

FINANCIAL STATEMENTS, REQUIRED  
SUPPLEMENTARY INFORMATION, AND OTHER  
FINANCIAL INFORMATION

West Virginia Retiree Health Benefit Trust Fund  
Years Ended June 30, 2014 and 2013  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

West Virginia Retiree Health Benefit Trust Fund

Financial Statements, Required Supplementary Information,  
and Other Financial Information

Years Ended June 30, 2014 and 2013

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## Report of Independent Auditors

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

### **Report on the Financial Statements**

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, 2014 and 2013, 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 opinions.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of RHBT, a fiduciary fund of the State of West Virginia, as of June 30, 2014 and 2013, 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, the financial statements of RHBT present only the financial position and the changes in financial 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, 2014 and 2013, 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 15 and the supplemental schedules of funding progress and employer contributions on pages 46 and 47 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 opinion on the financial statements that collectively comprise the RHBT's basic financial statements. The Financial Accounting and Reporting Section 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 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 November 7, 2014 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*

November 7, 2014

# West Virginia Retiree Health Benefit Trust Fund

## Management's Discussion and Analysis

Year Ended June 30, 2014

The June 30, 2014 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 40,000 policyholders and 59,000 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 years 2014 or 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 91.9% will be eligible for gain share incentives. During fiscal year 2014, RHBT received financial incentives from Humana to reduce capitation payment cost savings of \$3.8 million. During fiscal year 2013, RHBT did not receive any financial incentives from Humana, 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)**

	2014	2013	Change 2014 – 2013	
			Amount	Percent
<b>Assets</b>				
Cash and cash equivalents	\$ 423	\$ 362	\$ 61	17%
Equity position in internal investment pools	694,137	588,617	105,520	18
Contributions receivable	1,940	3,602	(1,662)	(46)
Due from the State	316	991	(675)	(68)
Due from PEIA	1,055	5,180	(4,125)	(80)
Other receivables	5,519	3,444	2,075	60
Total assets	<b>703,390</b>	602,196	101,194	17
<b>Liabilities</b>				
Claims payable	10,200	9,400	800	9
Other liabilities	1,631	2,566	(935)	(36)
Total liabilities	<b>11,831</b>	11,966	(135)	(1)
Net position restricted for OPEB	<b>\$ 691,559</b>	\$ 590,230	\$ 101,329	17

## West Virginia Retiree Health Benefit Trust Fund

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

Comparative year-to-year major variance explanations (2014 vs. 2013) for the statement of plan net position are as follows (dollars in thousands):

#### Equity position in internal investment pools (\$105,520 increase)

- \$105,520 increase is generated from operations and the availability of funds to invest.

#### Contributions receivable (\$1,662 decrease)

- \$1,662 decrease is attributable to increased collection efforts.

#### Due from PEIA (\$4,125 decrease)

- \$4,125 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.

#### Other receivables (\$2,075 increase)

- \$2,075 increase is the net result of gain share financial incentives from Humana and an increase of drug rebate collections.

#### Claims payable (\$800 increase)

- \$800 increase is due to higher claims incurred but not paid at year end.

#### Other liabilities (\$935 decrease)

- \$935 decrease is due to the change in the timing of payments for services provided.

West Virginia Retiree Health Benefit Trust Fund

Management's Discussion and Analysis (continued)

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

	2013	2012	Change 2013 – 2012	
			Amount	Percent
<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>

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.

## West Virginia Retiree Health Benefit Trust Fund

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

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

	2014	2013	Change 2014 – 2013	
			Amount	Percent
<b>Additions</b>				
Employers	\$ 159,632	\$ 161,088	\$ (1,456)	(1%)
Plan members	83,424	81,352	2,072	3
Total contributions	243,056	242,440	616	0
Retiree drug subsidy	422	1,000	(578)	(58)
ERRP revenue	--	3,901	(3,901)	(100)
Interest and dividend income	2,691	3,677	(986)	(27)
Net change in fair value of investments	85,786	49,216	36,570	74
Total additions	331,955	300,234	31,721	11
<b>Deductions</b>				
Managed Care Organization – payments	129,963	110,588	19,375	18
Claims expense, net	95,994	87,491	8,503	10
Administrative service fees	1,713	1,808	(95)	(5)
Other expenses	2,956	2,896	60	2
Total deductions	230,626	202,783	27,843	14
Net increase	101,329	97,451	3,878	4
Net position restricted for OPEB:				
Beginning of period	590,230	492,779	97,451	20
End of period	\$ 691,559	\$ 590,230	\$ 101,329	17%

Comparative year-to-year major variance explanations (2014 vs. 2013) for the statements of changes in plan net position are as follows (dollars in thousands):

Net change in fair value of investments (\$36,570 increase)

- \$36,570 increase is due to investment gains from investments managed by the West Virginia Investment Management Board (WVIMB) because of favorable market conditions.

ERRP revenue (\$3,901 decrease)

- \$3,901 decrease is due to the receipt of Early Retiree Reinsurance Program revenues in fiscal year 2013 to reduce member premiums but not received in the current year.

## West Virginia Retiree Health Benefit Trust Fund

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

Managed Care Organization – payments (\$19,375 increase)

- \$19,375 increase is due to a larger monthly capitation to Humana for the Medicare retirees MAPD program and increased enrollment compared to FY 2013.

Claims expense, net (\$8,503 increase)

- \$8,503 increase results from inflationary cost increases of 10% for health and 9% for prescription drug claims.

**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	<b>242,440</b>	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	<b>300,234</b>	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	<b>202,783</b>	213,276	(10,493)	(5)
Net increase	<b>97,451</b>	20,701	76,750	371
Net position restricted for OPEB:				
Beginning of period	492,779	472,078	20,701	4
End of period	<b>\$ 590,230</b>	\$ 492,779	\$ 97,451	20%

## 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 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.

#### 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.

### ***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)

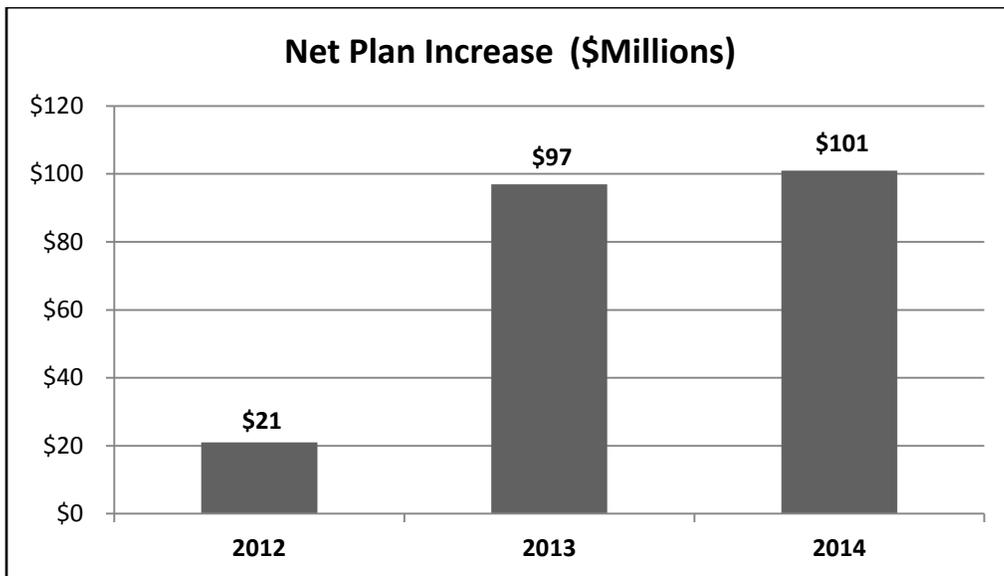
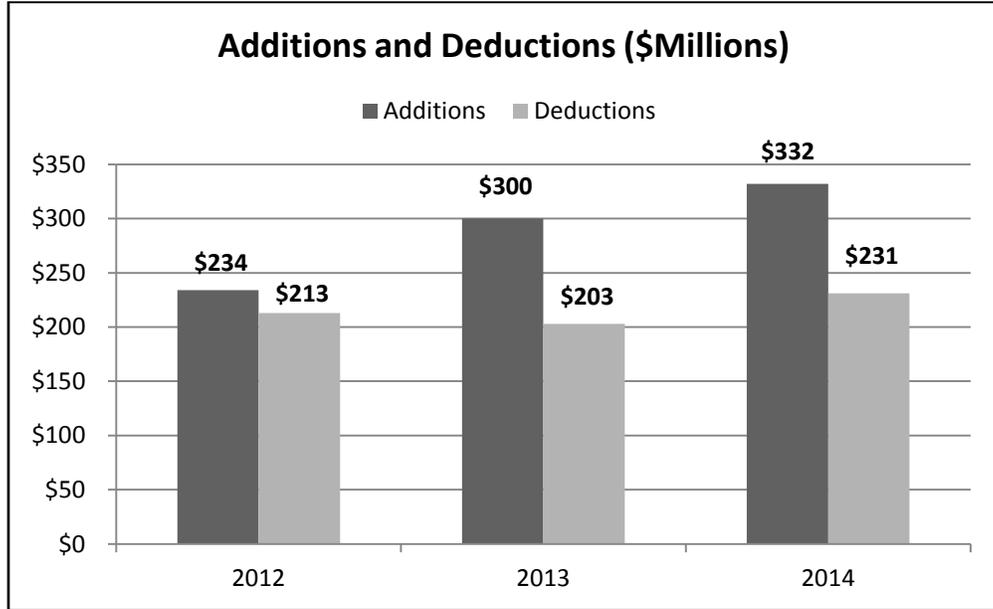
#### ***OPEB LIABILITY***

The projected actuarial accrued liability (AAL), at June 30, 2014, is \$3.4 billion, which is based on an actuarial valuation date of June 30, 2013. The \$3.4 billion AAL less \$642 million of actuarial value of assets results in a projected unfunded liability of \$2.8 billion at June 30, 2014. 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 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.

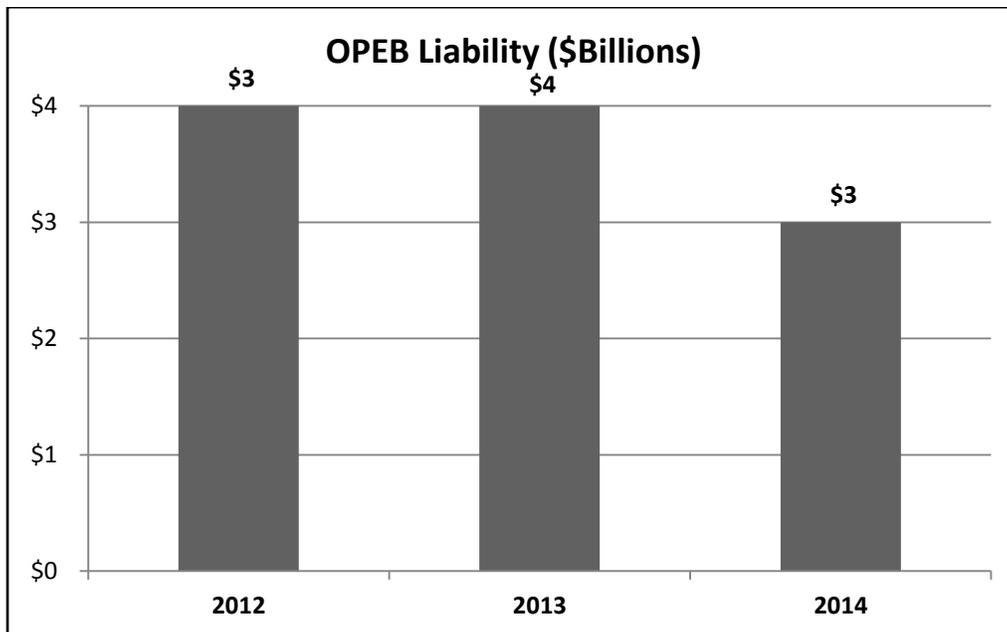
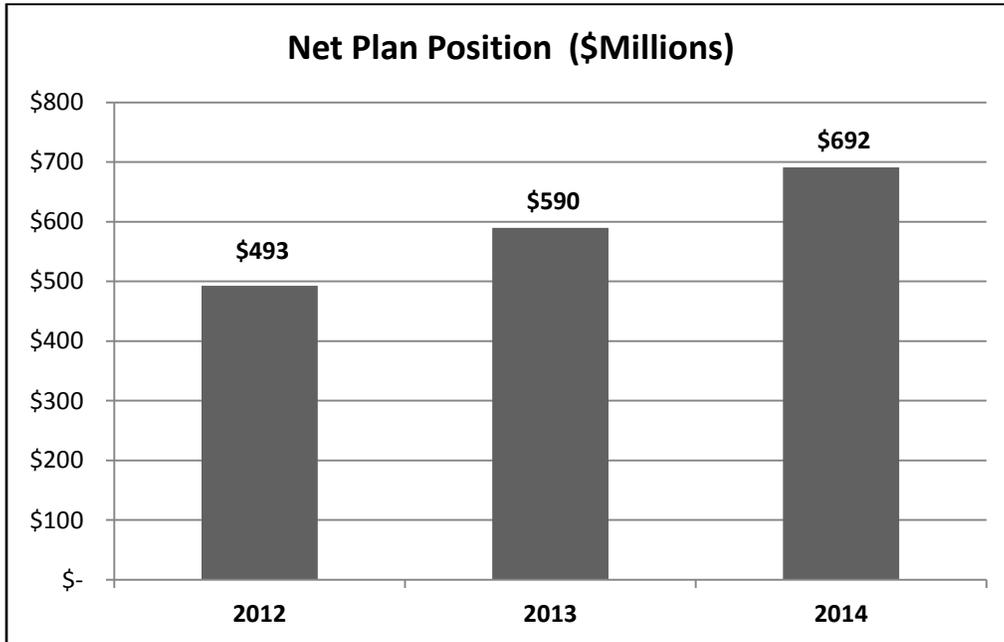
#### ***REQUESTS FOR INFORMATION***

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>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 423	\$ 362
Equity position in internal investment pools	694,137	588,617
Contributions receivable – net of allowance for doubtful accounts of \$288 and \$468, respectively	1,940	3,602
Due from the State	316	991
Due from PEIA	1,055	5,180
Other receivables	5,519	3,444
Total assets	<u>703,390</u>	<u>602,196</u>
<b>Liabilities</b>		
Claims payable	10,200	9,400
Other liabilities	1,631	2,566
Total liabilities	<u>11,831</u>	<u>11,966</u>
Net position restricted for other postemployment benefits	<u>\$ 691,559</u>	<u>\$ 590,230</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>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
<b>Additions:</b>		
Employers	<b>\$ 159,632</b>	\$ 161,088
Plan members	<b>83,424</b>	81,352
Total contributions	<b>243,056</b>	242,440
<b>Other additions:</b>		
Retiree drug subsidy	<b>422</b>	1,000
ERRP revenue	–	3,901
Interest and dividend income	<b>2,691</b>	3,677
Net appreciation (depreciation) in fair value of investments	<b>85,786</b>	49,216
Total additions	<b>331,955</b>	300,234
<b>Deductions:</b>		
Payments to managed care organizations	<b>129,963</b>	110,588
Claims expense, net	<b>95,994</b>	87,491
Administrative service fees	<b>1,713</b>	1,808
Other expenses	<b>2,956</b>	2,896
Total deductions	<b>230,626</b>	202,783
Change in net position	<b>101,329</b>	97,451
<b>Net position restricted for other postemployment benefits:</b>		
Beginning of period	<b>590,230</b>	492,779
End of period	<b>\$ 691,559</b>	\$ 590,230

*See accompanying notes.*

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements

June 30, 2014

### **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, 2014 and 2013, 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 \$40,000 for spouse and \$15,000 per child. Amounts collected by RHBT from members for optional coverage totaled \$17.7 million and \$17.2 million during the fiscal years ended June 30, 2014 and 2013, 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, 2014:

	<u>Policyholders</u>	<u>Covered Lives</u>
Retirees and beneficiaries	39,908	59,418
Active members	76,739	173,276
Totals	<u>116,647</u>	<u>232,694</u>
Number of participating employers		612

# 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, 2014 and 2013, respectively, were:

	<u>2014</u>	<u>2013</u>
Paygo premium	\$ 176	\$ 178
ARC premium	94	79
Total	<u>\$ 270</u>	<u>\$ 257</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 years 2013 and 2014, the risk was fully insured and RHBT no longer received the Donut Hole rebate.

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

- RHBT records retiree drug subsidy (RDS) payments from Centers for Medicare Services (CMS) under the provisions of Medicare Part D. For fiscal years 2014 and 2013, RHBT received a drug subsidy for 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.

The RDS revenue has been accounted for as voluntary non-exchange transactions. Accordingly, RDS estimated collections from CMS are recognized as RHBT incurs Medicare-eligible retiree prescription drug expenditures.

##### **Claims Payable and Expense**

The liability for unpaid claims and claims processing costs is based on an actuarial estimate of the ultimate cost of settling such claims due and payable as of the statements of plan net 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.

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

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

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. At June 30, 2013, RHBT recognized this \$3.9 million and utilized the funds to reduce member premiums. No additional funds were received in fiscal year 2014.

#### 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 2014, RHBT received financial incentives of \$3.8 million from Humana to reduce capitation payment cost savings. No financial incentives were received in fiscal year 2013.

#### 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

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

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

RHBT and PEIA share:

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

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

#### 4. Deposit and Investment Risk Disclosures

##### Equity Position in Internal Investment Pool Managed by BTI

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

RHBT's investment in the BTI West Virginia Money Market Pool of \$109,880,000 and \$88,730,000 at June 30, 2014 and 2013, respectively, represents approximately 5.6% and 3.6%, respectively, of total investments in this pool and is reported as part of equity position in internal investment pools on the statements of plan net position.

RHBT's investment in the BTI West Virginia Short Term Bond Pool of \$3,961,000 at June 30, 2013, represents approximately 0.1% 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 had no investment in the BTI West Virginia Short Term Bond Pool as of June 30, 2014.

##### *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.

## 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 credit ratings of the West Virginia Money Market Pool's investments at June 30, 2014.

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
<i>(In Thousands)</i>				
Commercial paper	P-1	A-1+	\$ 234,951	11.99%
	P-1	A-1	772,107	39.40
Corporate bonds and notes	Aa3	AA-	20,000	1.02
U.S. agency bonds	Aaa	AA+	82,765	4.22
U.S. Treasury notes*	Aaa	AA+	185,065	9.45
U.S. Treasury bills*	P-1	A-1+	104,995	5.36
Negotiable certificates of deposit	NR	AA-	10,000	0.51
	P-1	A-1+	28,000	1.43
	P-1	A-1	144,000	7.35
U.S. agency discount notes	P-1	A-1+	207,484	10.59
Money market funds	Aaa	AAAm	39	0.00
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AA+	93,284	4.76
U.S. agency notes	Aaa	AA+	76,900	3.92
			\$ 1,959,590	100.00%

NR = Not Rated

\*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, 2014.

Security Type	Carrying Value	WAM (Days)
	<i>(In Thousands)</i>	
Repurchase agreements	\$ 170,184	1
U.S. Treasury notes	185,065	47
U.S. Treasury bills	104,995	44
Commercial paper	1,007,058	33
Certificates of deposit	182,000	51
U.S. agency discount notes	207,484	38
Corporate bonds and notes	20,000	17
U.S. agency bonds	82,765	74
Money market funds	39	1
	\$ 1,959,590	36

## 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>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Large cap domestic equity pool	\$ <b>120,106</b>	\$ 92,470
Non-large cap domestic equity pool	<b>41,500</b>	32,620
International equity pool	<b>109,001</b>	85,005
International non-qualified pool	<b>53,117</b>	41,316
Total return fixed income pool	<b>59,850</b>	63,350
Core fixed income pool	<b>25,670</b>	33,756
Short-term fixed income pool	<b>15</b>	26
TIPS pool	<b>4,535</b>	9,704
Hedge funds pool	<b>57,458</b>	50,483
Private equity	<b>59,423</b>	46,496
Real estate	<b>53,582</b>	40,700
	<b>\$ 584,257</b>	<b>\$ 495,926</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	
	2014	2013	2014	2013
Domestic equity	<b>30.0%</b>	30.0%	<b>27.5%</b>	25.0%
International equity	<b>30.0</b>	30.0	<b>27.5</b>	25.0
Private equity	--	-	<b>10.0</b>	10.0
Fixed income	<b>40.0</b>	40.0	<b>15.0</b>	20.0
TIPS	--	-	--	-
Hedge funds	--	-	<b>10.0</b>	10.0
Real estate	--	-	<b>10.0</b>	10.0
Total equity	<b>100.0%</b>	100.0%	<b>100.0%</b>	100.0%
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 \$120,106,000 and \$92,470,000 at June 30, 2014 and 2013, respectively, represents approximately 3.9% and 3.8%, 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 \$41,500,000 and \$32,620,000 at June 30, 2014 and 2013, respectively, represents approximately 3.9% and 3.9%, 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, 2014, 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, 2014, 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, 2014, were as follows:

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

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

Currency	Investments	Cash	Total
	<i>(In Thousands)</i>		
Australian Dollar	\$ 90,022	\$ 674	\$ 90,696
Brazil Real	95,376	1,232	96,608
British Pound	280,040	379	280,419
Canadian Dollar	115,598	423	116,021
Czech Koruna	14,240	1	14,241
Danish Krone	11,957	--	11,957
Emirati Dirham	3,497	--	3,497
Euro Currency Unit	435,175	924	436,099
Hong Kong Dollar	235,280	658	235,938
Hungarian Forint	14,797	1	14,798
Indian Rupee	89,933	1,126	91,059
Indonesian Rupiah	12,473	92	12,565
Israeli Shekel	12,876	103	12,979
Japanese Yen	321,007	3,116	324,123
Malaysian Ringgit	6,529	98	6,627
Mexican Peso	32,670	--	32,670
New Taiwan Dollar	47,308	1,960	49,268
New Zealand Dollar	7,678	108	7,786
Norwegian Krone	37,343	38	37,381
Pakistan Rupee	5,669	--	5,669
Philippine Peso	9,975	30	10,005
Polish Zloty	10,717	9	10,726
Qatari Riyal	2,789	--	2,789
Singapore Dollar	20,246	1,220	21,466
South African Rand	49,744	404	50,148
South Korean Won	207,761	951	208,712
Swedish Krona	41,954	245	42,199
Swiss Franc	86,527	22	86,549
Thailand Baht	22,984	4	22,988
Turkish Lira	61,288	101	61,389
Total	<u>\$ 2,383,453</u>	<u>\$ 13,919</u>	<u>\$ 2,397,372</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 \$462,603.

RHBT's amount invested in the International Equity Pool of \$109,001,000 and \$85,005,000 at June 30, 2014 and 2013, respectively, represents approximately 3.9% and 4.0%, 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)**

##### **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, 2014, was \$153,086,000. 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 \$53,117,000 and \$41,316,000 at June 30, 2014 and 2013, respectively, represents approximately 34.7% and 33.8%, 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, 2014.

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	Baa2	A	\$ 73,955	3.2%
Corporate CMO	Caa1	B	63,110	2.7
Corporate CMO interest-only	C1	Not Rated	7,955	0.4
Corporate preferred security	Ba1	BB	10,512	0.5
Foreign asset-backed issues	A2	A	17,691	0.8
Foreign corporate bonds	Baa3	BBB	245,728	10.6
Foreign government bonds	Baa2	BBB	192,350	8.3
Municipal bonds	A1	A	53,510	2.3
Short-term issue	Aaa	AAA	37,727	1.7
U.S. corporate bonds	Baa2	BBB	571,567	24.8
U.S. Government agency bonds	Aaa	AA	2,469	0.1
U.S. Government agency CMO	Aaa	AA	89,517	3.9
U.S. Government agency CMO interest-only	Aaa	AA	11,490	0.5
U.S. Government agency MBS	Aaa	AA	290,820	12.6
U.S. Government agency TBA	Aaa	AA	888	0.0
U.S. Treasury bonds	Aaa	AA	183,531	7.9
U.S. Treasury inflation-protected securities	Aaa	AA	14,276	0.6
Total rated investments			<u>\$ 1,867,096</u>	<u>80.9%</u>

Unrated investments include investments in other funds valued at \$418,593,000, investments made with cash collateral for securities loaned valued at \$23,881,000, and option contracts purchased valued at \$341,000. These unrated securities represent 19.1% 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, 2014.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Effective Duration (Years)</b>
	<i>(In Thousands)</i>	
Corporate asset-backed issues	\$ 73,955	1.4
Corporate CMO	63,110	1.5
Corporate CMO interest-only	7,955	25.7
Foreign asset-backed issues	17,691	0.7
Foreign corporate bonds	245,728	6.0
Foreign government bond	192,350	6.5
Investments in other funds	418,593	4.2
Investments made with cash collateral	23,881	0.0
Municipal bonds	53,510	9.0
Short-term issues	37,727	0.0
U.S. corporate bonds	571,567	6.3
U.S. Government agency bonds	2,469	5.3
U.S. Government agency CMO	89,517	2.4
U.S. Government agency CMO interest-only	11,490	(1.3)
U.S. Government agency MBS	290,820	2.2
U.S. Government agency TBA	888	2.2
U.S. Treasury bonds	183,531	10.5
U.S. Treasury inflation-protected securities	14,276	17.5
Total investments	<u>\$ 2,299,058</u>	<u>5.2</u>

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

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

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, 2014, the pool held \$462,892,000 of these securities. This represents approximately 20% of the value of the pool's securities.

RHBT's amount invested in the Total Return Fixed Income Pool of \$59,850,000 and \$63,350,000 at June 30, 2014 and 2013, respectively, represented approximately 2.6% and 2.7%, 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, 2014.

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 <i>(In Thousands)</i>	Percent of Assets
Corporate asset-backed issues	A2	AA	\$ 42,858	4.0%
Corporate CMO	A2	AA	108,098	10.2
Corporate CMO interest-only	Ba3	AAA	1,607	0.2
Corporate CMO principal-only	Ba2	AA	389	0.0
Foreign asset-packed issues	Aa1	AA	3,394	0.3
Foreign corporate bonds	A2	A	41,750	3.9
Foreign government bonds	Aa2	AA	10,356	1.0
Municipal bonds	Aa2	AA	8,378	0.8
Short-term issue	Aaa	AAA	33,771	3.2
U.S. corporate bonds	Aaa	A	203,346	19.1
U.S. Government agency bonds	A3	AA	24,449	2.3
U.S. Government agency CMO	Aaa	AA	164,375	15.4
U.S. Government agency CMO interest-only	Aaa	AA	8,997	0.8
U.S. Government agency CMO principal only	Aaa	AA	12,688	1.2
U.S. Government agency MBS	Aaa	AA	200,083	18.8
U.S. Treasury issues	Aaa	AA	165,535	15.6
Total rated investments			\$ 1,030,074	96.8%

Unrated securities include investments made with cash collateral for securities loaned valued at \$34,417,000 or 3.2% 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 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, 2014.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Modified Duration</b>
	<i>(In Thousands)</i>	<b>(Years)</b>
Corporate asset-backed issues	\$ 42,858	1.3
Corporate CMO	108,098	2.1
Corporate CMO interest-only	1,607	(4.0)
Corporate CMO principal-only	389	2.8
Foreign asset-packed issues	3,394	0.0
Foreign corporate bonds	41,750	6.3
Foreign government bonds	10,356	6.6
Investments made with cash collateral for securities loaned	34,417	0.0
Municipal bonds	8,378	14.6
Short-term issue	33,771	0.0
U.S. Corporate bonds	203,346	6.3
U.S. Government agency bonds	24,449	5.2
U.S. Government agency CMO	164,375	3.5
U.S. Government agency CMO interest-only	8,997	1.8
U.S. Government agency CMO principal only	12,688	6.8
U.S. Government agency MBS	200,083	4.8
U.S. Treasury issues	165,535	7.6
Total investments	<u>\$ 1,064,491</u>	<u>4.9</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

## West Virginia Retiree Health Benefit Trust Fund

### Notes to Financial Statements (continued)

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

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 \$25,670,000 and \$33,756,000 at June 30, 2014 and 2013, respectively, represented approximately 2.5% and 2.6%, 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, 2014.

<b>Investment Type</b>	<b>Moody's</b>	<b>S&amp;P</b>	<b>Carrying Value</b>	<b>Percent</b>
			<i>(In thousands)</i>	
Commercial paper	P-1	A-1	\$ 84,989	25.0%
U.S. Government issues	P-1	A-1	114,269	33.6
U.S. Treasury issues	P-1	A-1	141,285	41.4
Total rated investments			<u>\$ 340,543</u>	<u>100.0%</u>

This table includes U.S. Treasury notes received as collateral for repurchase agreements with a fair value of \$85,732,000 as compared to the amortized cost of the repurchase agreements of \$84,205,000.

##### *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, 2014.

<b>Investment Type</b>	<b>Carrying Value</b>	<b>WAM (Days)</b>
	<i>(In thousands)</i>	
Commercial paper	\$ 84,989	27
Repurchase agreement	84,205	1
U.S. government agency issues	114,269	46
U.S. Treasury issues	55,553	53
Total investments	<u>\$ 339,016</u>	<u>31</u>

RHBT's amount invested in the Short-Term Fixed Income Pool of \$15,000 and \$26,000 at June 30, 2014 and 2013, respectively, represented approximately 0.004% and 0.01%, 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 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, 2014.

<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	\$ 244	0.0%
U.S. Treasury inflation-protected securities	Aaa	AA	601,027	100.0
Total rated investments			<u>\$ 601,271</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, 2014.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Real Modified Duration (Years)</b>
	<i>(In Thousands)</i>	
Short-term issue	\$ 244	0.0
U.S. Treasury inflation-protected securities	601,027	7.8
Total investments	<u>\$ 601,271</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 \$4,535,000 and \$9,704,000 at June 30, 2014 and 2013, respectively, represented approximately 0.8% and 1.5%, 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, 2014, 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 \$57,458,000 and \$50,483,000 at June 30, 2014 and 2013, respectively, represented approximately 3.7% and 3.8%, 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 \$59,423,000 and \$46,496,000 at June 30, 2014 and 2013, respectively, represented approximately 4.4% and 4.0%, 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)

##### 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, 2014.

<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>	
Short-term issue	Aaa	AAA	\$ 69,872	5.5%
U.S. corporate bonds	Baa3	BBB	103,785	8.1
Total rated investments			<u>\$ 173,657</u>	<u>13.6%</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 weighted-average effective duration for U.S. corporate bonds was 1.6 years as of June 30, 2014. All remaining investments do not have an effective duration.

RHBT's amount invested in the Real Estate Pool of \$53,582,000 and \$40,700,000 at June 30, 2014 and 2013, respectively, represented approximately 4.2% and 4.2% of total investments in this pool.

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

### 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, 2013	\$ 590,230	\$ 3,262,553	\$ 2,672,323	18.09%	\$ 3,921,147	68.15%

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.

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

# West Virginia Retiree Health Benefit Trust Fund

## Notes to Financial Statements (continued)

### 5. Funded Status and Funding Progress (continued)

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, 2013

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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	6.7% blended rate reflecting long-term expected returns on RHBT and State investments held by BTI and WVIMB
Health care cost trend rate	5.0% Medicare and non-Medicare medical 8.0% 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, 2013	\$ 590,230	\$ 3,262,553	\$ 2,672,323	18.1%	\$ 3,921,147	68.15%
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 6.1% as of June 30, 2011, to 6.7% as of June 30, 2013, 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>
2014	\$ 253,220	65%
2013	289,725	59
2012	272,773	57

The fiscal year 2012 ARC was revised from the amount previously reported due to the legislative changes in the plan benefits effective December 2011 as described in the Management's Discussion and Analysis to the audited financial statements.

## Other Financial Information

West Virginia Retiree Health Benefit Trust Fund

Deposits Disclosure

Form 7

June 30, 2014  
*(In Thousands)*

	<b><u>Carrying Amount</u></b>
Cash with Treasurer	<u>\$ 423</u>
Total carrying amount of deposits	<u><u>\$ 423</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, 2014  
(In Thousands)

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value
West Virginia Board of Treasury Investments (BTI):				
West Virginia Money Market Pool	\$ 109,880 (3)	\$ –	\$ 109,880	\$ 109,880 (1)
Total equity position in internal investment pool with BTI	<u>\$ 109,880</u>	<u>\$ –</u>	<u>\$ 109,880</u>	<u>\$ 109,880</u>
West Virginia Investment Management Board (WVIMB) Investment Pool:				
Short-term fixed income	\$ 15	\$ –	\$ 15	\$ 15 (3)
Core – fixed income	25,670	–	25,670	25,670 (3)
Large cap domestic	120,106	–	120,106	120,106 (3)
Non-large cap domestic	41,500	–	41,500	41,500 (3)
International non-qualified	53,117	–	53,117	53,117 (3)
TIPS	4,535	–	4,535	4,535 (3)
Hedge	57,458	–	57,458	57,458 (3)
Private equity	59,423	–	59,423	59,423 (3)
Real estate	53,582	–	53,582	53,582 (3)
Total return fixed income	59,850	–	59,850	59,850 (3)
International equity	109,001	–	109,001	109,001 (3)
Total equity position in internal investment pool with WVIMB	<u>\$ 584,257</u>	<u>\$ –</u>	<u>\$ 584,257</u>	<u>\$ 584,257 (1)</u>

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

Equity position in internal investment pools:

BTI	\$ 109,880
WVIMB	<u>\$ 584,257</u>
Equity position in internal investment pools	<u>\$ 694,137 (2)</u>

(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, 2014  
*(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 \$ 423 (1)(2)

Equity position in internal investment pools as reported \$ 694,137 (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, 2014  
(In Thousands)

External accounts receivable:	
Premium contributions	\$ 2,228
Less allowance for doubtful accounts	(288)
Net receivable	<u>\$ 1,940</u> (1)
Other receivables:	
Retiree drug subsidy	\$ 358
Prescription rebates	852
Other:	
Drug subsidies	462
Other	3,847
Total other receivable	<u>\$ 5,519</u> (1)
Form 9 – Net receivable	\$ 1,940 (1)
Form 10 – Net receivable	93 (3)
Form 11 – Net receivable	223 (4)
Total	<u>\$ 2,256</u> (2)

(1) Agrees to audited statement of plan net position

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

Contributions receivable	\$ 1,940
Due from State	316
	<u>\$ 2,256</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, 2014  
(In Thousands)

<b>Agency</b>	<b>Total</b>
West Virginia Lottery Commission	\$ 4,318
Workforce WV/Payroll-05303	10,286
Workers' Compensation Commission	—
WV Public Employees Retirement Board	(74)
WV Public Employees Retirement Board	(27)
WV Teachers Retirement Board	(126)
Consolidated Retirement Bd/Judges Ret.	—
Deputy Sheriffs Retirement	(1)
Public Safety/Con.Pub.Emp.Ret.Bd.	(10)
Anthony Correctional Center	1,963
Attorney General	4,043
Auditors Office	4,491
Culture and History	2,902
Department of Corrections	6,235
Department of Education	758,861
Division of Forestry	2,752
EMSRS Emergency Medical Services Retirement System	4
Governors Office	1,749
Homeland Security – Emergency Management	1,179
House of Delegates	1,630
Huttonsville Correctional Center	7,957
Joint Comm on Govt and Finance	3,281
Library Commission	1,193
Pruntytown Correctional Center	2,808
Secretary of State	1,191
Senate	1,207
Supreme Court/Judicial	29,711
Tax Department	9,738
Tax Department – Budget Office	118
Tax Department – Office of Appeals	232
Treasurer of State's Office	3,602

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

<b>Agency</b>	<b>Total</b>
WV Enterprise Planning Board	\$ 22
ABC Commission	1,917
Adjutant General	192
Aeronautics Commission	61
Agriculture	8,003
Board of Coal Mine Health & Safety	23
Board of Exam Speech, Language Path & Audio	5
Board of Examiners In Counseling	33
Board of Examiners of Psychologists	34
Board of Funeral Service Examiners	41
Board of Medicine	291
Board of Respiratory Care	10
Bureau of Senior Services	823
Coal Heritage Highway Authority	79
Courthouse Facilities Improvement	14
Department of Administration	18,310
Department of Commerce, Office of Secretary	67
Department of Corrections/Denmar Facility	1,930
Department of Corrections/St. Marys Corr	5,439
Department of Corrections/Salem	105
Department of Education and Arts	628
Department of Highways	120,914
Department of Human Services	77,595
Department of Labor	2,216
Division of Environmental Protection	20,350
Division of Financial Institution	280
Division of Protective Services	759
Division of Rehabilitation Services	13,659
Division of Tourism	1,724
Environmental Quality Board	64
Fire Commission	1,135
Gas and Oil Conservation	34
Geological Survey	907

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

(In Thousands)

<b>Agency</b>	<b>Total</b>
Health Care Authority	\$ 956
Health Department	18,495
Hopemont State Hospital	3,800
Human Rights Commission	749
Insurance Commission	8,765
Jackie Withrow Hospital	3,726
John Manchin Sr. Health Care	1,684
Justice and Community Service	775
Lakin Correctional Facility	3,506
Lakin State Hospital	3,723
Martinsburg Correctional Center	1,465
Medical Imaging Board	27
Mildred Mitchell-Bateman Hospital	7,712
Military Affairs and Public Safety	358
Miners Health Safety & Training	(8)
Motor Vehicles	15,095
Mt Olive Correctional Facility	7,485
Municipal Bond Commission	99
Natural Resources	18,988
Northern Correctional Facility	2,717
Office of Miners Health, Safety and Training	1,944
Ohio County Correctional Center	670
Osteopathy, Board of	40
Physical Therapy, Board of	60
Public Port Authority	84
Public Safety	25,332
Public Service Commission	7,045
Public Transit	211
Real Estate Commission	139
Veterans Affairs	4,672
Welch Emergency Hospital	6,211
William R Sharpe Jr Hospital	8,692
WV Advisory Council on Vocational Ed	(2)

West Virginia Retiree Health Benefit Trust Fund

Due (To) From Primary Government

Form 10 (continued)

*(In Thousands)*

<u>Agency</u>	<u>Total</u>
WV Armory Board	\$ 241
WV Barbers and Beauticians Commission	169
WV Bd of Examiners/Registered Nurses	283
WV Board of Accountancy	69
WV Board of Chiropractic Examiners	31
WV Board of Dental Examiners	29
WV Board of Optometry	31
WV Board of Pharmacy	120
WV Board of Social Worker Examiners	102
WV Board of Veterinary Medicine	32
WV Center for Nursing	66
WV Division of Energy	190
WV Division of Juvenile Services	15,568
WV DOT Office of Administrative Hearings	374
WV Economic Development Authority	1
WV Engineers Registration Board	30
WV Massage Therapy Licensure Board	25
WV Military Authority	6,707
WV Municipal Pensions Oversight Board	4
WV Real Estate Appraiser/Lic Cert Bd	27
WV School for the Deaf and Blind	4,420
WV Secondary Schools Activity Commission	308
WV State Board of Architects	4
WV State Board of Examiners for LPNs	36
Total due to/from	<u>1,322,959</u>
Less: Allowance for ARC	<u>(1,322,866)</u>
Net total – due to/from	<u>\$ 93</u>

# West Virginia Retiree Health Benefit Trust Fund

## Component Unit – A/R Balances

Form 11

June 30, 2014

*(In Thousands)*

<b>Unit</b>	<b>Amount</b>
Higher Education	\$ 292,661
Parkways, EDA, and Tourism	9,749
Regional Jail and Correction Facility Authority	22,673
Public Defender Corporation	3,632
WV EDA	2,467
Educational Broadcasting	2,306
Department of Transportation - Rail	482
School Building Authority	234
Racing Commission	991
WV Jobs Investment Trust	6
Housing Development Corporation	–
Water Development Authority	179
SWMB	298
WSWP – TV	–
Total Component Units	<u>335,678</u>
Less: Allowance for ARC receivables	<u>(335,455)</u>
Net accounts receivable – component units	<u>\$ 223</u>

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

The Finance Board 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 statement of plan net position as of June 30, 2014, and the related statements of changes in plan net position, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2014.

**Internal Control Over Financial Reporting**

In planning and performing 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 and therefore, material weaknesses or significant deficiencies may exist, that were not identified. 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. We did identify the

deficiency in the internal control, described in the accompanying schedule of finding and response as item 2014-01 to be a significant deficiency.

### **Compliance and Other Matters**

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

### **RHBT's Response to Finding**

RHBT's response to the finding identified in our audit is described in the accompanying schedule of finding and response. RHBT's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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*

November 7, 2014

# West Virginia Retiree Health Benefit Trust Fund

## Schedule of Finding and Response

For the Year Ended June 30, 2014

### 2014-1 OPEB Actuarial Valuation Report

<b>Criteria:</b>	Management is responsible for establishing and maintaining policies and procedures including reviewing the work of the actuarial specialist engaged to compute the other postemployment benefit (OPEB) obligation and funding requirements.
<b>Condition:</b>	During our procedures related to the June 30, 2013 OPEB valuation report prepared by RHBT's actuarial specialist, we identified multiple clerical errors and inconsistencies.
<b>Context:</b>	The Net OPEB Obligations (NOO) as of June 30, 2014 was \$2,598,073,000.
<b>Cause:</b>	Management indicated that the deficiency noted above is due to lack of sufficient detailed review procedures.
<b>Effect:</b>	The NOO as of June 30, 2014 was overstated by \$150 million and the previously released annual required contribution computations were required to be revised.
<b>Recommendation:</b>	We recommend that management establish formal policies and procedures including obtaining and reviewing the specialist's underlying computation workpapers, testing clerical accuracy of the computation, and agreeing historical information to previously released reports for consistencies.
<b>Views of Responsible Officials and Planned Corrective Actions:</b>	RHBT will improve controls surrounding the creation and review of the actuarial specialist work product by requiring all calculations be provided and explained with greater details and all historic numbers be traced to previous valuation report with any differences requiring explanation. The over-statement will be amortized over the remainder of the allowable amortization period in compliance with GAAP, in conjunction with any other changes that will inevitably affect the NOO.

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