



FINANCIAL STATEMENTS, REQUIRED  
SUPPLEMENTARY INFORMATION, AND  
OTHER FINANCIAL INFORMATION

West Virginia Retiree Health Benefit Trust Fund  
Years Ended June 30, 2013 and 2012  
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, 2013 and 2012

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## Report of Independent Auditors

The Finance Board and Management  
West Virginia Retiree Health Benefit Trust Fund

We have audited the accompanying financial statements of West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia, as of June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the RHBT's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### ***Auditor's Responsibility***

Our responsibility is to express 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.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of RHBT, a fiduciary fund of the State of West Virginia, as of June 30, 2013 and 2012, and the changes in plan net position for the years then ended in conformity with U.S. generally accepted accounting principles.

### ***Basis of Presentation***

As discussed in Note 1 to the financial statements, the financial statements of RHBT are intended to present the plan net position and the changes in plan net position 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, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 through 16 and the supplemental schedules of funding progress and employer contributions on pages 45 and 46 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, which 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.

### ***Supplementary Information***

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated [insert date] 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* in considering RHBT's internal control over financial reporting and compliance.

*Ernst + Young LLP*

October 15, 2013

# West Virginia Retiree Health Benefit Trust Fund

## Management's Discussion and Analysis

Year Ended June 30, 2013

The June 30, 2013 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, multiple employer 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 38,000 policyholders and 57,000 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), administered by Express Scripts. The Plan was no longer capitated coverage, as the West Virginia Public Employees Insurance Agency (PEIA) assumed the risk and paid the claims.

Effective July 1, 2012, RHBT contracted with Humana to provide a Medicare Advantage Plan (Humana MAPD) benefit to Medicare-eligible retired employees and their Medicare-eligible dependents. Under this arrangement, Humana assumed the financial risk of providing comprehensive medical and drug coverage with limited co-payments. Non-Medicare retirees will continue enrollment in PEIA's Preferred Provider Benefit or the Managed Care Option.

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 (SB) No. 469 was passed February 10, 2012 granting Other Employment Benefits Liability relief to the 55 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 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 West Virginia 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 West Virginia OPEB participating agencies and allow the Plan to accumulate assets.

Effective January 1, 2011, the Affordable Care Act provided 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 did not record a receivable for the 50% "Donut Hole" coverage discount in fiscal year 2013. This is a significant change from the \$12.8 million receivable recorded for the "Donut Hole" in 2012 reducing drug plan costs.

Effective January 1, 2012, the Humana MAPD contract provided sharing of financial incentives with RHBT based on favorable medical loss ratios. As defined in the contract medical loss ratios, fewer than 90.2% will be eligible for gain share incentives. During fiscal year 2013, RHBT did not receive any financial incentives from Humana to reduce capitation payment cost savings, which is down \$2.6 million from the savings recorded in 2012.

## 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:

*Statement of Plan Net Position* – Presents information reflecting assets, liabilities, and plan net position. Plan net position represents the amount of total assets less total liabilities. The statement of plan net position is the government version of a for-profit balance sheet.

*Statement of Changes in Plan Net Position* – 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 statement of changes in plan net position is the government version of a for-profit income statement.

#### **FINANCIAL HIGHLIGHTS**

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

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

	<b>2013</b>	<b>2012</b>	<b>Change 2013 – 2012</b>	
			<b>Amount</b>	<b>Percent</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 362	\$ 422	\$ (60)	(14%)
Equity position in internal investment pools	588,617	483,560	105,057	22
Contributions receivable	3,602	3,224	378	12
Due from the State	991	936	55	6
Due from PEIA	5,180	–	5,180	100
Other receivables	3,444	29,305	(25,861)	(88)
<b>Total assets</b>	<b>602,196</b>	<b>517,447</b>	<b>84,749</b>	<b>16</b>
<b>Liabilities</b>				
Claims payable	9,400	10,320	(920)	(9)
Due to PEIA	–	4,547	(4,547)	(100)
Other liabilities	2,566	5,887	(3,321)	(56)
Funds held in trust	–	3,914	(3,914)	(100)
<b>Total liabilities</b>	<b>11,966</b>	<b>24,668</b>	<b>(12,702)</b>	<b>(51)</b>
<b>Net position restricted for OPEB</b>	<b>\$ 590,230</b>	<b>\$ 492,779</b>	<b>\$ 97,451</b>	<b>20%</b>



## West Virginia Retiree Health Benefit Trust Fund

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

Comparative year-to-year major variance explanations (2013 vs. 2012) for the statement of plan net position are as follows (dollars in thousands):

#### Equity position in internal investment pools (\$105,057 increase)

\$105,057 increase is due to the increase in net position and the availability of funds to invest.

#### Other receivables (\$25,861 decrease)

- \$25,861 decrease is attributable to drug rebate collections.

#### Due (to) from (to) PEIA (\$9,727 increase)

- \$9,727 increase is the change in the timing of payments to PEIA for allocated services and receipts from PEIA for monies collected on behalf of RHBT. Approximately \$9,400 relates to school aid funds due to RHBT from PEIA at June 30, 2013.

#### Other liabilities (\$3,321 decrease)

- \$3,321 decrease is due to the change in the dollar amount of the monthly third-party administrative fees with HealthSmart and the drug claim run accrual with Express Scripts recorded at year-end for services performed in fiscal year 2013. In fiscal 2013, Medicare-eligible retired employees and their Medicare-eligible dependents receive medical and drug coverage from Humana MAPD administered by Humana versus the self-insured PDP program in the prior year.

#### Funds held in trust (\$3,914 decrease)

- \$3,914 decrease is due to the Early Retiree Reinsurance Program revenues received in fiscal year 2012 that were utilized in fiscal year 2013 to reduce member premiums.

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

**Statements of Plan Net Position (\$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 position held in trust for OPEB</b>	<b>\$ 492,779</b>	<b>\$ 472,078</b>	<b>\$ 20,701</b>	<b>4%</b>

Comparative year-to-year major variance explanations (2012 vs. 2011) for the statements of plan net position are as follows (dollars in thousands):

Equity position in internal investment pools (\$14,079 decrease)

- \$14,079 decrease generated from investment losses.

Other receivables (\$15,893 increase)

- \$5,430 increase is attributable to Humana Gain Share contract.
- \$10,463 increase is attributable to accrual of the “Donut Hole” rebate receivable.

Due (to) PEIA (\$15,760 decrease)

- \$15,760 decrease is the change in the timing 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)

#### Statements of Changes in Plan Net Position (\$000's)

	2013	2012	Change 2013 – 2012	
			Amount	Percent
<b>Additions</b>				
Employers	\$ 161,088	\$ 152,194	\$ 8,894	6%
Plan members	81,352	74,517	6,835	9
Total contributions	242,440	226,711	15,729	7
Retiree drug subsidy	1,000	1,505	(505)	(34)
ERRP revenue	3,901	–	3,901	100
Interest and dividend income	3,677	6,324	(2,647)	(42)
Net change in fair value of investments	49,216	(563)	49,779	8,842
Total additions	300,234	233,977	66,257	28
<b>Deductions</b>				
Managed Care Organization – payments	110,588	45,488	65,100	143
Claims expense, net	87,491	156,151	(68,660)	(44)
Administrative service fees	1,808	8,860	(7,052)	(80)
Other expenses	2,896	2,777	119	4
Total deductions	202,783	213,276	(10,493)	(5)
Net increase	97,451	20,701	76,750	371
Net position restricted for OPEB:				
Beginning of period	492,779	472,078	20,701	4
End of period	\$ 590,230	\$ 492,779	\$ 97,451	20%

Comparative year-to-year major variance explanations (2013 vs. 2012) for the statements of changes in plan net position are as follows (dollars in thousands):

#### Net change in fair value of investments (\$49,779 increase)

- \$49,779 increase is due to investment gains from investments managed by the West Virginia Investment Management Board (WVIMB) because of favorable market conditions.

#### Managed Care Organization – payments (\$65,100 increase)

- \$65,100 increase is due to a larger monthly capitation to Humana for the Medicare retirees MAPD program over the FY 2012 PDP program.

## West Virginia Retiree Health Benefit Trust Fund

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

Claims expense, net (\$68,660 decrease)

- \$68,660 decrease is due to favorable medical and drug trends in FY 2013.

Administrative service fees (\$7,052 decrease)

- \$7,052 decrease is the result of entering into a contract with Humana to provide a MAPD program.

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

			<b>Change 2012 – 2011</b>	
	<b>2012</b>	<b>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 position held in trust for OPEB:				
Beginning of period	472,078	422,635	49,443	12
End of period	<b>\$ 492,779</b>	<b>\$ 472,078</b>	<b>\$ 20,701</b>	<b>4%</b>

Comparative year-to-year major variance explanations (2012 vs. 2011) for the statements of changes in plan net position are as follows (dollars in thousands):

## West Virginia Retiree Health Benefit Trust Fund

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

#### Net change in fair value of investments (\$36,802 decrease)

- \$36,802 decrease is due to investment losses from investments managed by the WVIMB because of less than favorable market conditions.

#### Managed Care Organization – payments (\$4,264 increase)

- \$3,500 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.
- \$764 is due to slightly elevated capitation expenses from THP Insurance Company and the health Plan.

#### Claims expense, net (\$4,736 decrease)

- \$1,736 decrease is due to lower medical claims expense costs in fiscal year 2012 in comparison to fiscal year 2011.
- \$3,000 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 \$16,200 and drug claims expense cost increased \$13,300. Formulary rebate is removed from the total of drug claims expense, providing a \$2,900 decrease overall.

### ***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***

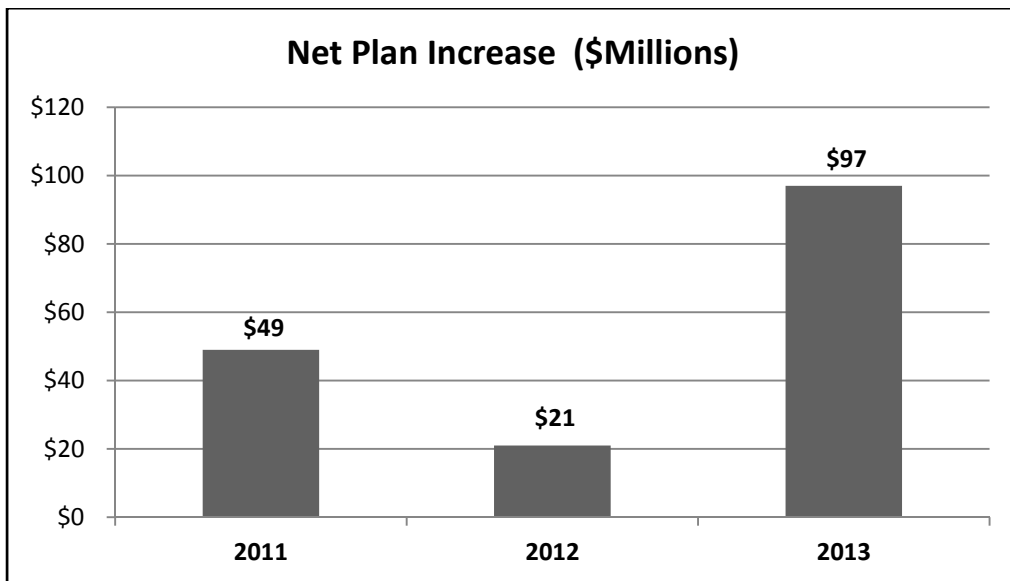
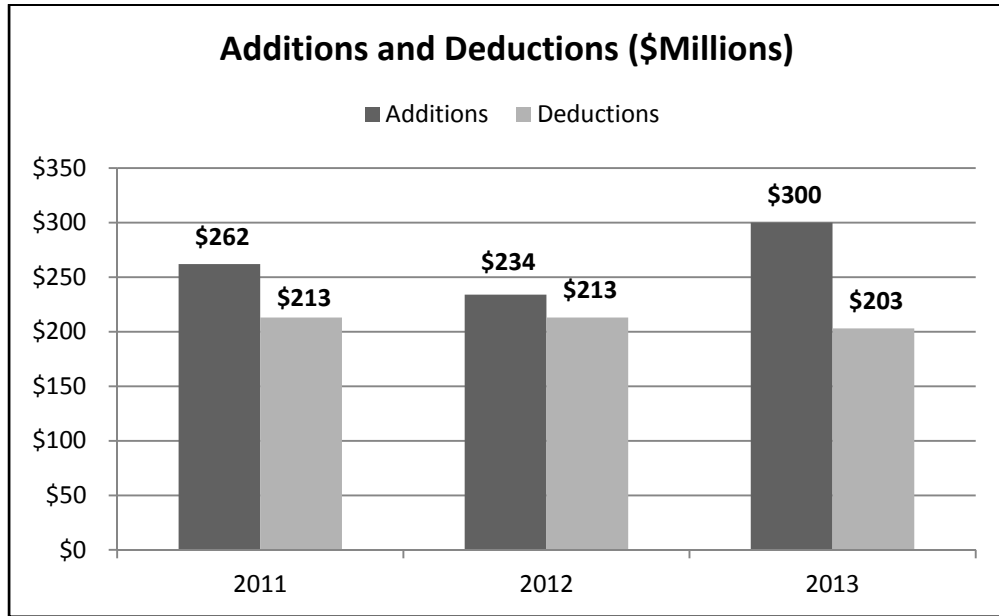
The projected actuarial accrued liability (AAL), at June 30, 2013, is \$4.3 billion, which is based on an actuarial valuation date of June 30, 2011, and calculations as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The \$4.3 billion AAL less \$498 million of actuarial value of assets results in a projected unfunded liability of \$3.8 billion at June 30, 2013. 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 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 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 health care 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.

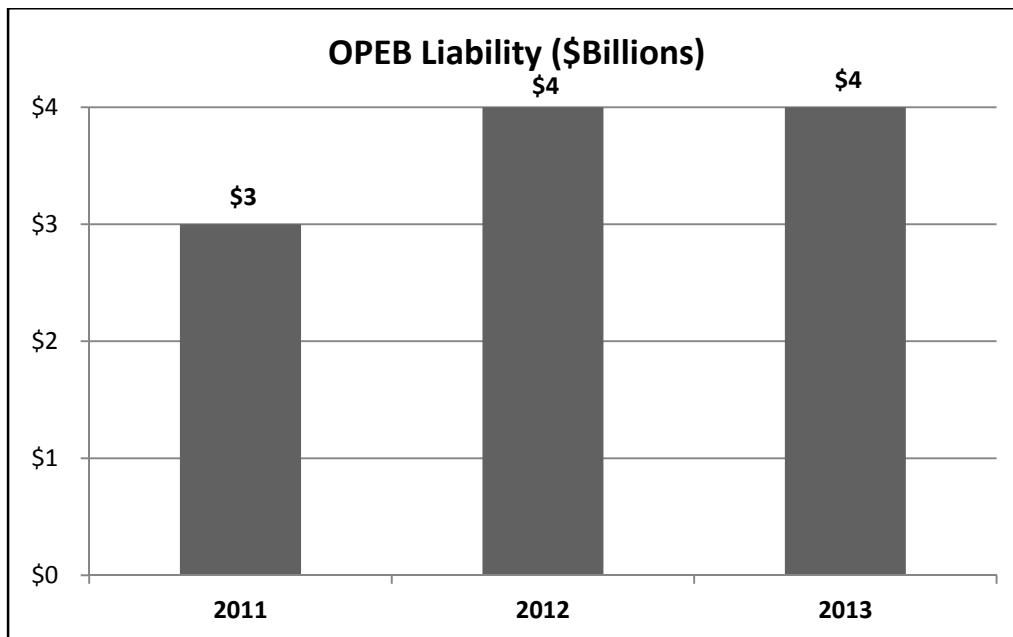
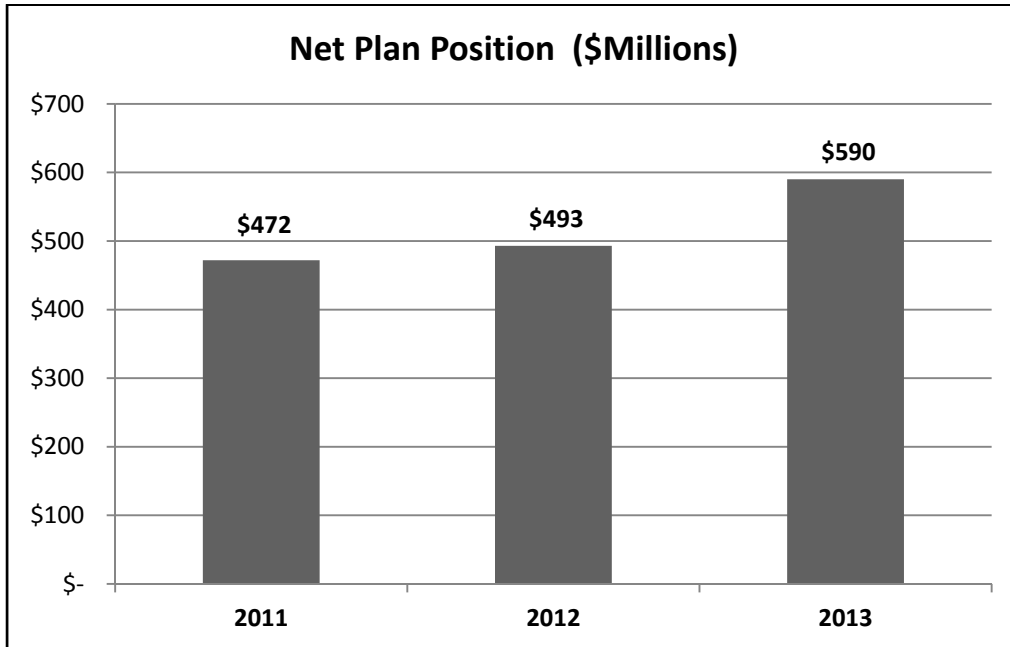
# West Virginia Retiree Health Benefit Trust Fund

## 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 Position

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 362	\$ 422
Equity position in internal investment pools	588,617	483,560
Contributions receivable – net of allowance for doubtful accounts of \$468 and \$735, respectively	3,602	3,224
Due from the State	991	936
Due from PEIA	5,180	–
Other receivables	3,444	29,305
Total assets	<u>602,196</u>	<u>517,447</u>
<b>Liabilities</b>		
Claims payable	9,400	10,320
Other liabilities	2,566	5,887
Funds held in trust	–	3,914
Due to PEIA	–	4,547
Total liabilities	<u>11,966</u>	<u>24,668</u>
Net position restricted for other postemployment benefits	<u>\$ 590,230</u>	<u>\$ 492,779</u>

*See accompanying notes.*

West Virginia Retiree Health Benefit Trust Fund

Statements of Changes in Plan Net Position

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Additions:		
Employers	<b>\$ 161,088</b>	\$ 152,194
Plan members	<b>81,352</b>	74,517
Total contributions	<b>242,440</b>	226,711
Other additions:		
Retiree drug subsidy	<b>1,000</b>	1,505
ERRP revenue	<b>3,901</b>	-
Interest and dividend income	<b>3,677</b>	6,324
Net appreciation (depreciation) in fair value of investments	<b>49,216</b>	(563)
Total additions	<b>300,234</b>	233,977
Deductions:		
Payments to managed care organizations	<b>110,588</b>	45,488
Claims expense, net	<b>87,491</b>	156,151
Administrative service fees	<b>1,808</b>	8,860
Other expenses	<b>2,896</b>	2,777
Total deductions	<b>202,783</b>	213,276
Change in net position	<b>97,451</b>	20,701
Net position restricted for other postemployment benefits:		
Beginning of period	<b>492,779</b>	472,078
End of period	<b>\$ 590,230</b>	\$ 492,779

*See accompanying notes.*

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements

June 30, 2013

### **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 position and the changes in plan net position 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, 2013 and 2012, 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 Other Postemployment Benefit (OPEB) Plan (the Plan) is a cost-sharing, multiple employer, defined benefit other post-employment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code (the Code). Financial activities of the Plan are accounted for in RHBT. The Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and 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 and accidental death insurance

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

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

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

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

RHBT Medicare-eligible retired employees and their Medicare-eligible dependents receive medical and drug coverage from a Medicare Advantage Plan (“Humana MAPD”) administered by Humana. Under this arrangement, Humana assumes the financial risk of providing comprehensive medical and drug coverage with limited copayments. Non-Medicare retirees will continue enrollment in PEIA’s Preferred Provider Benefit or the Managed Care Option.

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

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

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

The Plan has the following characteristics:

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

Eligible participants of the Plan are retirees of:

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

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

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

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

Plan administration is provided by:

- Claims adjudication – Health Smart (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. 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 \$17.2 million and \$14.4 million during the fiscal years ended June 30, 2013 and 2012, 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, 2013:

	<u>Policyholders</u>	<u>Covered Lives</u>
Retirees and beneficiaries	38,710	57,402
Active members	76,945	172,134
Totals	<u>115,655</u>	<u>229,536</u>
Number of participating employers		637

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

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

A non-Medicare plan member or beneficiaries receiving benefits contributes monthly health care premiums ranging from \$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 \$84 to \$437 per month for retiree-only coverage, and from \$139 to \$1,464 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, 2013 and 2012, respectively, were:

	<u>2013</u>	<u>2012</u>
Paygo premium	\$ 178	\$ 167
ARC premium	79	794
Total	<u>\$ 257</u>	<u>\$ 961</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).

# 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, and 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). 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 include cash on hand and investments with maturities of three months or less when purchased. 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 from the State are 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. RHBT collected \$12.8 million in Donut Hole rebates for fiscal year 2012. In fiscal year 2013, the risk was fully insured and RHBT no longer received the Donut Hole rebate.

##### **Retiree Drug Subsidy**

RHBT recorded retiree drug subsidy (RDS) payments from Centers for Medicare Services (CMS) under the provisions of Medicare Part D. 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 Medicare Part D Prescription Drug Program (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.

In fiscal 2013, RHBT was no longer with the self-insured PDP program and only received one type of the above drug subsidies – Medicare-eligible members covered by PEIA PPB plans.

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

### **3. Summary of Significant Accounting Policies (continued)**

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.

#### **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 position 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, RHBT deferred recognition of the \$3.9 million in the statements of changes in plan net position until fiscal year 2013 to reduce member premiums. At June 30, 2013, RHBT recognized this \$3.9 million and utilized the funds to reduce member premiums.

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

### 3. Summary of Significant Accounting Policies (continued)

#### 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 are recorded as reductions in the MCO payments. During fiscal year 2013, RHBT did not receive any financial incentives from Humana to reduce capitation payment cost savings, which is down \$2.6 million from the savings recorded in 2012.

#### 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 \$88,730,000 and \$36,475,000 at June 30, 2013 and 2012, respectively, represents approximately 3.6% and 1.3%, 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 position.

RHBT's investment in the BTI West Virginia Short Term Bond Pool of \$3,961,000 and \$3,941,000 at June 30, 2013 and 2012, respectively, represents approximately 0.1% and 0.1%, 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 position.

###### *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 P-1 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, 2013 (in thousands).

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

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

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P-1	A-1+	\$ 243,538	9.76%
	P-1	A-1	726,857	29.12
Corporate bonds and notes	Aa3	AA-	10,000	0.40
U.S. agency bonds	Aaa	AA+	66,603	2.67
U.S. Treasury notes*	Aaa	AA+	279,755	11.21
U.S. Treasury bills*	P-1	A-1+	34,993	1.40
Negotiable certificates of deposit	Aa1	AA-	10,000	0.40
	Aa2	A+	9,000	0.36
	Aa3	AA-	15,000	0.60
	P-1	A-1+	50,000	2.00
	P-1	A-1	160,000	6.41
	P-2	A-1	15,000	0.60
U.S. agency discount notes	P-1	A-1+	445,784	17.86
Money market funds	Aaa	AAAm	200,012	8.02
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AA+	188,826	7.57
U.S. agency notes	Aaa	AA+	40,500	1.62
			\$ 2,495,868	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.

#### *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.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

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

The following table provides the weighted-average maturities (WAM) for the various asset types in the West Virginia Money Market Pool at June 30, 2013.

Security Type	Carrying Value	WAM (Days)
	<i>(In Thousands)</i>	
Repurchase agreements	\$ 229,326	3
U.S. Treasury notes	279,755	132
U.S. Treasury bills	34,993	77
Commercial paper	970,395	43
Certificates of deposit	259,000	66
U.S. agency discount notes	445,784	47
Corporate bonds and notes	10,000	60
U.S. agency bonds	66,603	139
Money market funds	200,012	1
	\$ 2,495,868	52

## 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 position.

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Large cap domestic equity pool	\$ 92,470	\$ 56,350
Non-large cap domestic equity pool	32,620	19,078
International equity pool	85,005	52,944
International non-qualified pool	41,316	23,929
Total return fixed income pool	63,350	101,423
Core fixed income pool	33,756	54,839
Short-term fixed income pool	26	15
TIPS pool	9,704	45,770
Hedge funds pool	50,483	88,796
Private equity	46,496	-
Real estate	40,700	-
	<b>\$ 495,926</b>	<b>\$ 443,144</b>

##### *Liquidity Needs and Investment Objectives*

The RHBT is expected to have minimal liquidity needs until fiscal year 2014, 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	
	2013	2012	2013	2012
Domestic equity	<b>30.0%</b>	17.5%	<b>25.0%</b>	17.5%
International equity	<b>30.0</b>	17.5	<b>25.0</b>	17.5
Private equity	–	–	<b>10.0</b>	–
Fixed income	<b>40.0</b>	–	<b>20.0</b>	–
TIPS	–	0.0	–	10.0
Hedge funds	–	0.0	<b>10.0</b>	20.0
Real estate	–	–	<b>10.0</b>	–
Total equity	<b>100%</b>	35.0%	<b>100%</b>	65.0%
Cash	*	*		*

\*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, exchange traded stock index futures, and money market funds with the highest credit rating. These types of securities are exposed to no or minimal credit risk, custodial credit risk, or foreign currency risk. RHBT's amount invested in the large cap domestic pool of \$92,470,000 and \$56,350,000 at June 30, 2013 and 2012, respectively, represents approximately 3.8% 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)**

##### **Non-Large Cap Domestic Equity Pool**

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. These types of securities are exposed to no or minimal credit risk, custodial credit risk, or foreign currency risk. RHBT's amount invested in the non-large cap domestic pool of \$32,620,000 and \$19,078,000 at June 30, 2013 and 2012, respectively, represents approximately 3.9% and 2.7%, respectively, of total investments in this pool.

##### **International Equity Pool**

The pool is not exposed to credit risk, interest rate risk, or custodial credit risk. At June 30, 2013, 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, 2013, 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, 2013, were as follows (in thousands):

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

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

Currency	Investments	Cash	Total
Australian Dollar	\$ 58,914	\$ 1	\$ 58,915
Brazil Real	73,031	483	73,514
British Pound	226,351	1,732	228,083
Canadian Dollar	91,289	321	91,610
Czech Koruna	12,966	-	12,966
Danish Krone	11,122	-	11,122
Egyptian Pound	4,704	-	4,704
Emirati Dirham	4,861	505	5,366
Euro Currency Unit	321,667	1,921	323,588
Hong Kong Dollar	174,653	1,533	176,186
Hungarian Forint	5,798	1	5,799
Indian Rupee	58,591	162	58,753
Indonesian Rupiah	10,747	123	10,870
Israeli Shekel	13,434	92	13,526
Japanese Yen	250,440	2,065	252,505
Malaysian Ringgit	9,405	337	9,742
Mexican Peso	31,774	272	32,046
New Taiwan Dollar	42,197	2,288	44,485
New Zealand Dollar	5,779	135	5,914
Norwegian Krone	21,859	1,120	22,979
Pakistan Rupee	1,734	-	1,734
Philippine Peso	7,640	21	7,661
Polish Zloty	5,565	43	5,608
Qatari Riyal	1,561	-	1,561
Singapore Dollar	17,626	37	17,663
South African Rand	47,500	2,432	49,932
South Korean Won	155,163	1,070	156,233
Swedish Krona	17,104	364	17,468
Swiss Franc	62,012	-	62,012
Thailand Baht	19,336	-	19,336
Turkish Lira	32,902	45	32,947
Total	<u>\$ 1,797,725</u>	<u>\$ 17,103</u>	<u>\$ 1,814,828</u>

This table excludes cash and securities held by the pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated cash and investments is \$417,554,000.

RHBT's amount invested in the International Equity Pool of \$85,005,000 and \$52,944,000 at June 30, 2013 and 2012, respectively, represents approximately 4.0% 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 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, 2013, was \$122,091,000. 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, 2013, the WVIMB was in compliance with this limitation. RHBT's amount invested in the International Non-qualified Pool of \$41,316,000 and \$23,929,000 at June 30, 2013 and 2012, respectively, represents approximately 33.8% and 27.4%, respectively, of total investments in this pool.

##### **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, 2013.

West Virginia Retiree Health Benefit Trust Fund

Notes to Financial Statements (continued)

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

Investment Type	Moody's	S&P	Fair Value	Percent of Assets
			<i>(In Thousands)</i>	
Corporate asset-backed issues	Ba1	AA	\$ 44,433	1.9%
Corporate bonds	Baa2	BBB	728,766	31.7
Corporate MCO	Caa	CCC	20,767	0.9
Corporate preferred security	Ba2	BB	8,757	0.4
Foreign government bond	Baa1	A	6,879	0.3
Municipal bonds	A2	BBB	80,320	3.4
Short-term issue	Aaa	AAA	171,036	7.2
U.S. Government agency CMO	Aaa	AA	61,696	2.6
U.S. Government agency discount note	Aaa	AA	4,718	0.2
U.S. Government agency MBS	Aaa	AA	342,200	14.4
U.S. Government agency TBAs	Aaa	AA	58,879	2.5
U.S. Treasury issues	Aaa	AA	362,481	13.9
Total rated investments			<u>\$ 1,890,932</u>	<u>79.4%</u>

Unrated investments include investments in other funds valued at \$474,821,000, investments made with cash collateral for securities loaned valued at \$13,882,000, and option contracts purchased valued at \$176,000. These unrated securities represent 20.6% 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 effective duration of the investments in the pool. The following table provides the weighted-average effective duration for the various asset types in the Total Return Fixed Income Pool as of June 30, 2013.

Investment Type	Fair Value	Effective Duration (Years)
	<i>(In Thousands)</i>	
Corporate asset-backed issues	\$ 44,433	1.9
Corporate bonds	728,766	6.5
Corporate CMO	20,767	1.4
Foreign government bond	6,879	7.0
Investments in other funds	474,821	3.7
Investments made with cash collateral for securities loaned	13,882	–
Municipal bonds	80,320	8.4
Short-term issues	171,036	–
U.S. Government agency CMO	61,696	2.2
U.S. Government agency discount notes	4,718	0.4
U.S. Government agency MBS	342,200	2.3
U.S. Government agency TBAs	58,879	6.5
U.S. Treasury issues	362,481	6.7
Total investments	\$ 2,370,878	4.7

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, 2013, the pool held \$527,975,000 of these securities. This represents approximately 22.0% 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 \$63,350,000 and \$101,423,000 at June 30, 2013 and 2012, respectively, represented approximately 2.7% and 4.4%, 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, 2013.

Investment Type	Moody's	S&P	Fair Value	Percent of Assets
			<i>(In Thousands)</i>	
Corporate asset-backed issues	Aa3	AA	\$ 48,767	3.7%
Corporate bonds	A3	A	270,356	20.8
Corporate CMO	A2	AA	134,887	10.4
Foreign government bonds	Aa1	AA	12,467	1.0
Municipal bonds	Aa2	AA	7,311	0.6
Short-term issue	Aaa	AAA	10,892	0.8
U.S. Government agency bonds	Aaa	AA	26,487	2.0
U.S. Government agency CMO	Aaa	AA	259,377	19.9
U.S. Government agency MBS	Aaa	AA	220,519	17.0
U.S. Treasury issues	Aaa	AA	282,660	21.7
Total rated investments			\$ 1,273,723	97.9%

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

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

Unrated securities include investments made with cash collateral for securities loaned valued at \$26,850,000 or 2.1% of the fair value of the Pool's investments.

##### *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, 2013.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Modified Duration (Years)</b>
	<i>(In Thousands)</i>	
Corporate asset-backed issues	\$ 48,767	1.4
Corporate bonds	270,356	5.7
Corporate CMO	134,887	2.2
Foreign government bonds	12,467	5.4
Investments made with cash collateral for securities loaned	26,850	–
Municipal bonds	7,311	14.3
Short-term issue	10,892	–
U.S. Government agency bonds	26,487	5.6
U.S. Government agency CMO	259,377	3.7
U.S. Government agency MBS	220,519	4.6
U.S. Treasury issues	282,660	6.5
Total investments	<u>\$ 1,300,573</u>	<u>4.6</u>

The Core Fixed Income Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes.

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

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

RHBT's amount invested in the Core Fixed Income Pool of \$33,756,000 and \$54,839,000 at June 30, 2013 and 2012, respectively, represented approximately 2.6% and 4.6%, respectively, 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 A-1 by Standard & Poor's and P-1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted-average credit ratings of the Short-Term Fixed Income Pool's investments as of June 30, 2013.

<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percent</u>
<i>(In thousands)</i>				
Commercial paper	P-1	A-1	\$ 47,991	15.0%
U.S. Government agency discount notes	Aaa	AA	129,988	40.5
U.S. Government agency notes	Aaa	AA	8,015	2.5
U.S. Treasury bills	P-1	AA	51,995	16.2
U.S. Treasury notes	Aaa	AA	82,550	25.8
Total rated investments			<u>\$ 320,539</u>	<u>100.0%</u>

This table includes U.S. Treasury notes received as collateral for repurchase agreements with a fair value of \$79,531,000 as compared to the amortized cost of the repurchase agreements of \$78,206,000.

##### *Custodial Credit Risk*

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



# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

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

#### *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 WAM for the various asset types in the Short-Term Fixed Income Pool as of June 30, 2013.

<b>Investment Type</b>	<b>Carrying Value</b>	<b>WAM (Days)</b>
	<i>(In thousands)</i>	
Commercial paper	\$ 47,991	38
Repurchase agreement	78,206	1
U.S. government agency discount notes	129,988	43
U.S. government agency notes	8,015	106
U.S. Treasury bills	51,995	45
U.S. Treasury notes	3,019	123
Total investments	<u>\$ 319,214</u>	<u>35</u>

RHBT's amount invested in the Short-Term Fixed Income Pool was \$26,000 and \$15,000 at June 30, 2013 and 2012, respectively, which represents approximately 0.01% 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 WVIMB 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, 2013.

<b>Investment Type</b>	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fair Value</b>	<b>Percent of Assets</b>
<i>(In Thousands)</i>				
Short-term issue	Aaa	AAA	\$ 601	0.1%
U.S. Treasury inflation-protected securities	Aaa	AA	653,371	99.9
Total rated investments			<u>\$ 653,972</u>	<u>100.0%</u>

*Interest Rate Risk*

The WVIMB monitors interest rate risk of the pool by evaluating the real modified duration of the investments in the pool. The following table provides the weighted-average real modified duration for the various asset types in the pool as of June 30, 2013.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Real Modified Duration (Years)</b>
<i>(In Thousands)</i>		
Short-term issue	\$ 601	-
U.S. Treasury inflation-protected securities	653,371	7.8
Total investments	<u>\$ 653,972</u>	<u>7.8</u>

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

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

The pool invests in 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 \$9,704,000 and \$45,770,000 at June 30, 2013 and 2012, respectively, represented approximately 1.5% and 6.2%, respectively, of total investments in this pool.

#### **Hedge Funds Pool**

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

The pool holds shares in hedge funds and shares of a money market fund with the highest credit rating. The investments in hedge funds might be indirectly exposed to foreign currency risk, credit risk, interest rate risk, and/or custodial credit risk. At June 30, 2013, 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 and is not exposed to concentration of credit risk.

RHBT's amount invested in the Hedge Funds Pool of \$50,483,000 and \$88,796,000 at June 30, 2013 and 2012, respectively, represented approximately 3.8% and 7.2%, respectively, of total investments in this pool.

#### **Private Equity Pool**

The pool was established to hold the WVIMB's investments in various types of private equity funds. Franklin Park Associates, LLC has been retained by the WVIMB to provide consulting services for this asset class.

The pool holds limited partnerships, shares in a hedge funds and shares of a money market fund with the highest credit rating. The investments in limited partnerships and a hedge fund might be indirectly exposed to foreign currency risk, credit risk, interest rate risk, and/or custodial credit risk.

RHBT's amount invested in the Private Equity Pool of \$46,496,000 at June 30, 2013, represented approximately 4.0% of total investments in this pool. RHBT acquired the Private Equity Pool on December 3, 2012.

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

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

##### Real Estate Pool

The pool holds the WVIMB's investments in real estate funds, real estate limited partnerships and real estate investment trusts (REITs). Courtland Partners, LTD. has been retained by the WVIMB to provide consulting services for the real estate funds and limited partnerships. The REITs are managed by European Investors, Inc.; CBRE Clarion Securities, LLC; and Security Capital Research & Management Inc.

##### Credit Risk

The WVIMB 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, 2013.

<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
			<i>(In Thousands)</i>	
Corporate bonds	Baa	BBB	\$ 131,837	13.4%
Short-term issue	Aaa	AAA	37,358	3.8
Total rated investments			<u>\$ 169,195</u>	<u>17.2%</u>

##### Interest Rate Risk

The WVIMB monitors interest rate risk of the pool by evaluating the effective duration of the investments in the pool. The following table provides the weighted-average effective duration for the various asset types in the pool as of June 30, 2013.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration (Years)</u>
	<i>(In Thousands)</i>	
Corporate bonds	<u>\$ 131,837</u>	<u>1.9</u>

# 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 Private Equity Pool of \$40,700,000 at June 30, 2013, represented approximately 4.2% of total investments in this pool. RHBT acquired the Real Estate Pool on December 3, 2012.

### 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	\$ 472,079	\$ 3,841,243	\$ 3,369,165	12.29%	\$ 3,649,954	92.31%

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 and WVIMB
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	\$472,079	\$3,841,243	\$3,369,165	12.3%	\$3,649,954	92.31%
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 WVIMB.



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>
2013	\$ 307,485	57%
2012	922,460	16
2011	816,274	18

# Other Financial Information

West Virginia Retiree Health Benefit Trust Fund

Deposits Disclosure

Form 7

June 30, 2013  
*(In Thousands)*

	<b><u>Carrying Amount</u></b>
Cash with Treasurer	<u>\$ 362</u>
Total carrying amount of deposits	<u><u>\$ 362</u></u> (1)

(1) Agrees to audited statement of plan net position

# West Virginia Retiree Health Benefit Trust Fund

## Investments Disclosure

### Form 8

June 30, 2013  
(In Thousands)

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value
West Virginia Board of Treasury Investments (BTI):				
West Virginia Money Market Pool	\$ 92,691 (3)	\$ –	\$ 92,691	\$ 92,691 (1)
Total equity position in internal investment pool with BTI	\$ 92,691	\$ –	\$ 92,691	\$ 92,691
West Virginia Investment Management Board (WVIMB) Investment Pool:				
Short-term fixed income	\$ 26	\$ –	\$ 26	\$ 26 (3)
Core – fixed income	33,756	–	33,756	33,756 (3)
Large cap domestic	92,470	–	92,470	92,470 (3)
Non-large cap domestic	32,620	–	32,620	32,620 (3)
International non-qualified	41,316	–	41,316	41,316 (3)
TIPS	9,704	–	9,704	9,704 (3)
Hedge	50,483	–	50,483	50,483 (3)
Private equity	46,496	–	46,496	46,496 (3)
Real estate	40,700	–	40,700	40,700 (3)
Total return fixed income	63,350	–	63,350	63,350 (3)
International equity	85,005	–	85,005	85,005 (3)
Total equity position in internal investment pool with WVIMB	\$ 495,926	\$ –	\$ 495,926	\$ 495,926 (1)

(1) Agrees to audited statement of plan net position as follows:  
Equity position in internal investment pools with BTI and WVIMB

\$ 588,617 (2)

(2) Agrees to audited statement of plan net position

(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, 2013  
*(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 \$ 362 (1)(2)

Equity position in internal investment pools as reported \$ 588,617 (1)(3)

(1) Agrees to audited statement of plan net position

(2) Agrees to Form 7.

(3) Agrees to Form 8.

West Virginia Retiree Health Benefit Trust Fund

Accounts Receivable

Form 9

June 30, 2013  
(In Thousands)

External accounts receivable:	
Premium contributions	\$ 4,070
Less allowance for doubtful accounts	(468)
Net receivable	<u>\$ 3,602</u> (1)
Other receivables:	
Retiree drug subsidy	\$ 651
Prescription rebates	2,113
Other:	
Drug subsidies	640
Other	40
Total other receivable	<u>\$ 3,444</u> (1)
Form 9 – Net receivable	\$ 3,602 (1)
Form 10 – Net receivable	235 (3)
Form 11 – Net receivable	756 (4)
Total	<u>\$ 4,593</u> (2)

(1) Agrees to audited statement of plan net position

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

Contributions receivable	\$ 3,602
Due from State	991
	<u>\$ 4,593</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, 2013

(In Thousands)

<b>Agency</b>	<b>Total</b>
West Virginia Lottery Commission	\$ 4,185
Workforce WV/Payroll-05303	10,167
Workers' Compensation Commission	8
WV Public Employees Retirement Board	(69)
WV Public Employees Retirement Board	(18)
WV Teachers Retirement Board	(203)
Consolidated Retirement Bd/Judges Ret.	–
Deputy Sheriffs Retirement	(1)
Public Safety/Con.Pub.Emp.Ret.Bd.	(8)
Senate	1,171
House of Delegates	1,584
Joint Comm on Govt and Finance	3,207
Supreme Court/Judicial	28,879
Governors Office	1,722
Homeland Security – Emergency Management	1,150
Auditors Office	4,385
Treasurer of State's Office	3,508
Tax Department	9,610
Tax Department – Budget Office	113
Tax Department – Office of Appeals	225
Attorney General	3,950
Secretary of State	1,176
Department of Education	742,628
Division of Forestry	2,704
Library Commission	1,164
Culture and History	2,823
Department of Corrections	6,053
Anthony Correctional Center	1,944
Huttonsville Correctional Center	7,789
EMSRS Emergency Medical Services Retirement System	5
WV Enterprise Planning Board	3

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

<b>Agency</b>	<b>Total</b>
Pruntytown Correctional Center	\$ 2,734
Northern Correctional Facility	2,700
Mt Olive Correctional Facility	7,308
Department of Corrections/St. Marys Corr	5,331
Department of Corrections/Denmar Facility	1,876
WV Division of Juvenile Services	15,273
Ohio County Correctional Center	655
Health Department	18,138
Veterans Affairs	4,532
Jackie Withrow Hospital	3,671
Welch Emergency Hospital	6,082
William R Sharpe Jr Hospital	8,598
Mildred Mitchell-Bateman Hospital	7,579
Lakin State Hospital	3,679
Lakin Correctional Facility	3,407
John Manchin Sr. Health Care	1,645
Department of Commerce, Office of Secretary	67
Hopemont State Hospital	3,819
Courthouse Facilities Improvement	14
Division of Rehabilitation Services	13,453
Department of Labor	2,163
Health Care Authority	953
Office of Miners Health, Safety and Training	1,964
Division of Environmental Protection	19,981
WV Division of Energy	186
Agriculture	7,846
Geological Survey	903
Aeronautics Commission	58
Department of Education and Arts	605
Military Affairs and Public Safety	343
Division of Protective Services	740
Environmental Quality Board	61
Public Port Authority	82



West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

<b>Agency</b>	<b>Total</b>
Public Safety	\$ 24,635
Adjutant General	211
Physical Therapy, Board of	58
Osteopathy, Board of	42
Gas and Oil Conservation	33
Justice and Community Service	759
Human Rights Commission	727
Fire Commission	1,113
Department of Highways	119,406
Motor Vehicles	14,789
Bureau of Senior Services	800
Public Transit	207
Real Estate Commission	135
Insurance Commission	8,572
WV Board of Accountancy	65
WV Board of Dental Examiners	28
WV Board of Pharmacy	115
WV Engineers Registration Board	28
WV Bd of Examiners/Registered Nurses	274
Board of Exam Speech, Language Path & Audio	6
Board of Coal Mine Health & Safety	21
Department of Administration	17,865
WV Barbers and Beauticians Commission	170
Public Service Commission	6,936
WV Economic Development Authority	-
Natural Resources	18,727
Municipal Bond Commission	97
Board of Examiners In Counseling	32
Board of Examiners of Psychologists	33
Board of Funeral Service Examiners	40
WV Board of Social Worker Examiners	99
ABC Commission	1,907
Coal Heritage Highway Authority	78

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)  
(In Thousands)

<b>Agency</b>	<b>Total</b>
Board of Respiratory Care	\$ 18
Department of Human Services	76,382
Division of Tourism	1,682
Martinsburg Correctional Center	1,423
WV Armory Board	246
Board of Medicine	285
Medical Imaging Board	27
WV Secondary Schools Activity Commission	298
Division of Financial Institution	264
WV Advisory Council on Vocational Ed	–
WV Board of Chiropractic Examiners	30
WV Board of Optometry	30
WV Board of Veterinary Medicine	32
WV Center for Nursing	63
WV Massage Therapy Licensure Board	24
WV Municipal Pensions Oversight Board	3
WV State Board of Architects	3
WV State Board of Examiners for LPNs	32
WV DOT Office of Administrative Hearings	358
WV Military Authority	6,546
WV School for the Deaf and Blind	4,337
WV Real Estate Appraiser/Lic Cert Bd	28
Total due to/from	1,296,419
Less: Allowance for ARC	(1,296,184)
Net total – due to/from	\$ 235 (1)

(1) Agrees to Form 9.

# West Virginia Retiree Health Benefit Trust Fund

## Component Unit – A/R Balances

Form 11

June 30, 2013

*(In Thousands)*

<b>Unit</b>	<b>Amount</b>
Higher Education	\$ 287,302
Parkways, EDA, and Tourism	9,607
Regional Jail and Correction Facility Authority	22,243
Public Defender Corporation	3,445
WV EDA	2,421
Educational Broadcasting	2,310
Department of Transportation – Rail	475
School Building Authority	228
Racing Commission	967
WV Jobs Investment Trust	6
Housing Development Corporation	–
Water Development Authority	173
SWMB	291
WSWP – TV	–
Total component units	<u>329,468</u>
Less: Allowance for ARC receivables	<u>(328,712)</u>
Net accounts receivable – component units	<u>\$ 756</u> (1)

(1) Agrees to Form 9.

Report of Independent Auditors 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 and Management  
West Virginia Retiree Health Benefit Trust Fund

We have audited, 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, the financial statements of the West Virginia Retiree Health Benefit Trust Fund (RHBT), which comprise the statements of plan net position as of June 30, 2013, and the related statements of changes in plan net position, for the year then ended, and the related notes to the financial statements, which are collectively RHBT's basic financial statements, and have issued our report thereon dated October 15, 2013.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

## **Purpose of this Report**

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

*Ernst + Young LLP*

October 15, 2013

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