



FINANCIAL STATEMENTS, REQUIRED  
SUPPLEMENTARY INFORMATION, AND  
OTHER FINANCIAL INFORMATION

West Virginia Retiree Health Benefit Trust Fund  
Years Ended June 30, 2012 and 2011  
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, 2012 and 2011

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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 West Virginia Retiree Health Benefit Trust (RHBT), a fiduciary fund of the State of West Virginia, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the RHBT's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 the Organization'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 the Organization'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.

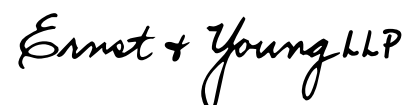
As discussed in Note 1, the financial statements of RHBT are intended to present the plan net assets and the changes in plan net assets of only that portion of the activities of the State of West Virginia that is attributable to the transactions of the RHBT. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2012 and 2011, 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, 2012 and 2011, and changes in its plan net assets for the years then ended in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 on our consideration of the 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 2012 audit.

Accounting principles generally accepted in the United States require that 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise RHBT's financial statements. The other financial information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

October 15, 2012

# West Virginia Retiree Health Benefit Trust Fund

## Management's Discussion and Analysis

Year Ended June 30, 2012

The June 30, 2012 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 55,000 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.

## West Virginia Retiree Health Benefit Trust Fund

### Management's Discussion and Analysis (continued)

#### **MAJOR DEVELOPMENTS**

Senate bill No. 469 was passed February 10, 2012 granting Other Employment Benefits Liability relief to the fifty-five County Boards of Education effective July, 1 2012. Section 18-9A-24 states "any amount of the employer annual required contribution allocated and billed to the county boards on or after July 1, 2012, and any amount of the employer annual required contribution allocated and billed to the county boards prior to that date for employees who are employed as professional employees within the limits authorized by section four of this article, employees who are employed as service personnel within the limits authorized by section five of this article, and employees who are employed as professional student support personnel within the limits authorized by section eight of this article, shall be charged to the state." In compliance with SB No. 469, for fiscal year 2012 RHBT transferred \$715 million in annual required contribution liability from the County Boards of Education to the State.

With passage of SB 469 during the 2012 WV Legislature's Regular Session, the State has also identified a supplemental pre-funding source that is approximated to begin in fiscal year 2016 at a rate of \$30 million per year. This pre-funding will be to the advantage of all WV OPEB participating agencies and allow the Plan to accumulate assets.

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 \$2,930 per enrollee. RHBT recorded a \$12.8 million receivable for the 50% "Donut Hole" coverage discount in fiscal year 2012 reducing drug plan costs. This is a significant change from the \$2 million receivable recorded for the "Donut Hole" in 2011.

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. A contract renegotiation effective January 1, 2012 changed the eligibility for receiving financial incentives for favorable medical loss ratios. As defined in the new contract medical loss ratios fewer than 90.2% will be eligible for gain share incentives. RHBT is projected to not have a loss ratio in fiscal year 2012 that will allow entitlement to the financial incentive. As a result, in fiscal year 2012 RHBT recorded \$2.6 million in reduction of capitation payment cost savings, which is down \$5.8 million from the savings recorded in 2011.

## West Virginia Retiree Health Benefit Trust Fund

### Management's Discussion and Analysis (continued)

#### 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)

	2012	2011	Change 2012 – 2011	
			Amount	Percent
<b>Assets</b>				
Cash and cash equivalents	\$ 422	\$ 398	\$ 24	6%
Equity position in internal investment pools	483,560	497,639	(14,079)	(3)
Contributions receivable	3,224	3,635	(411)	(11)
Due from the State	936	546	390	71
Other receivables	29,305	13,412	15,893	118
<b>Total assets</b>	<b>517,447</b>	<b>515,630</b>	<b>1,817</b>	<b>–</b>
<b>Liabilities</b>				
Claims payable	10,320	11,630	(1,310)	(11)
Due to PEIA	4,547	20,307	(15,760)	(78)
Other liabilities	5,887	7,689	(1,802)	(23)
Funds held in trust	3,914	3,926	(12)	–
<b>Total liabilities</b>	<b>24,668</b>	<b>43,552</b>	<b>(18,884)</b>	<b>(43)</b>
<b>Net assets held in trust for OPEB</b>	<b>\$ 492,779</b>	<b>\$ 472,078</b>	<b>\$ 20,701</b>	<b>4%</b>

## West Virginia Retiree Health Benefit Trust Fund

### Management's Discussion and Analysis (continued)

Comparative year-to-year major variance explanations (2012 vs. 2011) for the statements of plan net assets are:

#### Cash and cash equivalents (\$0.02 million increase)

- \$0.02 million increase of cash held in trust rather than being transferred to investment pools because of less than favorable investment experience in 2012.

#### Equity position in internal investment pools (\$14 million decrease)

- \$14 million decrease generated from investment losses.

#### Contributions receivable including due from State (\$0.02 million decrease)

- \$0.39 million increase in contributions receivable due from the State.
- \$0.41 million decrease in external contributions receivable.
- Cumulative \$0.02 million decrease is attributable to a reduction in allowance for bad debts resulting from improved cash collections and a 6% decrease in gross contributions receivable.

#### Other receivables (\$15.9 million increase)

- \$5 million increase is attributable to Humana Gain Share contract.
- \$10 million increase is attributable to accrual of the "Donut Hole" rebate receivable.

#### Claims payable (\$1.3 million decrease)

- \$1.3 million decrease is due to lower claims incurred but not paid.

#### Due to PEIA (\$15.7 million decrease)

- \$15.7 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.



## West Virginia Retiree Health Benefit Trust Fund

### Management's Discussion and Analysis (continued)

#### Other liabilities (\$1.8 million decrease)

- \$1.8 million decrease is due to services performed in fiscal year 2012 by Humana and Express Scripts being paid in 2012 rather than paid in 2013 and accrued as a liability in 2012.

#### Funds held in trust (\$0.01 million decrease)

- \$0.01 million decrease is due to the adjustment for a refund due of Early Retiree Reinsurance Program revenues received in fiscal year 2012 which will be utilized in fiscal year 2013 to reduce member premiums.

#### **Statements of Plan Net Assets (\$000's)**

	<b>2011</b>	<b>2010</b>	<b>Change 2011 – 2010</b>	
			<b>Amount</b>	<b>Percent</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 398	\$ 1,132	\$ (734)	(65)%
Equity position in internal investment pools	497,639	447,097	50,542	11
Contributions receivable	4,181	5,941	(1,760)	(30)
Other receivables	13,412	1,123	12,289	1,094
<b>Total assets</b>	<b>515,630</b>	<b>455,293</b>	<b>60,337</b>	<b>13</b>
<b>Liabilities</b>				
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
<b>Total liabilities</b>	<b>43,552</b>	<b>32,658</b>	<b>10,894</b>	<b>33</b>
<b>Net assets held in trust for OPEB</b>	<b>\$ 472,078</b>	<b>\$ 422,635</b>	<b>\$ 49,443</b>	<b>12%</b>

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.

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

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.

## West Virginia Retiree Health Benefit Trust Fund

### Management's Discussion and Analysis (continued)

#### 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 Changes in Plan Net Assets (\$000's)**

	<b>2012</b>	<b>2011</b>	<b>Change 2012 – 2011</b>	
			<b>Amount</b>	<b>Percent</b>
<b>Additions</b>				
Employers	\$ 152,194	\$ 147,068	\$ 5,126	3%
Plan members	74,517	70,608	3,909	6
Total contributions	<b>226,711</b>	217,676	9,035	4
Retiree drug subsidy	1,505	1,229	276	22
Interest and dividend income	6,324	6,898	(574)	(8)
Net change in fair value of investments	(563)	36,239	(36,802)	(102)
Total additions	<b>233,977</b>	262,042	(28,065)	(11)
<b>Deductions</b>				
Managed Care Organization – payments	45,488	41,224	4,264	10
Claims expense, net	156,151	160,887	(4,736)	(3)
Administrative service fees	8,860	8,925	(65)	(1)
Other expenses	2,777	1,563	1,214	78
Total deductions	<b>213,276</b>	212,599	677	–
Net increase	<b>20,701</b>	49,443	(28,742)	(58)
Net assets held in trust for OPEB:				
Beginning of period	472,078	422,635	49,443	12
End of period	<b>\$ 492,779</b>	\$ 472,078	\$ 20,701	4%

Comparative year-to-year major variance explanations (2012 vs. 2011) for the statements of changes in plan net assets are:

#### Employer contributions (\$5.1 million increase)

- 4% Paygo premium increase and 1% volume growth.

## West Virginia Retiree Health Benefit Trust Fund

### Management's Discussion and Analysis (continued)

#### Plan member contributions (\$3.9 million increase)

- 4% Paygo premium increase and 1% volume growth.

#### Net change in fair value of investments (\$36.8 million decrease)

- \$36.8 million decrease is due to investment losses with WV Investment Management Board because of less than favorable market conditions.

#### Managed Care Organization – payments (\$4.3 million increase)

- \$3.5 million increase is due to larger capitation expense in the first two quarters of 2012. The Humana contract was renegotiated in January 2012 providing capitation savings for quarters three and four of 2012.
- \$0.7 million increase is due to slightly elevated capitation expenses from THP Insurance Company and the Health Plan.

#### Claims expense, net (\$4.7 million decrease)

- \$1.7 million decrease is due to lower medical claims expense costs in fiscal year 2012 in comparison to fiscal year 2011.
- \$3.0 million decrease is due to the net difference between the increase in drug claims expense and the increase in formulary rebate for fiscal year 2012. Formulary rebates increased \$16.2 million and drug claims expense cost increased \$13.3 million. Formulary rebate is removed from the total of drug claims expense, providing a \$2.9 million decrease overall.

#### Administrative service fees (\$0.07 million decrease)

- \$0.07 million decrease is a result of not having administrative fees paid to third-party administrators for Disease Management services in fiscal year 2012 due to contract termination effective June 30, 2011.

#### Other expenses (\$1.2 million increase)

- \$1.3 million reduction in bad debt expense.
- \$0.1 million increase in professional fees for actuary and information services.

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

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

	2011	2010	Change 2011 – 2010	
			Amount	Percent
<b>Additions</b>				
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
<b>Deductions</b>				
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.

## West Virginia Retiree Health Benefit Trust Fund

### Management's Discussion and Analysis (continued)

#### 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.

### **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

## West Virginia Retiree Health Benefit Trust Fund

### Management's Discussion and Analysis (continued)

#### **OPEB LIABILITY**

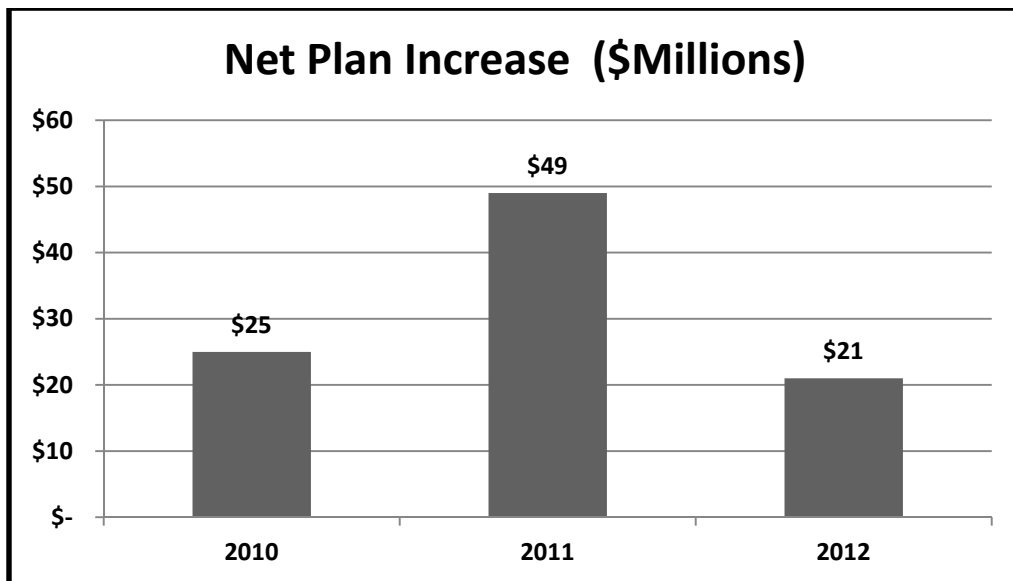
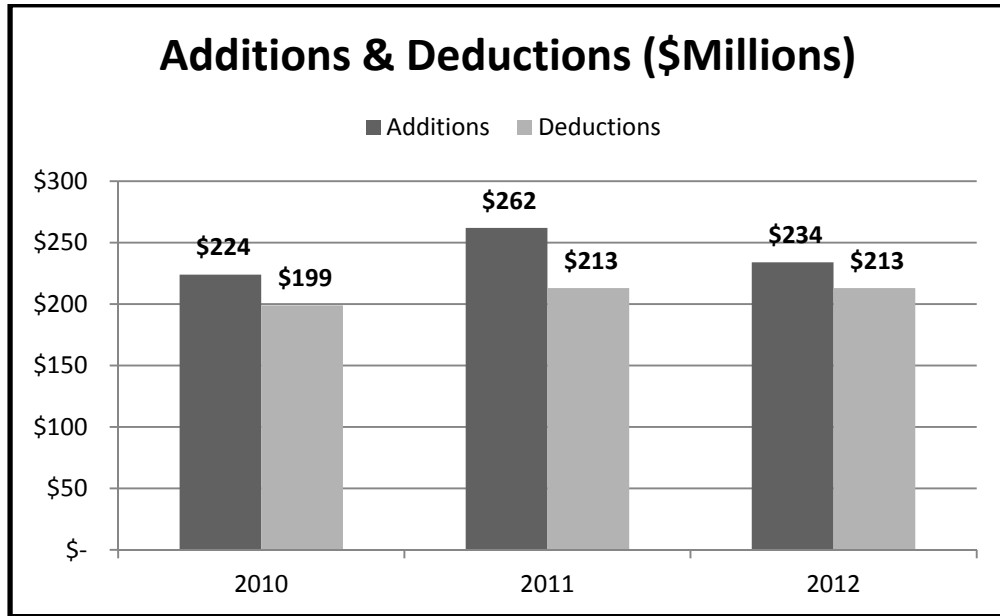
The projected actuarial accrued liability (AAL), at June 30, 2012, is \$4.0 billion, which is based on an actuarial valuation date of June 30, 2011 and calculations as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The \$4.0 billion AAL less \$471 million of actuarial value of assets results in a projected unfunded liability of \$3.5 billion at June 30, 2012. This is a substantial unfunded liability for the Employers. 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. Senate Bill 469, effective July 1, 2012, amended West Virginia code (the Code) section 11-21-96 by dedicating \$30 million to be transferred annually from personal income tax previously collected for payment of the unfunded liability of the Workers' Compensation fund to the Retiree Health Benefit Trust fund (RHBT). Transfers will not commence until the Workers' Compensation fund has been certified by the Governor to the Legislature to be paid or provided for in its entirety. Thereafter, transfers will be made until the RHBT fund has been provided for in its entirety or July 1, 2037, whichever date is later. Presently RHBT estimates that the aforementioned \$30 million transfers will likely commence in 2016. All Employers will receive benefit of these contributions. 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. The most significant change occurred in December of 2011, when the PEIA Finance Board passed a Finance Plan that placed a 3% cap on the amount participating employers will now pay in retiree premium subsidy annual increases. By doing this, the Employer is no longer exposed to ever increasing trends in healthcare costs, significantly reducing future retiree premium subsidy costs.

#### **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, Jason Haught, at (304) 558-7850, ext. 52642.

West Virginia Retiree Health Benefit Trust Fund

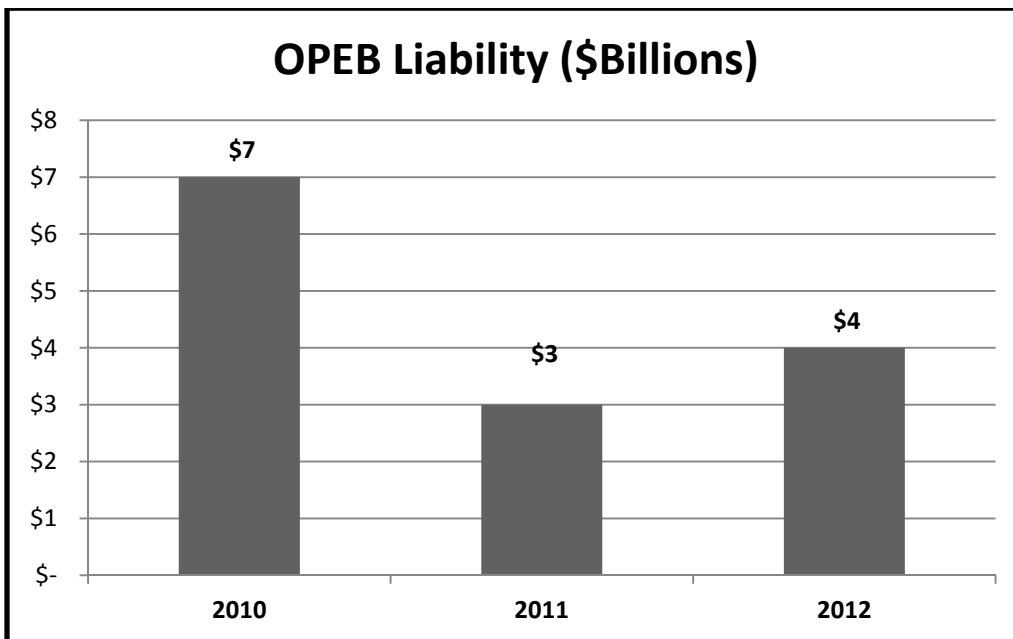
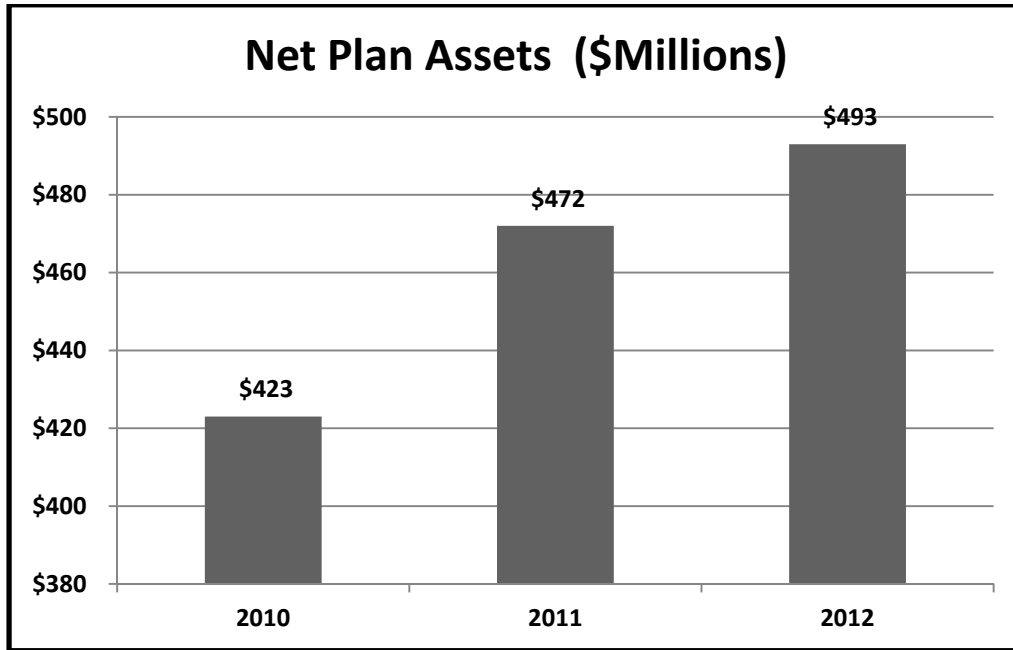
Management's Discussion and Analysis (continued)





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

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 422	\$ 398
Equity position in internal investment pools	483,560	497,639
Contributions receivable – net of allowance for doubtful accounts of \$735 and \$1,000, respectively	3,224	3,635
Due from the State	936	546
Other receivables	29,305	13,412
Total assets	<u>517,447</u>	<u>515,630</u>
<b>Liabilities</b>		
Claims payable	10,320	11,630
Other liabilities	5,887	7,689
Funds held in trust	3,914	3,926
Due to PEIA	4,547	20,307
Total liabilities	<u>24,668</u>	<u>43,552</u>
Net assets held in trust for other postemployment benefits	<u>\$ 492,779</u>	<u>\$ 472,078</u>

*See accompanying notes.*

West Virginia Retiree Health Benefit Trust Fund

Statements of Changes in Plan Net Assets

	<b>Year Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In Thousands)</i>	
Additions:		
Employers	<b>\$ 152,194</b>	\$ 147,068
Plan members	<b>74,517</b>	70,608
Total contributions	<b>226,711</b>	217,676
Other additions:		
Retiree drug subsidy	<b>1,505</b>	1,229
Interest and dividend income	<b>6,324</b>	6,898
Net change in fair value of investments	<b>(563)</b>	36,239
Total additions	<b>233,977</b>	262,042
Deductions:		
Managed Care Organization – payments	<b>45,488</b>	41,224
Claims expense, net	<b>156,151</b>	160,887
Administrative service fees	<b>8,860</b>	8,925
Other expenses	<b>2,777</b>	1,563
Total deductions	<b>213,276</b>	212,599
Net increase	<b>20,701</b>	49,443
Net assets held in trust for other postemployment benefits:		
Beginning of period	<b>472,078</b>	422,635
End of period	<b>\$ 492,779</b>	\$ 472,078

*See accompanying notes.*

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements

June 30, 2012

### **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, 2012 and 2011, 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

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

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

#### **2. Plan Description and Contribution Information (continued)**

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.)

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

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

### 2. Plan Description and Contribution Information (continued)

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 \$14.4 million and \$12.5 million during the fiscal years ended June 30, 2012 and 2011, 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, 2012:

	<u>Policyholders</u>	<u>Covered Lives</u>
Retirees and beneficiaries	37,689	55,709
Active members	76,437	169,107
Totals	<u>114,126</u>	<u>224,816</u>
Number of participating employers		702

A non-Medicare plan member or beneficiaries receiving benefits contributes monthly health care premiums ranging from \$264 to \$1,055 per month for retiree-only coverage, and from \$529 to \$2,510 per month for retiree and spouse coverage. Medicare covered retirees are charged health care premiums ranging from \$77 to \$401 per month for retiree-only coverage, and from \$127 to \$1,343 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

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

### 2. Plan Description and Contribution Information (continued)

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, 2012 and 2011, respectively, were:

	<u>2012</u>	<u>2011</u>
Paygo premium	\$ 167	\$ 161
ARC premium	794	742
Total	<u>\$ 961</u>	<u>\$ 903</u>

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).

### Reclassifications

During the current year, Management changed the manner in which it reports the net debit and credit balances related to the State. These debits and credit balances represent amounts that the RHBT owes or is owed from other State agencies and are now reported as the due to/from the State account in the statement of net assets. Such amounts at June 30, 2011 approximated \$546,000, were reported in contributions receivable on the statement of net assets and have been reclassified to due to/from the State to conform to the 2012 presentation. Such reclassification did not impact the total asset balance.

# 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 (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. Due to the state is contributions receivable due to RHBT from primary government entities and their component units.

# 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 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 2012:

- 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.

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

#### **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. As of June 30, 2012, only \$12,525 has been refunded to ERRP. RHBT will defer recognition of the remaining \$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, 2012, 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.

# 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 \$36,475,000 and \$60,182,000 at June 30, 2012 and 2011, respectively, represents approximately 1.31% and 2.00%, 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, 2012 (in thousands).

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1	\$ 853,470	30.62%
Corporate bonds and notes	Aa2	AA-	15,000	0.54
	Aa3	AA-	13,000	0.47
	Aa3	A+	8,000	0.29
Total corporate bonds and notes			36,000	1.30
U.S. agency bonds	Aaa	AA+	189,691	6.80
U.S. Treasury notes*	Aaa	AA+	330,865	11.87
U.S. Treasury bills*	Aaa	AA+	237,978	8.54
Negotiable certificates of deposit	P-1	A-1	110,000	3.95
U.S. agency discount notes	P-1	A-1+	738,706	26.50
Money market funds	Aaa	AAAm	200,054	7.18
Repurchase agreements (underlying securities):				
U.S. Treasury notes *	Aaa	AAA	90,204	3.24
			\$ 2,786,968	100.00%

\*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, 2012.

Security Type	Carrying Value	WAM (Days)
	<i>(In Thousands)</i>	
Repurchase agreements	\$ 90,204	3
U.S. Treasury notes	330,865	122
U.S. Treasury bills	237,978	37
Commercial paper	853,470	35
Certificates of deposit	110,000	10
U.S. agency discount notes	738,706	44
Corporate bonds and notes	36,000	48
U.S. agency bonds and notes	189,691	68
Money market funds	200,054	1
	\$ 2,786,968	46

## 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.

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In Thousands)</i>	
Large cap domestic equity pool	\$ 56,350	\$ 56,278
Non-large cap domestic equity pool	19,078	20,080
International equity pool	52,944	65,772
International non-qualified pool	23,929	11,593
Total return fixed income pool	101,423	100,717
Core fixed income pool	54,839	54,768
Short-term fixed income pool	15	68
TIPS pool	45,770	44,727
Hedge funds pool	88,796	83,454
	<b>\$ 443,144</b>	<b>\$ 437,457</b>

##### *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.

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

Asset Class	Policy Target		Strategic Allocation	
	2012	2011	2012	2011
Domestic equity	<b>17.5%</b>	17.5%	<b>17.5%</b>	17.5%
International equity	<b>17.5</b>	17.5	<b>17.5</b>	17.5
TIPS	<b>0.0</b>	0.0	<b>10.0</b>	0.0%
Hedge funds	<b>0.0</b>	0.0	<b>20.0</b>	20.0
Total equity	<b>35.0%</b>	35.0%	<b>65.0%</b>	55.0%
Fixed income	<b>65.0%</b>	65.0%	<b>35%</b>	45.0%
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 \$56,350,000 and \$56,278,000 at June 30, 2012 and 2011, respectively, represents approximately 2.7% and 2.7%, 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 \$19,078,000 and \$20,080,000 at June 30, 2012 and 2011, respectively, represents approximately 2.7% and 2.7%, 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)

##### International Equity Pool

The pool is not exposed to credit risk, interest rate risk, or custodial credit risk. At June 30, 2012, 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, 2012, 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, 2012, were as follows:

Currency	Equity Securities	Cash	Total
Australian Dollar	\$ 63,284	\$ 143	\$ 63,427
Brazil Real	77,642	3,441	81,083
British Pound	217,785	404	218,189
Canadian Dollar	83,701	75	83,776
Czech Crown	6,230	-	6,230
Danish Krone	6,858	24	6,882
Emirati Dirham	8,048	-	8,048
Euro Currency Unit	289,347	1,256	290,603
Hong Kong Dollar	152,281	697	152,978
Hungarian Forint	7,620	1	7,621
Indian Rupee	35,768	380	36,148
Indonesian Rupiah	8,313	145	8,458
Israeli Shekel	13,413	103	13,516
Japanese Yen	215,250	9,319	224,569
Malaysian Ringgit	5,067	126	5,193
Mexican Peso	22,072	24	22,096
New Taiwan Dollar	47,733	2,300	50,033
New Zealand Dollar	7,513	58	7,571
Norwegian Krone	21,877	28	21,905
Pakistan Rupee	922	-	922
Philippine Peso	7,751	75	7,826
Polish Zloty	6,708	9	6,717
Singapore Dollar	20,786	46	20,832
South African Rand	51,153	57	51,210
South Korean Won	128,548	2,374	130,922
Swedish Krona	16,126	71	16,197
Swiss Franc	62,607	6	62,613
Thailand Baht	17,882	-	17,882
Turkish Lira	42,295	48	42,343
Total	<u>\$ 1,644,580</u>	<u>\$ 21,210</u>	<u>\$ 1,665,790</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 \$257,253,000.

## 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 \$52,944,000 and \$65,772,000 at June 30, 2012 and 2011, respectively, represents approximately 2.7% and 3.6%, 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, 2012, was \$23,929,000. 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, 2012, the WVIMB was in compliance with this limitation. RHBT's amount invested in the International Non-qualified Pool of \$23,929,000 and \$11,593,000 at June 30, 2012 and 2011, respectively, represents approximately 27.4% and 17.0%, 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, 2012.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
<i>(In Thousands)</i>				
Corporate bonds and notes	Baa2	BBB	\$ 754,176	33.7%
Agency mortgage-backed securities	Aaa	AA+	340,717	15.3
U.S. Treasury bonds and notes	Aaa	AA+	309,610	13.9
Regulated investment companies	Aaa	AAA	184,079	8.2
Municipal bonds	A1	A	93,246	4.2
Agency collateralized mortgage obligations	Aaa	AA+	32,536	1.5
Corporate asset-backed securities	Aa2	AA-	38,005	1.7
Corporate collateralized mortgage obligations	B	B	21,589	1.0
Corporate preferred securities	Ba2	BB	8,572	0.4
Foreign government bonds	Baa1	A-	6,293	0.3
Total rated investments			\$ 1,788,823	80.2%

Unrated securities include commingled investment pools valued at \$441,868,000 and option contracts purchased valued at \$728,000. These unrated securities represent 19.8% 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, 2012.

Security Type	Fair Value	Modified Duration (Years)
	<i>(In Thousands)</i>	
Corporate bonds and notes	\$ 754,176	6.4
Agency mortgage-backed securities	340,717	8.5
Commingled investment pools	441,868	2.7
U.S. Treasury bonds and notes	309,610	6.7
Regulated investment companies	184,079	0.0
Municipal bonds	93,246	13.1
Agency collateralized mortgage obligations	32,536	3.4
Corporate asset-backed securities	38,005	8.0
Corporate collateralized mortgage obligations	21,589	4.8
Foreign government bonds	6,293	7.5
Total assets	\$ 2,222,119	5.8

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, 2012, the pool held \$432,847,000 of these securities. This represents approximately 20% 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 \$101,423,000 and \$100,717,000 at June 30, 2012 and 2011, respectively, represented approximately 4.4% and 4.3%, 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, 2012.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
			<i>(In Thousands)</i>	
U.S. Treasury bonds and notes	Aaa	AA+	\$ 278,786	23.2%
Agency collateralized mortgage obligations	Aaa	AA+	268,484	22.3
Corporate bonds and notes	A3	A	271,566	22.7
Agency mortgage-backed securities	Aaa	AA+	173,034	14.4
Corporate collateralized mortgage obligations	A1	AA+	145,724	12.1
Regulated investment companies	Aaa	AAA	11,728	1.0
Corporate asset-backed securities	Aa2	AA+	30,397	2.5
Agency bonds and notes	Aaa	AA+	16,801	1.4
Municipal bonds	Aa3	AA-	4,781	0.4
Total rated investments			\$ 1,201,301	100.0%

## 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, 2012.

<b>Security Type</b>	<b>Fair Value</b>	<b>Modified Duration</b>
	<i>(In Thousands)</i>	
U. S. Treasury bonds and notes	\$ 278,786	6.8
Agency collateralized mortgage obligations	268,484	3.6
Corporate bonds and notes	271,566	5.7
Agency mortgage-backed securities	173,034	6.9
Corporate collateralized mortgage obligations	145,724	3.1
Regulated investment companies	11,728	0.0
Corporate asset-backed securities	30,397	1.9
Agency bonds and notes	16,801	5.0
Municipal bonds	4,781	12.6
Total assets	<u>\$ 1,201,301</u>	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 \$54,839,000 and \$54,768,000 at June 30, 2012 and 2011, respectively, represented approximately 4.6% and 4.6%, 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)**

**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, 2012.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
<i>(In Thousands)</i>				
U. S. Treasury issues	Aaa	AA+	\$ 738,767	99.9%
Money market funds	Aaa	AAA	406	0.1
Total rated investments			\$ 739,173	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, 2012.

Security Type	Fair Value	Modified Duration (Years)
<i>(In Thousands)</i>		
U.S. Treasury issues	\$ 738,767	8.1
Money market funds	406	0.0
Total assets	\$ 739,173	8.1

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

#### **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 \$45,770,000 at June 30, 2012, represented approximately 6.2% of total investments in this pool.

#### **Hedge Funds Pool**

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, 2012, approximately \$428,621,000, or 41%, of the market value of the funds were held in foreign currencies.

RHBT's amount invested in the Hedge Funds Pool of \$88,796,000 at June 30, 2012, represented approximately 7.2% of total investments in this pool.

#### **Short-Term Fixed Income Pool**

##### Credit Risk

The WVIMB limits the exposure to credit risk in the Short-Term Fixed Income Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.



## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

#### 4. Deposit and Investment Risk Disclosures (continued)

The following table provides information on the weighted-average credit ratings of the Short-Term Fixed Income Pool's investments as of June 30, 2012.

Security Type	Moody's	S&P	Carrying Value	Percent
<i>(In Thousands)</i>				
Agency discount notes	Aaa	AA+	\$ 169,173	46.2%
Agency notes	Aaa	AA+	20,096	5.5
U.S. Treasury bills	Aaa	AA+	71,808	19.6
Commercial paper	P-1	A-1	18,279	5.0
U.S. Treasury notes	Aaa	AA+	86,995	23.7
Total rated investments			\$ 366,351	100.0%

This table includes securities received as collateral for repurchase agreements with a fair value of \$81,966,000 as compared to the amortized cost of the repurchase agreements of \$80,588,000.

#### Custodial Credit Risk

Repurchase agreements are collateralized at 102% and the collateral is held in the name of the WVIMB.

#### Interest Rate Risk

The weighted-average maturity of the investments of the Short-Term Fixed Income Pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted-average maturities (WAM) for the various asset types in the Short-Term Fixed Income Pool as of June 30, 2012.

Security Type	Carrying Value	WAM (Days)
<i>(In Thousands)</i>		
Agency discount notes	\$ 169,173	48
Repurchase agreements	80,588	1
U.S. Treasury bills	71,808	29
Commercial paper	18,279	8
Agency notes	20,096	95
U.S. Treasury notes	5,029	153
Total assets	\$ 364,973	36

## 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 Short-Term Fixed Income Pool at June 30, 2012 was \$15,000, which represents approximately 0.01% of total investments in this pool. At June 30, 2011, RHBT's amount invested in the Short-Term Fixed Income Pool was \$68,000, which represents approximately 0.01% 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, 2011	\$ 471,023	\$ 4,007,900	\$ 3,536,877	11.75%	\$ 3,803,782	92.98%

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, 2011

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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	6.1% blended rate reflecting long-term expected returns on RHBT and State investments held by BTI
Health care cost trend rate	6.5% Medicare and Non-Medicare Medical 10.0% Medicare Drug and Non-Medicare Drug

# Required Supplementary Information

West Virginia Retiree Health Benefit Trust Fund

Schedule of Funding Progress

*(In Thousands)*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>AAL – Entry Age (B)</b>	<b>Unfunded AAL (UAAL) (B-A)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a Percentage of Covered Payroll [(B-A)/C]</b>
June 30, 2011	\$ 471,023	\$ 4,007,900	\$ 3,536,877	11.75%	\$ 3,803,782	92.98%
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 3.56% as of June 30, 2009 to 6.1% as of June 30, 2011, due to the change in long-term expected returns on RHBT and State investments held by BTI and IMB.

West Virginia Retiree Health Benefit Trust Fund

Schedule of Employer Contributions

*(In Thousands)*

<b>Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2012	\$ 922,460	16
2011	816,274	18
2010	791,943	16

West Virginia Retiree Health Benefit Trust Fund

Deposits Disclosure

Form 7

June 30, 2012

*(In Thousands)*

	<b><u>Carrying Amount</u></b>
Cash with Treasurer	\$ 422
Total carrying amount of deposits	<u>\$ 422</u> (1)

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

# West Virginia Retiree Health Benefit Trust Fund

## Investments Disclosure

Form 8

June 30, 2012

*(In Thousands)*

<b>Investment Pool</b>	<b>Amount Unrestricted</b>	<b>Amount Restricted</b>	<b>Amount Reported</b>	<b>Fair Value</b>
West Virginia Board of Treasury Investments (BTI):				
West Virginia Money Market Pool	\$ 36,475 (3)	\$ 3,941	\$ 40,416	\$ 40,416 (1)
Total equity position in internal investment pool with BTI	<u>\$ 36,475</u>	<u>\$ 3,941</u>	<u>\$ 40,416</u>	<u>\$ 40,416</u>
West Virginia Investment Management Board (WVIMB) Investment Pool:				
Short-term fixed income	\$ 15	\$ –	\$ 15	\$ 15 (3)
Fixed income	101,423	–	101,423	101,423 (3)
Core – fixed income	54,839	–	54,839	54,839 (3)
Large cap domestic	56,350	–	56,350	56,350 (3)
Non-large cap domestic	19,078	–	19,078	19,078 (3)
International non-qualified	23,929	–	23,929	23,929 (3)
TIPS	45,770	–	45,770	45,770 (3)
Hedge	88,796	–	88,796	88,796 (3)
International equity	52,944	–	52,944	52,944 (3)
Total equity position in internal investment pool with WVIMB	<u>\$ 443,144</u>	<u>\$ –</u>	<u>\$ 443,144</u>	<u>\$ 443,144 (1)</u>

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

Equity position in internal investment pools                   \$ 483,560 (2)

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

(3) Agrees to footnote 4, Deposits and Investment Risk Disclosures



West Virginia Retiree Health Benefit Trust Fund

Deposits and Investments Disclosure

Form 8-A

June 30, 2012

*(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 \$ 422 (1)(2)

Equity position in internal investment pools as reported \$ 483,560 (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, 2012

*(In Thousands)*

External accounts receivable:	
Premium contributions	\$ 3,959
Less allowance for doubtful accounts	<u>(735)</u>
Net receivable	<u><u>\$ 3,224</u></u> (1)
Other receivables:	
Retiree drug subsidy	\$ 600
Prescription rebates	20,299
Other:	
Humana Gain Share	6,597
Drug subsidies	<u>1,809</u>
Total other receivable	<u><u>\$ 29,305</u></u> (1)
Form 9 – Net receivable	\$ 3,224 (1)
Form 10 – Net receivable	(57) (3)
Form 11 – Net receivable	<u>993</u> (4)
Total	<u><u>\$ 4,160</u></u> (2)

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

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

Contributions receivable	\$ 3,224
Due from State	<u>936</u>
	<u><u>\$ 4,160</u></u> (1)

(3) Agrees to Form 10.

(4) Agrees to Form 11.

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10

June 30, 2012  
(In Thousands)

<b>Agency</b>	<b>Total</b>
West Virginia Lottery Commission	\$ 4,072
Workforce WV/Payroll-05303	10,086
Workers' Compensation Commission	5
WV Public Employees Retirement Board	(130)
WV Public Employees Retirement Board	(74)
WV Teachers Retirement Board	(411)
Consolidated Retirement Bd/Judges Ret.	-
Deputy Sheriffs Retirement	(1)
Public Safety/Con.Pub.Emp.Ret.Bd.	(6)
Senate	1,141
House of Delegates	1,552
Joint Comm on Govt and Finance	3,143
Supreme Court/Judicial	28,112
Governors Office	1,695
Homeland Security – Emergency Management	1,121
Auditors Office	4,303
Treasurer of State's Office	3,436
Tax Department	9,512
Tax Department – Budget Office	110
Tax Department - Office of Appeals	221
Attorney General	3,847
Secretary of State	1,149
Department of Education	13,809
Division of Forestry	2,666
Library Commission	1,147
Culture and History	2,753
Department of Corrections	5,916
Anthony Correctional Center	1,931
Huttonsville Correctional Center	7,645
Pruntytown Correctional Center	2,695
Northern Correctional Facility	2,675

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

<b>Agency</b>	<b>Total</b>
Mt Olive Correctional Facility	\$ 7,137
Department of Corrections/St. Marys Corr	5,225
Department of Corrections/Denmar Facility	1,831
WV Division of Juvenile Services	14,905
Ohio County Correctional Center	637
Health Department	17,808
Veterans Affairs	4,431
Jackie Withrow Hospital	3,629
Welch Emergency Hospital	5,980
William R Sharpe Jr Hospital	8,537
Mildred Mitchell-Bateman Hospital	7,452
Lakin State Hospital	3,643
Lakin Correctional Facility	3,314
John Manchin Sr. Health Care	1,614
Department of Commerce, Office of Secretary	69
Hopemont State Hospital	3,811
Courthouse Facilities Improvement	14
Division of Rehabilitation Services	13,304
Department of Labor	2,117
Health Care Authority	940
Office of Miners Health, Safety and Training	2,034
Division of Environmental Protection	19,726
WV Division of Energy	181
Agriculture	7,699
Geological Survey	896
Aeronautics Commission	57
Department of Education and Arts	584
Military Affairs and Public Safety	331
Division of Protective Services	718
Environmental Quality Board	59
Public Port Authority	80
Public Safety	24,055
Adjutant General	231

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

<b>Agency</b>	<b>Total</b>
Physical Therapy, Board of	\$ 56
Osteopathy, Board of	46
Gas and Oil Conservation	32
Justice and Community Service	745
Human Rights Commission	708
Fire Commission	1,087
Department of Highways	118,397
Motor Vehicles	14,465
Bureau of Senior Services	780
Public Transit	204
Real Estate Commission	131
Insurance Commission	8,401
WV Board of Accountancy	63
WV Board of Dental Examiners	27
WV Board of Pharmacy	112
WV Engineers Registration Board	26
WV Bd of Examiners/Registered Nurses	266
Board of Exam Speech, Language Path & Audio	10
Board of Coal Mine Health & Safety	19
Department of Administration	17,489
WV Barbers and Beauticians Commission	169
Public Service Commission	6,849
WV Economic Development Authority	8
Natural Resources	18,567
Municipal Bond Commission	98
Board of Examiners In Counseling	31
Board of Examiners of Psychologists	32
Board of Funeral Service Examiners	38
WV Board of Social Worker Examiners	96
ABC Commission	1,891
Coal Heritage Highway Authority	77
Board of Respiratory Care	21
Department of Human Services	75,331

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)  
(In Thousands)

<b>Agency</b>	<b>Total</b>
Division of Tourism	\$ 1,641
Martinsburg Correctional Center	1,384
WV Armory Board	251
Board of Medicine	280
Medical Imaging Board	27
WV Secondary Schools Activity Commission	289
Division of Financial Institution	246
WV Advisory Council on Vocational Ed	(2)
WV Board of Chiropractic Examiners	29
WV Board of Optometry	29
WV Board of Veterinary Medicine	32
WV Center for Nursing	60
WV Massage Therapy Licensure Board	23
WV Municipal Pensions Oversight Board	2
WV State Board of Architects	2
WV State Board of Examiners for LPNs	29
WV DOT Office of Administrative Hearings	341
WV Military Authority	6,391
WV School for the Deaf and Blind	4,269
WV Real Estate Appraiser/Lic Cert Bd	29
Total due to/from	558,793
Less: Allowance for ARC	(558,850)
Net total – due to/from	\$ (57) (1)

(1) Agrees to Form 9.

# West Virginia Retiree Health Benefit Trust Fund

## Component Unit – A/R Balances

Form 11

June 30, 2012  
(In Thousands)

<b>Unit</b>	<b>Amount</b>
Higher Education	\$ 282,359
Parkways, EDA, and Tourism	9,587
Regional Jail and Correction Facility Authority	21,826
Public Defender Corporation	4,659
WV EDA	2,380
Educational Broadcasting	2,290
Department of Transportation - Rail	467
School Building Authority	222
Racing Commission	973
WV Jobs Investment Trust	7
Housing Development Corporation	4
Water Development Authority	169
SWMB	285
WSWP - TV	—
Total Component Units	<u>325,228</u>
Less: Allowance for ARC receivables	<u>(324,235)</u>
Net accounts receivable – component units	<u>\$ 993 (1)</u>

(1) Agrees to Form 9.

## Other Financial Information



## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the 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 (RHBT) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. 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**

Management of RHBT is responsible for establishing and maintaining effective 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 15, 2012

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