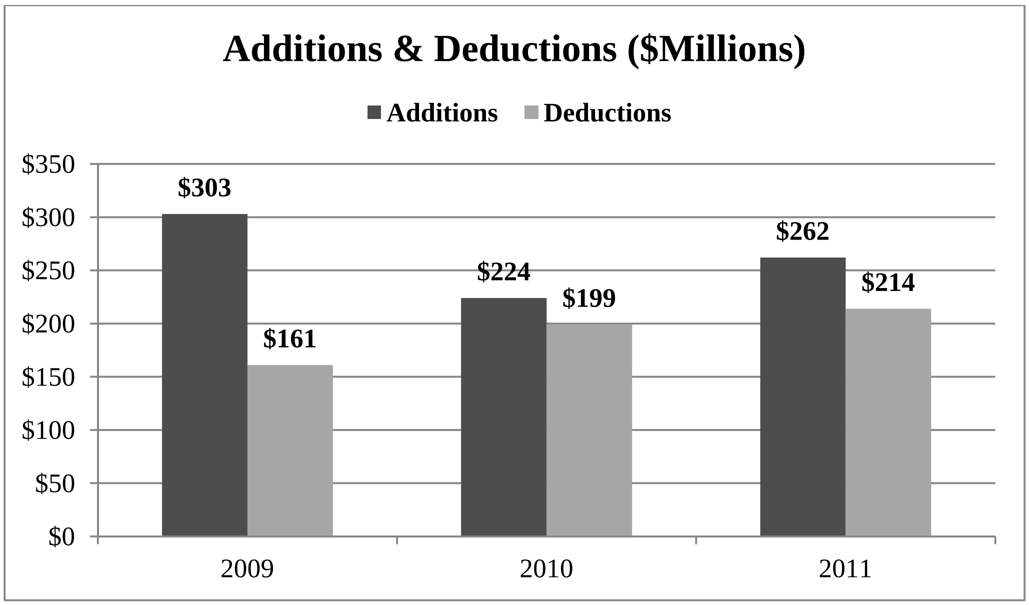
- Medical equipment technology
- New drug therapies
- Consumer-driven advertising for health care services
- Aging population – Baby boomers reaching prime years of health care utilization

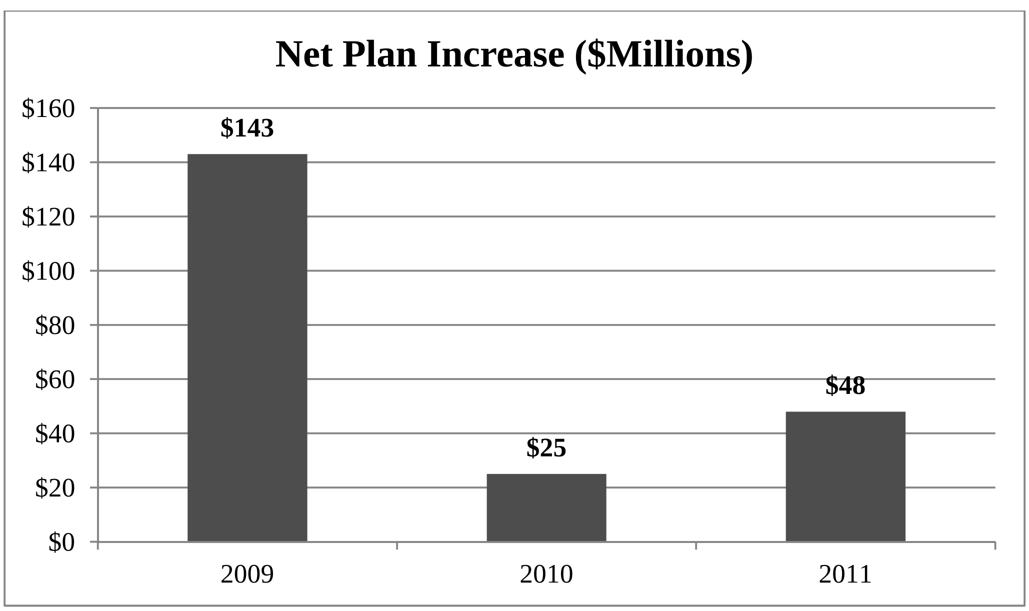
OPEB LIABILITY

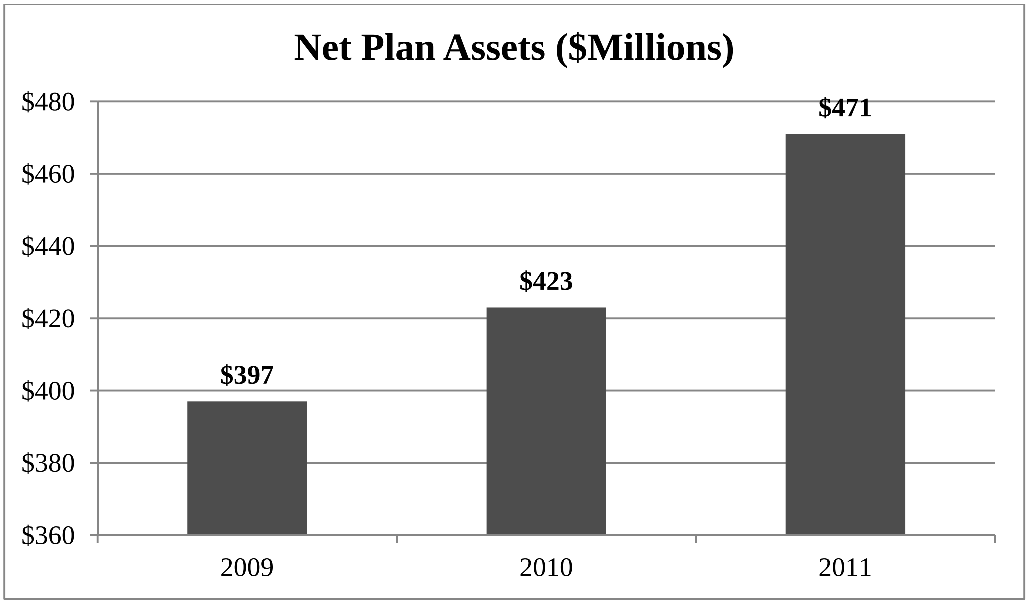
The projected actuarial accrued liability (AAL), at June 30, 2011, is $8.7 billion, which is based on an actuarial valuation date of June 30, 2009 and calculations as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The $8.7 billion AAL less $444 million of actuarial value of assets results in a projected unfunded liability of $8.3 billion at June 30, 2011, 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. The West Virginia PEIA and RHBT Finance Board has also demonstrated its intent to address the OPEB liability by their ruling to no longer provide subsidized health care insurance for retirees with a hire date after July 1, 2010.

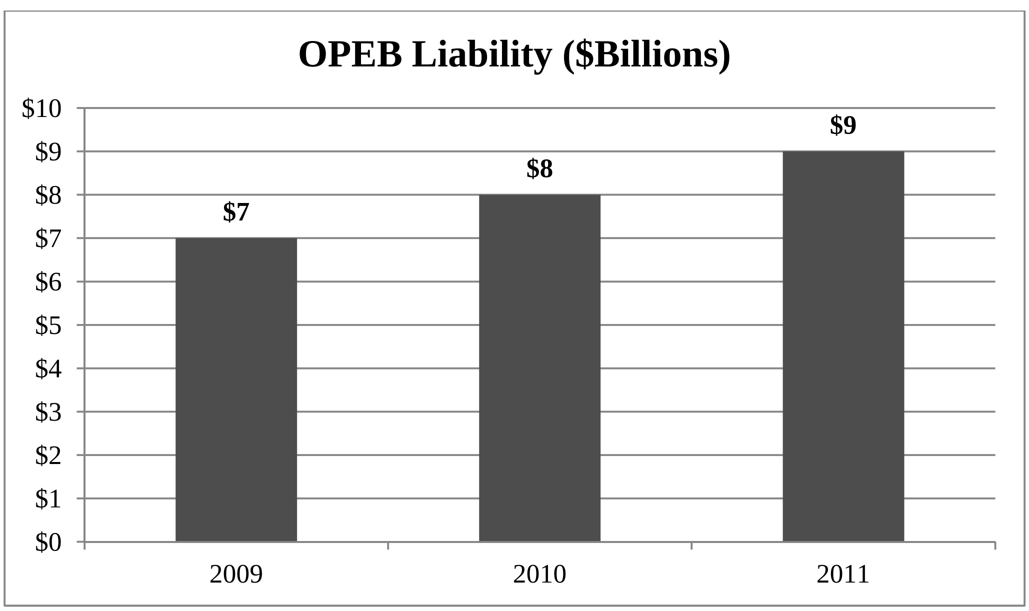
REQUESTS FOR INFORMATION

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.


Additions & Deductions ($Millions)
Additions
Deductions
$350
$300
$250
$200
$150
$100
$50
$0
$303
$161
$224
$199
$262
$214
2009
2010
2011


Net Plan Increase ($Millions)
$160
$140
$120
$100
$80
$60
$40
$20
$0
$143
$25
$48
2009
2010
2011


Net Plan Assets ($Millions)
$480
$460
$440
$420
$400
$380
$360
$397
$423
$471
2009
2010
2011


OPEB Liability ($Billions)
$10
$9
$8
$7
$6
$5
$4
$3
$2
$1
$0
$7
$8
$9
2009
2010
2011

West Virginia Retiree Health Benefit Trust Fund

Statements of Plan Net Assets

	June 30 2011	June 30 2010
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 398**	$ 1,132
Equity position in internal investment pools	**497,639**	447,097
Contributions receivable – net of allowance for doubtful accounts of $1,000 and $2,630, respectively	**4,181**	5,941
Other receivables	**13,412**	1,123
Total assets	**515,630**	455,293
Liabilities		
Claims payable	**11,630**	9,590
Other liabilities	**7,689**	963
Funds held in trust	**3,926**	–
Due to PEIA	**20,307**	22,105
Total liabilities	**43,552**	32,658
Net assets held in trust for other postemployment benefits	**$ 472,078**	$ 422,635

See accompanying notes.

West Virginia Retiree Health Benefit Trust Fund

Statements of Changes in Plan Net Assets

	Year Ended June 30	
	2011	**2010**
	(In Thousands)	
Additions:		
Employers	**$ 147,068**	$ 129,866
Plan members	**70,608**	63,450
Total contributions	**217,676**	193,316
Other additions:		
Retiree drug subsidy	**1,229**	1,213
Interest and dividend income	**6,898**	6,800
Net appreciation in fair value of investments	**36,239**	22,460
Total additions	**262,042**	223,789
Deductions:		
Payments to managed care organizations	**41,224**	108,732
Claims expense, net	**160,887**	84,220
Administrative service fees	**8,925**	2,135
Other expenses	**1,563**	3,481
Total deductions	**212,599**	198,568
Change in net assets	**49,443**	25,221
Net assets held in trust for other postemployment benefits:		
Beginning of period	**422,635**	397,414
End of period	**$ 472,078**	$ 422,635

See accompanying notes.

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, 2011 and 2010, 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 postemployment 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

2. Plan Description and Contribution Information (continued)

RHBT Medicare eligible members receive medical coverage from a Medicare Advantage (MA) plan administered by Humana. Drug coverage is provided by RHBT's Prescription Drug Plan (PDP) administered by Express Scripts. RHBT and Medicare make capitation payments to fund the MA claims costs. The Humana MA plan assumes the risk and liability for Medicare policyholders. RHBT's PDP assumes the risk and liability for all 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 postemployment 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.)

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 $12.5 million and $10.5 million during the fiscal years ended June 30, 2011 and 2010, respectively, 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, 2011:

	Policyholders	Covered Lives
Retirees and beneficiaries	36,544	53,665
Active members	76,217	165,839
Totals	112,761	219,504
Number of participating employers		698

2. Plan Description and Contribution Information (continued)

A non-Medicare plan member or beneficiaries receiving benefits contributes monthly health care premiums ranging from $235 to $1,051 per month for retiree-only coverage, and from $475 to $2,506 per month for retiree and spouse coverage. Medicare covered retirees are charged health care premiums ranging from $48 to $397 per month for retiree-only coverage, and from $259 to $1,339 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. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2011 and 2010, respectively, were:

	2011	2010
Paygo premium	$ 161	$ 140
ARC premium	742	761
Total	$ 903	$ 901

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).

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.

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 (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.

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 Medicare Part D Coverage Gap Rebate (Donut Hole) began January 1, 2011. The Donut Hole rebate was initiated with the Affordable Care Act legislation. 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) payments from Centers for Medicare Services (CMS) under the provisions of Medicare Part D. In fiscal year 2010 the MAPD provider, Coventry Health Care, assumed ownership of the Direct and Low Income retiree drug subsidy payments received from CMS. Three types of drug subsidies were received in fiscal year 2011:

- Medicare eligible members covered by PEIA PPB plans – transitioning to Medicare coverage beginning with the new plan year. The Medicare eligible Drug Subsidy is recorded as revenue.

- Medicare covered PDP members – Direct Subsidy from CMS. The Direct Subsidy is recorded as a reduction in Drug Claims Expense. The Direct Subsidy is reimbursement from CMS to RHBT – for providing the drug coverage directly to members.

- Medicare covered PDP members – Low Income Subsidy from CMS. The Low Income Subsidy is recorded as a reduction in Drug Claims Expense. The Low Income Subsidy is reimbursement from CMS to RHBT – for providing the drug coverage to members with low annual incomes.

The RDS revenue has been accounted for as voluntary non-exchange transactions in accordance with GASB technical bulletin 2006-1. Accordingly, RDS estimated collections from CMS are recognized as RHBT incurs Medicare-eligible and Medicare-covered retiree prescription drug expenditures.

3. Summary of Significant Accounting Policies (continued)

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.

Funds Held in Trust

Effective June 1, 2010, the Affordable Care Act established the Early Retiree Reinsurance Program (ERRP), earmarking $5 billion in financial assistance to health plans providing insurance coverage for early retirees age 55 to 65. RHBT received $3.9 million in fiscal year 2011 from ERRP. RHBT will defer recognition of the $3.9 million in the statement of changes in plan net assets until fiscal year 2013 to reduce member premiums. Accordingly, the amount has been recorded as funds held in trust as of June 30, 2011, until such time when the funds are utilized to reduce member premiums in 2013.

Humana Gain Share

Effective January 1, 2010, the Humana MAPD contract provided sharing of financial incentives with RHBT based on favorable medical loss ratios. The financial incentive receipts from Humana have been recorded as reductions in the Managed Care Organization – payments.

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.

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 $60,182,000 and $217,620,000 at June 30, 2011 and 2010, respectively, represents approximately 2% and 8%, 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.

4. Deposit and Investment Risk Disclosures (continued)

The following table provides information on the credit ratings of the West Virginia Money Market Pool's investments at June 30, 2011 (in thousands).

Security Type	Credit Rating Moody's	Credit Rating S&P	Carrying Value	Percent of Pool Assets
Commercial paper	P-1	A-1	$ 1,069,576	35.43%
Corporate bonds and notes	Aa1	AA	10,000	0.33
	Aa2	AA	33,000	1.09
	Aa3	AA	31,000	1.03
	Aa3	A	53,000	1.76
Total corporate bonds and notes			127,000	4.21
U.S. agency bonds	Aaa	AAA	170,788	5.66
U.S. Treasury notes*	Aaa	AAA	298,345	9.88
U.S. Treasury bills*	Aaa	AAA	231,051	7.65
Negotiable certificates of deposit	P-1	A-1	140,000	4.64
U.S. agency discount notes	P-1	A-1	697,164	23.10
Money market funds	Aaa	AAAm	200,279	6.64
Repurchase agreements (underlying securities):				
U.S. Treasury notes *	Aaa	AAA	69,557	2.30
U.S. agency notes	Aaa	AAA	14,800	0.49
Total repurchase agreements			84,357	2.79
			$ 3,018,560	100.00%

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

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.

4. Deposit and Investment Risk Disclosures (continued)

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, 2011.

Security Type	Carrying Value	WAM (Days)
	(In Thousands)	
Repurchase agreements	$ 84,357	1
U.S. Treasury notes	298,345	137
U.S. Treasury bills	231,051	34
Commercial paper	1,069,576	35
Certificates of deposit	140,000	58
U.S. agency discount notes	697,164	45
Corporate bonds and notes	127,000	20
U.S. agency bonds and notes	170,788	66
Money market funds	200,279	1
	$ 3,018,560	46

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 2011	June 30 2010
	(In Thousands)	
Large cap domestic equity pool	**$ 56,278**	$ 4,194
Non-large cap domestic equity pool	**20,080**	795
International equity pool	**65,772**	3,550
International non-qualified pool	**11,593**	1,900
Total return fixed income pool	**100,717**	107,717
Core fixed income pool	**54,768**	111,321
Short-term fixed income pool	**68**	–
TIPS pool	**44,727**	–
Hedge funds pool	**83,454**	–
	$ 437,457	$ 229,477

Liquidity Needs and Investment Objectives

The RHBT is expected to have minimal liquidity needs until fiscal year 2013, 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.

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 and strategic allocations are established on a market value basis.)

	Policy Target		Strategic Allocation	
Asset Class	**2011**	**2010**	**2011**	**2010**
Domestic equity	**17.5%**	**2.5%**	**17.5%**	2.5%
International equity	**17.5**	**2.5**	**17.5**	2.5
Hedge funds	**0.0**	**0.0**	**20.0**	0.0
Total equity	**35.0%**	**5.0%**	**55.0%**	5.0%
Fixed income	**65.0%**	**95.0%**	**45.0%**	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 $56,278,000 and $4,194,000 at June 30, 2011 and 2010, respectively, represents approximately 2.7% 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 $20,080,000 and $795,000 at June 30, 2011 and 2010, respectively, represents approximately 2.7% and 0.2%, respectively, of total investments in this pool.

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, 2011, 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, 2011, 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, 2011, were as follows:

Currency	Equity Securities	Cash	Total
Australian Dollar	$ 57,707	$ 4	$ 57,711
Brazil Cruzeiros Real	113,185	3,157	116,342
British Pound Sterling	185,203	407	185,610
Canadian Dollar	73,646	1,172	74,818
Czech Koruna	14,883	-	14,883
Danish Krone	9,198	4	9,202
Egyptian Pound	-	1	1
Euro Currency Unit	321,019	(24)	320,995
Hong Kong Dollar	145,395	1,722	147,117
Hungarian Forint	13,693	6	13,699
Indian Rupee	15,598	2	15,600
Indonesian Rupian	7,629	15	7,644
Israeli Shekel	16,949	140	17,089
Japanese Yen	186,089	1,456	187,545
Malaysian Ringgit	8,745	57	8,802
Mexican New Peso	30,641	200	30,841
New Taiwan Dollar	27,520	232	27,752
New Turkish Lira	22,980	449	23,429
Norwegian Krone	20,476	100	20,576
Pakistan Rupee	2,089	-	2,089
Philippines Peso	6,195	2	6,197
Polish Zloty	11,535	7	11,542
Singapore Dollar	21,338	67	21,405
South African Rand	44,669	167	44,836
South Korean Won	134,565	1,474	136,039
Swedish Krona	20,743	52	20,795
Swiss Franc	68,353	40	68,393
Thailand Baht	15,808	428	16,236
UAE Dirham	8,092	-	8,092
Total	$ 1,603,943	$ 11,337	$ 1,615,280

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 $233,335,000.

4. Deposit and Investment Risk Disclosures (continued)

RHBT's amount invested in the International Equity Pool of $65,772,000 and $3,550,000 at June 30, 2011 and 2010, respectively, represents approximately 3.6% and 0.2%, 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 pool at June 30, 2011, was $68,082,000. This pool, 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, 2011, the WVIMB was in compliance with this limitation. RHBT's amount invested in the International Non-qualified Pool of $11,593,000 and $1,900,000 at June 30, 2011 and 2010, respectively, represents approximately 17.0% and 3.5%, respectively, of total investments in this pool.

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, 2011.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
			(In Thousands)	
Corporate bonds and notes	Baa2	BBB	$ 699,706	29.9%
Agency mortgage-backed securities	Aaa	AAA	443,640	19.0
U.S. Treasury bonds and notes	Aaa	AAA	367,385	15.7
Regulated investment companies	Aaa	AAA	227,854	9.7
Municipal bonds	A1	A	81,354	3.5
Agency collateralized mortgage obligations	Aaa	AAA	37,142	1.6
Corporate asset-backed securities	Aa3	AA	32,194	1.4
Corporate collateralized mortgage obligations	B1	BB	31,137	1.3
Corporate preferred securities	NR	BB+	5,778	0.2
Agency discount notes	P-1	A-1+	3,403	0.1
Total rated investments			$ 1,929,593	82.4%

Unrated securities include commingled investment pools valued at $410,007,000 and option contracts purchased valued at $1,891,000. These unrated securities represent 17.6% of the fair value of the pool's investments.

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, 2011.

Security Type	Fair Value	Modified Duration (Years)
	(In Thousands)	
Corporate bonds and notes	$ 699,706	6.3
Agency mortgage-backed securities	443,640	3.3
Commingled investment pools	410,007	2.0
U.S. Treasury bonds and notes	367,385	5.6
Regulated investment companies	227,854	0.0
Municipal bonds	81,354	14.6
Agency collateralized mortgage obligations	37,142	3.5
Corporate asset-backed securities	32,194	16.2
Corporate collateralized mortgage obligations	31,137	5.4
Agency discount notes	3,403	0.5
Total assets	$ 2,333,822	4.6

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, 2011, the pool held $544,113,000 of these securities. This represents approximately 23% of the value of the pool's securities.

4. Deposit and Investment Risk Disclosures (continued)

RHBT's amount invested in the Total Return Fixed Income Pool of $100,717,000 and $107,717,000 at June 30, 2011 and 2010, respectively, represented approximately 4.3% and 6.0%, 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, 2011.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
			(In Thousands)	
U.S. Treasury bonds and notes	Aaa	AAA	$ 312,308	26.1%
Agency collateralized mortgage obligations	Aaa	AAA	286,297	24.0
Corporate bonds and notes	A2	A	200,540	16.8
Agency mortgage-backed securities	Aaa	AAA	173,704	14.5
Corporate collateralized mortgage obligations	A1	AAA	140,595	11.8
Regulated investment companies	Aaa	AAA	40,883	3.4
Corporate asset-backed securities	Aa1	AAA	24,084	2.0
Agency bonds and notes	Aaa	AAA	14,060	1.2
Municipal bonds	Aa3	AA-	2,201	0.2
Total rated investments			$ 1,194,672	100.0%

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, 2011.

Security Type	Fair Value	Modified Duration (years)
	(In Thousands)	
U. S. Treasury bonds and notes	$ 312,308	6.1
Agency collateralized mortgage obligations	286,297	3.6
Corporate bonds and notes	200,540	5.6
Agency mortgage-backed securities	173,704	7.1
Corporate collateralized mortgage obligations	140,595	3.6
Regulated investment companies	40,883	0.0
Corporate asset-backed securities	24,084	1.6
Agency bonds and notes	14,060	5.3
Municipal bonds	2,201	14.6
Total assets	$ 1,194,672	5.0

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.

RHBT's amount invested in the Core Fixed Income Pool of $54,768,000 and $111,321,000 at June 30, 2011 and 2010, respectively, represented approximately 4.6% and 7.0%, respectively, of total investments in this pool.

4. Deposit and Investment Risk Disclosures (continued)

U.S. Treasury Inflation-Protected Securities (TIPS)

Credit Risk

The IMB limits the exposure to credit risk in the 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 pool as of June 30, 2011.

Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
			(In Thousands)	
U. S. Treasury issues	Aaa	AAA	$ 891,182	100.0%
Money market funds	Aaa	AAA	259	0.0
Total rated investments			$ 891,441	100.0%

Interest Rate Risk

The IMB monitors interest rate risk of the 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 pool as of June 30, 2011.

Security Type	**Fair Value**	**Modified Duration (Years)**
	(In Thousands)	
U.S. Treasury issues	$ 891,182	7.6
Money market funds	259	0.0
Total assets	$ 891,441	7.6

4. Deposit and Investment Risk Disclosures (continued)

The pool invests in Treasury Inflation-Protected Securities (TIPS) and its objective is to match the performance of the Barclay's Capital U.S. TIPS Bond Index on an annualized basis over rolling three-year to five-year periods, gross of fees. Assets are managed by State Street Global Advisors. RHBT's amount invested in the TIPS Pool of $44,727,000 at June 30, 2011, represented approximately 5% of total investments in this pool.

Hedge Funds

The pool was established to hold the IMB's investments in hedge funds. Albourne America, LLC has been retained by the IMB to provide consulting services for this investment strategy.

The pool holds shares in various commingled institutional funds and shares of a money market fund with the highest credit rating. The commingled institutional funds are not rated by any of the nationally recognized statistical rating agencies and thus any credit risk cannot be accurately reported. The pool is not exposed to interest rate risk, custodial credit risk, or concentration of credit risk. The pool is indirectly exposed to foreign currency risk as certain of the funds have investments denominated in foreign currencies. At June 30, 2011, approximately $457,406, or 46%, of the market value of the funds were held in foreign currencies.

RHBT's amount invested in the Hedge Funds Pool of $83,454,000 at June 30, 2011, represented approximately 7.8% 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	5.4%	$ 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.

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	25 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	5.4%	$ 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
2011	$ 816,274	18%
2010	791,943	16
2009	341,565	69

Other Financial Information

West Virginia Retiree Health Benefit Trust Fund

Deposits Disclosure

Form 7

June 30, 2011
(In Thousands)

		Carrying Amount	
Cash with Treasurer	$	398	
Total carrying amount of deposits	$	398	(1)

(1) Agrees to audited statement of plan net assets.

West Virginia Retiree Health Benefit Trust Fund

Investments Disclosure

Form 8

June 30, 2011
(In Thousands)

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value	
West Virginia Board of Treasury Investments (BTI):					
West Virginia Money Market Pool	$ 56,256	$ 3,926	$ 60,182	$ 60,182	(1)
Total equity position in internal investment pool with BTI	$ 56,256	$ 3,926	$ 60,182	$ 60,182	
West Virginia Investment Management Board (WVIMB) Investment Pool:					
Short-term fixed income	$ 68	$ –	$ 68	$ 68	
Fixed income	100,717	–	100,717	100,717	
Core - fixed income	54,768	–	54,768	54,768	
Large cap domestic	56,278	–	56,278	56,278	
Non-large cap domestic	20,080	–	20,080	20,080	
International non-qualified	11,593	–	11,593	11,593	
TIPS	44,727	–	44,727	44,727	
Hedge	83,454	–	83,454	83,454	
International equity	65,772	–	65,772	65,772	
Total equity position in internal investment pool with WVIMB	$ 437,457	$ –	$ 437,457	$ 437,457	(1)

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

Equity position in internal investment pools	$ 497,639	(2)

(2) Agrees to audited statement of plan net assets.

West Virginia Retiree Health Benefit Trust Fund

Deposits and Investments Disclosure

Form 8-A

June 30, 2011

(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	$ 398	(1)(2)
Equity position in internal investment pools as reported	$ 497,639	(1)(3)

(1) Agrees to audited statement of plan 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, 2011
(In Thousands)

External accounts receivable:		
Premium contributions	$	4,721
Less allowance for doubtful accounts		(1,000)
Net receivable	$	3,721

Other receivables:		
Retiree drug subsidy	$	692
Prescription rebates		6,595
Other:		
Humana Gain Share		4,377
Drug subsidies		1,748
Total other receivable	$	13,412

Form 9 – Net receivable	$	3,721
Form 10 – Net receivable		432
Form 11 – Net receivable		28
Total	$	4,181 (1)

(1) Agrees to audited statement of plan net assets.

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10

June 30, 2011
(In Thousands)

Agency	**Total**
Department of Highways	$ 84,797
Department of Human Services	53,250
Division of Environmental Protection	14,065
Department of Administration	12,349
Motor Vehicles	10,463
Natural Resources	13,080
Health Department	12,379
Insurance Commission	6,028
Workforce WV/Payroll-05303	7,105
Department of Education	9,462
Division of Rehabilitation Services	9,387
Public Safety	16,384
Supreme Court/Judicial	18,948
Public Service Commission	4,863
Tax Department	6,589
Agriculture	5,348
WV Division of Juvenile Services	10,297
Welch Emergency Hospital	4,300
William R Sharpe Jr Hospital	6,059
Auditors Office	2,975
Mildred Mitchell-Bateman Hospital	5,155
Treasurer of State’s Office	2,432
Mt Olive Correctional Facility	5,120
West Virginia Lottery Commission	2,749
Division of Tourism	1,174
Department of Corrections/St. Marys Corr	3,627
Pinecrest Hospital	2,707
Hopemont State Hospital	2,716
Lakin State Hospital	2,589

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

Agency		Total
Anthony Correctional Center	$	1,404
Attorney General		2,588
Criminal Justice/Highway Safety		519
Department of Corrections		3,971
Department of Labor		1,447
Dept of Corrections/Denmar Facility		1,307
Division of Protective Services		481
Health Care Authority		635
Homeland Security – Emergency Management		791
House of Delegates		1,069
Human Rights Commission		501
Huttonsville Correctional Center		5,299
John Manchin Sr. Health Care		1,142
Joint Comm on Govt & Finance		2,265
Lakin Correctional Facility		2,298
Library Commission		820
Martinsburg Correctional Center		963
Miners Health Safety & Training		(8)
Northern Correctional Facility		1,851
Off. of Miners Health, Safety & Training		1,535
Ohio Co Correctional Center		438
Pruntytown Correctional Center		1,851
Public Transit		146
Tax Dept. – Budget Office		71
Tax Dept. – Office of Appeals		151
Veterans Affairs		3,027
Workers' Compensation Committee		6
WV Armory Board		261
WV Board of Social Worker Examiners		67
WV Board of Pharmacy		80
WV Board of Physical Therapy		38

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

Agency	**Total**
WV Development Office	$ 1,670
WV School for the Deaf and Blind	2,923
Total due to/from	378,004
Less: Allowance for ARC	377,572
Net total – due to/from	$ 432

West Virginia Retiree Health Benefit Trust Fund

Component Unit – A/R Balances

Form 11

June 30, 2011
(In Thousands)

Unit	**Amount**
Parkways, EDA, and Tourism	$ 6,847
Regional Jail and Correction Facility Authority	16,281
Public Defender Corporation	3,110
Railroad Maintenance Authority	341
Racing Commission	680
	27,259
Less: Allowance for ARC receivables	27,231
Net accounts receivable – component units	$ 28

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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, 2011, and have issued our report thereon dated October 26, 2011. 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.

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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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 26, 2011

Ernst & Young LLP

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