

# **West Virginia Retiree Health Benefit Trust Fund**

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**Financial Statements, Required Supplementary Information  
and Other Financial Information**

**Years Ended June 30, 2016 and 2015**

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## **Independent Auditors' Report**

Finance Board and Management  
West Virginia Retiree Health Benefit Trust Fund  
Charleston, West Virginia

### ***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 and for the years ended June 30, 2016 and 2015 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the net position of the RHBT, a fiduciary fund of the State of West Virginia, as of June 30, 2016 and 2015, and the changes in its net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 1, the financial statements of RHBT are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business type activities of



the State of West Virginia that is attributable to the transactions of RHBT. They do not purport to, and do not present fairly the financial position of the State of West Virginia as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the required supplementary information on pages 57 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

##### ***Other Financial Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the RHBT's basic financial statements as a whole. The accompanying schedules on pages 62 through 70 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This 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 of America. In our opinion, the accompanying schedules are 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 have also issued our report dated December 21, 2016 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 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 the RHBT's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
December 21, 2016**

***Management's Discussion and Analysis***  
***(in thousands)***

## **Management's Discussion and Analysis (in thousands)**

This section of the West Virginia Retiree Health Benefit Trust Fund's (RHBT) annual financial report presents management's discussion and analysis of its financial performance for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the financial statements, which follow this section.

### ***Fund overview***

The 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). The 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 42,000 policyholders and 62,000 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 July 1, 2012, the 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 assumes 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.

### ***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, the RHBT transferred \$715 million in annual required contribution liability from the County Boards of Education to the State.

With the passage of SB 419, effective July 1, 2012, amended by West Virginia Code §11-21-96, the State has identified a supplemental pre-funding source dedicating \$30 million annually to the RHBT Fund. These funds will be transferred from personal income tax that is currently collected for payment of the unfunded liability of the Workers' Compensation Fund to the RHBT. Transfers will not commence until the Workers' Compensation Fund has been certified by the Governor to the Legislature as paid or provided for in its entirety. Thereafter, transfers will be made until the RHBT's unfunded liability has been provided for in its entirety, or July 1, 2037, whichever date is later. Presently, The RHBT expects to receive the aforementioned \$30 million transfer beginning in fiscal year 2017. The first payment of \$5 million was received in October 2016 and then \$5 million per month is expected to be received for the five months subsequent. This pre-funding should be to the advantage of all West Virginia OPEB participating agencies and allow the Plan to accumulate assets.

**West Virginia Retiree Health Benefit Trust Fund  
Management's Discussion and Analysis  
(in thousands)**

Effective January 1, 2012, the Humana MAPD contract provided sharing of financial incentives with the RHBT based on favorable medical loss ratios. As defined in the contract, medical loss ratios fewer than 89.4% will be eligible for gain share incentives. During fiscal year 2016, the RHBT received financial incentives from Humana to reduce capitation payment costs savings of \$0.8 million, which is down \$0.5 million from the savings recorded in 2015.

**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**

	2016	2015	Change 2016 - 2015	
			Amount	Percent
<b>ASSETS</b>				
Cash and cash equivalents	\$ 758	\$ 72	\$ 686	953%
Equity position in investment pools	694,561	711,463	(16,902)	(2)
Contributions receivable, net	1,813	2,798	(985)	(35)
Due from the State	-	206	(206)	(100)
Due from PEIA	7,025	3,785	3,240	86
Other receivables	3,948	4,889	(941)	(19)
Total assets	708,105	723,213	(15,108)	(2)
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension	241	104	137	132
Total deferred outflows of resources	241	104	137	132
<b>LIABILITIES</b>				
Claims payable	11,950	12,330	(380)	(3)
Due to the State	6,222	-	6,222	100
Other liabilities	4,310	6,172	(1,862)	(30)
Total liabilities	22,482	18,502	3,980	22
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension	196	223	(27)	(12)
Total inflows of resources	196	223	(27)	(12)
Net Position:				
Net position restricted for OPEB	\$ 685,668	\$ 704,592	\$ (18,924)	(3)%

**West Virginia Retiree Health Benefit Trust Fund  
Management's Discussion and Analysis  
(in thousands)**

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Comparative year-to-year major variance explanations (2016 vs. 2015) for the statements of plan net position are as follows:

***Cash and cash equivalents (\$686 increase)***

A \$686 increase is due to having sufficient cash available to pay current operating expenses and the timing of those payments.

***Equity position in investment pools (\$16,902 decrease)***

A \$16,902 decrease is generated from operations and the availability of funds to invest with the Board of Treasury Investments (BTI) and the net effect of the change in fair value of investments with the West Virginia Investment Management Board (WVIMB).

***Contributions receivable, net (\$985 decrease)***

A \$985 decrease is attributable to increase collection efforts and increase in the allowance for doubtful accounts.

***Due from the State (\$206 decrease)***

A \$206 decrease is due to some agencies having credit balances causing RHBT to have a payable to the State in total.

***Due from PEIA (\$3,240 increase)***

A \$3,240 increase is the net change in the timing of payments to PEIA for allocated services and receipts from PEIA for monies collected on behalf of the RHBT.

***Other receivables (\$941 decrease)***

A \$941 decrease is the net result of gain share financial incentives from Humana and drug rebate collections.

***Deferred outflows of resources related to pension (\$137 increase)***

The \$137 increase is related to the RHBT allocation of the current year pension amounts accounted for in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

***Claims Payable (\$380 decrease)***

The \$380 decrease is due to the change in actuarial reserve estimate.

***Due to the State (\$6,222 increase)***

A \$6,222 increase is due to a combination of some agencies having a net credit balance causing RHBT to have a payable to the State and a payroll premium distribution error that caused RHBT to receive funds that should have been distributed to another state agency resulting in a payable.

***Other liabilities (\$1,862 decrease)***

A \$1,862 decrease is due to the change in the timing of payments for services provided.

***Deferred inflows of resources related to pension (\$27 decrease)***

The \$27 decrease is related to the RHBT allocation of the current year pension amounts accounted for in accordance with GASB Statement No. 68



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Management's Discussion and Analysis  
(in thousands)**

***Statements of plan net position***

	<u>2015</u>	<u>2014</u>	<u>Change 2015 - 2014</u>	
			<u>Amount</u>	<u>Percent</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 72	\$ 423	\$ (351)	(83)%
Equity position in investment pools	711,463	694,137	17,326	2
Contributions receivable	2,798	1,940	858	44
Due from the State	206	316	(110)	(35)
Due from PEIA	3,785	1,055	2,730	259
Other receivables	<u>4,889</u>	<u>5,519</u>	<u>(630)</u>	<u>(11)</u>
Total assets	723,213	703,390	19,823	3
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension	<u>104</u>	<u>-</u>	<u>104</u>	<u>100</u>
Total deferred outflows of resources	104	-	104	100
<b>LIABILITIES</b>				
Claims payable	12,330	10,200	2,130	21
Other liabilities	<u>6,172</u>	<u>1,631</u>	<u>4,541</u>	<u>278</u>
Total liabilities	<u>18,502</u>	<u>11,831</u>	<u>6,671</u>	<u>56</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension	<u>223</u>	<u>-</u>	<u>223</u>	<u>100</u>
Total deferred inflows of resources	223	-	223	100
Net Position:				
Net position restricted for OPEB	<u>\$ 704,592</u>	<u>\$ 691,559</u>	<u>\$ 13,033</u>	<u>2%</u>

Comparative year-to-year major variance explanations (2015 vs. 2014) for the statement of plan net position are as follows:

***Equity position in investment pools (\$17,326 increase)***

A \$17,326 increase is generated from operations and the availability of funds to invest with the Board of Treasury Investments (BTI) and the net effect of the change in fair value of investments with the West Virginia Investment Management Board (WVIMB).

***Due from PEIA (\$2,730 increase)***

A \$2,730 increase is the net change in the timing of payments to PEIA for allocated services and receipts from PEIA for monies collected on behalf of the RHBT.

***Deferred outflows of resources related to pension (\$104 increase)***

A \$104 increase is due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in fiscal year 2015.

***Claims payable (\$2,130 increase)***

A \$2,130 increase is due to higher claims incurred but not paid at year-end.

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(in thousands)**

***Other liabilities (\$4,541 increase)***

A \$4,541 increase is due to the change in the timing of payments for services provided. In addition, in 2015 a net pension liability of \$210 was established due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

***Deferred inflows of resources related to pension (\$223 increase)***

A \$223 increase is due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015.

***Statements of changes in plan net position***

	<u>2016</u>	<u>2015</u>	<u>Change 2016 - 2015</u>	
			<u>Amount</u>	<u>Percent</u>
Additions:				
Employers	\$ 145,461	\$ 148,508	\$ (3,047)	(2)%
Plan members	<u>84,675</u>	<u>83,024</u>	<u>1,651</u>	<u>2</u>
Total contributions	<b>230,136</b>	231,532	(1,396)	(1)
Retiree drug subsidy	804	1,481	(677)	(46)
Interest and dividend income	3,159	3,046	113	4
Net appreciation (depreciation) in fair value of investments	<u>(3,002)</u>	<u>20,096</u>	<u>(23,098)</u>	<u>(115)</u>
Total additions	<b>231,097</b>	256,155	(25,058)	(10)
Deductions:				
Payments to managed care organizations	149,962	136,797	13,165	10
Claims expense, net	95,438	100,736	(5,298)	(5)
Administrative service fees	1,770	1,954	(184)	(9)
Other expenses	<u>2,851</u>	<u>3,225</u>	<u>(374)</u>	<u>(12)</u>
Total deductions	<b>250,021</b>	<b>242,712</b>	<b>7,309</b>	<b>3</b>
Change in net position	<b>(18,924)</b>	13,443	(32,367)	(241)
Net position at beginning of year	<u>704,592</u>	<u>691,559</u>	<u>13,033</u>	<u>2</u>
Cumulative effect of adoption of accounting principle	<u>-</u>	<u>(410)</u>	<u>410</u>	<u>-</u>
Net position restricted for OPEB:				
Beginning of period, as restated	<u>704,592</u>	<u>691,149</u>	<u>13,443</u>	<u>2</u>
End of period	<u><b>\$ 685,668</b></u>	<u><b>\$ 704,592</b></u>	<u><b>\$ (18,924)</b></u>	<u><b>(3)%</b></u>

Comparative year-to-year major variance explanations (2016 vs. 2015) for the statements of changes in plan net position are as follows:

***Retiree drug subsidy (\$677 decrease)***

A \$677 decrease is due to the change in the timing of payments received from Centers for Medicare Services (CMS) under the provisions of Medicare Part D.

***Net appreciation (depreciation) in fair value of investments (\$23,098 decrease)***

A \$23,098 decrease is primarily due to investment depreciation from investments managed by WVIMB because of unfavorable market conditions.

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Management's Discussion and Analysis  
(in thousands)**

***Payments to managed care organizations (\$13,165 increase)***

A \$13,165 increase is due to an increase in members, an increase in monthly capitation per member and a decrease in the gain share incentive received in FY 2016.

***Claims expense, net (\$5,298 decrease)***

A \$5,298 decrease is due to favorable medical and drug trends in FY 2016 and increased formulary rebates.

***Statements of changes in plan net position***

	2015	2014	Change 2015 - 2014	
			Amount	Percent
Additions:				
Employers	\$ 148,508	\$ 159,632	\$ (11,124)	(7)%
Plan members	83,024	83,424	(400)	-
Total contributions	231,532	243,056	(11,524)	(5)
Retiree drug subsidy	1,481	422	1,059	251
Interest and dividend income	3,046	2,691	355	13
Net appreciation in fair value of investments	20,096	85,786	(65,690)	(77)
Total additions	256,155	331,955	(75,800)	(23)
Deductions:				
Payments to managed care organizations	136,797	129,963	6,834	5
Claims expense, net	100,736	95,994	4,742	5
Administrative service fees	1,954	1,713	241	14
Other expenses	3,225	2,956	269	9
Total deductions	242,712	230,626	12,086	5
Change in net position	13,443	101,329	(87,886)	(87)
Net position at beginning of year	691,559	590,230	101,329	17
Cumulative effect of adoption of accounting principle	(410)	-	(410)	-
Net position restricted for OPEB:				
Beginning of period, as restated	691,149	590,230	101,919	17
End of period	\$ 704,592	\$ 691,559	\$ 13,033	2%

Comparative year-to-year major variance explanations (2015 vs. 2014) for the statements of changes in plan net position are as follows:

***Employer contributions (\$11,124 decrease)***

An \$11,124 decrease is primarily due to a decrease in the Paygo monthly policyholder premium from \$176 in FY 2014 to \$164 in FY 2015.

***Retiree drug subsidy (\$1,059 increase)***

A \$1,059 increase is due to the change in the timing of payments received from Centers for Medicare Services (CMS) under the provisions of Medicare Part D.

***Net appreciation in fair value of investments (\$65,690 decrease)***

A \$65,690 decrease is due to investment depreciation from investments managed by WVIMB because of unfavorable market conditions.

**West Virginia Retiree Health Benefit Trust Fund  
Management's Discussion and Analysis  
(in thousands)**

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***Payments to managed care organizations (\$6,834 increase)***

A \$6,834 increase is due to an increase in members, an increase in monthly capitation per member and a decrease in the gain share incentive received in FY 2015.

***Claims expense, net (\$4,742 increase)***

A \$4,742 increase primarily results from inflationary cost increases of 4% for health and 8% for prescription drug claims.

***Economic conditions***

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

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

***OPEB liability***

The projected actuarial accrued liability (AAL) at June 30, 2016 is \$3.5 billion, which is based on an actuarial valuation date of June 30, 2015. The \$3.5 billion AAL less \$705 million of actuarial value of assets results in a projected unfunded liability of \$2.8 billion at June 30, 2016. 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 the 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 419, 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 the 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. The RHBT expects to receive the aforementioned \$30 million transfer beginning in fiscal year 2017. The first payment of \$5 million was received in October 2016 and then \$5 million per month is expected to be received for the five months subsequent. All Employers will receive benefit of these contributions. The West Virginia PEIA and the 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.

***Pension liability***

Effective July 1, 2014, the RHBT adopted the provisions of GASB Statement No.68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*. Statement 68 requires the RHBT to recognize a liability equal to its proportionate share of the net pension liability of the State's Public Employees' Retirement System (PERS). The RHBT determined that it was not practical to restate all periods presented and has recorded a cumulative effect adjustment of \$410 as of July 1, 2014, to decrease the 2015 beginning net position. The \$410 cumulative effect adjustment as of July 1, 2014, is comprised of the net pension liability of \$520 less deferred outflows of resources related to pension plan contributions of

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Management's Discussion and Analysis  
(in thousands)**

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\$110 as of that date. Decisions regarding the allocations are made by the administrators of the pension plan, not by the RHBT management. Further, the Statements of Plan Net Position now reflect RHBT's portion of the pension liability and related deferred outflows of resources and deferred inflows of resources related to pension.

***WV OASIS***

On July 1, 2014, the RHBT, as well as all other state government agencies, transitioned to a new statewide accounting system. The WV Our Advanced Solution with Integrated System (WVOASIS) is an ERP system offering full double entry accounting capabilities. The WVOASIS replaces the WV Financial Information Management System (WVFIMS), which served as the State's accounting system from October 1, 1993 through June 30, 2014. The fiscal year 2015 financial statements were the first statements prepared since the transition of accounting systems.

***Adoption of new Accounting Standards***

During fiscal year 2016, RHBT implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No 79, *Certain External investment Pools and Pool Participants*. GASB 72 generally requires investments to be measured at fair value and disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques, organized by type of asset or liability reported at fair value. It also requires additional disclosures for investments in certain entities that calculate NAV per share (or its equivalent). GASB 79 establishes criteria for making the election to measure all of its investments at amortized cost for financial reporting purposes. The adoption of the these standards had no effect on RHBT's statements of net position or statements of changes in net position, but primarily related to modifications to the disclosures related to the RHBT's deposit and investment disclosures.

***Requests for information***

This financial report is designed to provide the RHBT's participants, governing officials, legislators, citizens, and taxpayers with a general overview of the 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.

***Basic Financial Statements***  
***(in thousands)***

**West Virginia Retiree Health Benefit Trust Fund**  
**Statements of Plan Net Position**  
**June 30, 2016 and 2015**  
**(in thousands)**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 758	\$ 72
Equity position in investment pools	694,561	711,463
Contributions receivable – net of allowance for doubtful accounts of \$406 and \$372, respectively	1,813	2,798
Due from the State	-	206
Due from PEIA	7,025	3,785
Other receivables	<u>3,948</u>	<u>4,889</u>
Total assets	<b>708,105</b>	<b>723,213</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension	<u>241</u>	<u>104</u>
Total deferred outflows of resources	<u>241</u>	<u>104</u>
<b>LIABILITIES</b>		
Claims payable	11,950	12,330
Due to the State	6,222	-
Other liabilities	<u>4,310</u>	<u>6,172</u>
Total liabilities	<b>22,482</b>	<b>18,502</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	<u>196</u>	<u>223</u>
Total deferred inflows of resources	<u>196</u>	<u>223</u>
Net position restricted for other postemployment benefits	<u>\$ 685,668</u>	<u>\$ 704,592</u>

**West Virginia Retiree Health Benefit Trust Fund**  
**Statements of Changes in Plan Net Position**  
**Years Ended June 30, 2016 and 2015**  
**(in thousands)**

	<u>2016</u>	<u>2015</u>
Additions:		
Employers	\$ 145,461	\$ 148,508
Plan members	84,675	83,024
	<u>230,136</u>	<u>231,532</u>
Total contributions	230,136	231,532
Other additions:		
Retiree drug subsidy	804	1,481
Interest and dividend income	3,159	3,046
Net appreciation (depreciation) in fair value of investments	<u>(3,002)</u>	<u>20,096</u>
Total additions	231,097	256,155
Deductions:		
Payments to managed care organizations	149,962	136,797
Claims expense, net	95,438	100,736
Administrative service fees	1,770	1,954
Other expenses	<u>2,851</u>	<u>3,225</u>
Total deductions	<u>250,021</u>	<u>242,712</u>
Change in net position	(18,924)	13,443
Net position restricted for other postemployment benefits:		
Net position, beginning of year	704,592	691,559
Cumulative effect of adoption of accounting principle	<u>-</u>	<u>(410)</u>
Net position, beginning of year, as restated	<u>704,592</u>	<u>691,149</u>
Net position, end of year	<u>\$ 685,668</u>	<u>\$ 704,592</u>



***Notes to Financial Statements***  
***(in thousands)***

## **Notes to Financial Statements** **(in thousands)**

### **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). The RHBT's financial results are included in the State's Comprehensive Annual Financial Report.

The 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 the RHBT. The RHBT's basic financial statements do not purport to, and do not present fairly the financial position of the State as of June 30, 2016 and 2015, or the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America (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 the RHBT. The Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. Plan benefits are established and revised by PEIA and the RHBT management with the approval of their Finance Board.

The Plan provides the following benefits:

- Medical and prescription drug insurance
- Life 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

The 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.

The 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 the RHBT's financial statements. Contributions earned by the 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.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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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.

Plan administration is provided by:

- Claims adjudication – Health Smart (third-party administrator)
- The staff of PEIA and the 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 the RHBT from members for optional coverage totaled \$19.3 million and \$18.7 million during the fiscal years ended June 30, 2016 and 2015, respectively, and were remitted directly to the carrier. The 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:

	<u>2016</u>		<u>2015</u>	
	<u>Covered</u>		<u>Covered</u>	
	<u>Policyholders</u>	<u>Lives</u>	<u>Policyholders</u>	<u>Lives</u>
Retirees and beneficiaries	41,850	62,264	41,016	61,049
Active members	<u>76,104</u>	<u>172,199</u>	<u>76,762</u>	<u>173,188</u>
Totals	<u><u>117,954</u></u>	<u><u>234,463</u></u>	<u><u>117,778</u></u>	<u><u>234,237</u></u>
Number of participating employers	550		540	

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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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 the RHBT Finance Board 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 the 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, 2016 and 2015, respectively, were:

	<u>2016</u>	<u>2015</u>
Paygo premium	\$ 163	\$ 164
Annual Required Contribution (ARC) premium	<u>266</u>	<u>225</u>
Total	<u>\$ 429</u>	<u>\$ 389</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 the RHBT in accordance with Senate Bill 129, which became effective July 1, 2007. Funds totaling \$108.2 million were transferred to the Plan for fiscal year 2008 related to this provision in the Code. In fiscal year 2009, the State transferred \$91 million to pay for general funded employers' portion of the actuarial accrued liability (AAL).

### **3. Summary of Significant Accounting Policies**

#### ***Basis of reporting***

The 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 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 RHBT 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 investment pools***

The 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

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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subject to market risk because of changes in interest rates, bond prices, and stock prices. Investment earnings and losses are allocated to the RHBT based on the balance of the RHBT's investments maintained in relation to the total investments of all State agencies participating in the pool.

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 primarily represents the deficiency or excess of the RHBT contributions collected by PEIA over expenses paid by PEIA for the 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/to the State***

Due from the State are contributions receivable due to the RHBT from primary government entities and their component units. The due to the State in 2016 is primarily related to payroll premium distribution error that caused RHBT to receive funds that should have been distributed to another state agency resulting in a payable.

***Deferred outflows of resources***

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Balances of deferred outflows of resources may be presented in the Statements of Plan Net Position as aggregations of different types of deferred amounts. Deferred outflows in the Statements of Plan Net Position were composed of \$87 and \$104 for the years ending June 30, 2016 and 2015, respectively, related to employer contributions to the Public Employees Retirement System (PERS) made during the current fiscal year subsequent to the measurement date. Deferred outflows totaling \$154 consisted of other amounts related to differences between projected and actual earnings on pension plan investments and differences between expected and actual experience related to pension.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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***Prescription drug rebates***

Through arrangements with its Prescription Benefit Manager, the RHBT collects rebates from prescription drug manufacturers. The estimated prescription rebates receivable is based on prescription claims counts and historical average rebate per claim.

***Retiree drug subsidy***

The RHBT records retiree drug subsidy (RDS) payments from Centers for Medicare Services (CMS) under the provisions of Medicare Part D. For fiscal years 2016 and 2015, the 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 the 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.

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 the 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, the RHBT is responsible for such liability.

***Deferred inflows of resources***

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. Balances of deferred inflows of resources may be presented in the Statements of Plan Net Position as aggregations of different types of deferred amounts. Deferred inflows in the Statements of Plan Net Position are composed of amounts related to changes in proportion and differences between RHBT's contributions and proportionate share of contributions, differences in assumptions and differences between projected and actual earnings on pension plan investments related to pension.

***Humana gain share***

Effective January 1, 2012, the Humana MAPD contract provided sharing of financial incentives with the RHBT based on favorable medical loss ratios. The financial incentive receipts from Humana are recorded as reductions in the MCO payments. During fiscal year 2016, the RHBT received financial incentives from Humana to reduce capitation payment costs savings of \$0.8 million, which is down \$0.5 million from the savings recorded in 2015.

***Administrative service fees***

The 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.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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***Other operating expenses***

Other operating expenses are comprised primarily of:

- Professional fees
- Personnel costs
- Lease costs from PEIA

RHBT and PEIA share:

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

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

***Fair value measurements***

RHBT measures certain investments at fair value for financial reporting purposes. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. RHBT categorizes fair value measurements within the fair value hierarchy established by GAAP in accordance with GASB Statement No. 72.

The fair value hierarchy established under GASB Statement No. 72 categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs – Inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs – Unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and considers factors specific to the investment.

Fair value of the securities RHBT holds with the WV IMB are determined as follows:

- Equity securities are valued at the last sale price or official closing price reported in the market in which they are primarily traded. If no sales have been recorded within the five days of the financial statement date, the fair value of the securities is determined in accordance with approved procedures.
- Open-end regulated investment companies or other commingled investment funds are valued at the net asset value of the fund as reported by the fund's administrator.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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- Future contracts are valued at the last settlement price established each day by the exchange on which they traded.
- Fixed income securities are valued according to prices furnished by independent pricing services to the securities custodian. These services determine the security prices by a number of methods including, but not limited to, dealer quotes, live market trading levels when available, live feeds of trade execution data, spreads over U.S. Treasury securities, and other models and formulae appropriated to the specific security type.
- Repurchase agreements and time deposits are valued at amortized cost, provided such amount approximates fair value.

Investments for which the fair value cannot be determined by one of the above listed processes are valued at fair value as determined in accordance with the WV IMB's established procedures.

***Future adoption of accounting pronouncements***

The GASB has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for RHBT in next fiscal year 2017. The requirements of this Statement are designed to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general financial statements of state and local governmental OPEB plans for making decisions and assessing accountability. Management has not yet determined the effect that the adoption of GASB Statement No. 74 will have on its financial statements.

The GASB has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), to improve financial reporting surrounding postemployment benefits or OPEB provided to employees of state and local governmental employees. GASB 75 replaces the requirements of Statement No. 45 and No. 57. It establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expenses. Footnote disclosure and required supplementary information requirements about defined benefit OPEB are also addressed. The provisions of GASB 75 are effective for financial statements for periods beginning after June 15, 2017. Management has not yet determined the effect that GASB 75 will have on its financial statements.

***Subsequent events***

In preparing these financial statements, the RHBT has evaluated events and transactions for potential recognition or disclosure through December 21, 2016, the date the financial statements were available for issuance.

**4. Adoption of New Accounting Pronouncements**

During fiscal year 2016, the RHBT implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No 79, *Certain External Investment Pools and Pool Participants*. GASB 72 generally requires investments to be measured at fair value and disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques, organized by type of asset or liability reported at fair value. It also requires additional disclosures for investments in certain entities that calculate NAV per share (or its equivalent). GASB 79 establishes criteria for making the election to measure all of its investments at amortized cost for financial reporting purposes. The adoption of these standards had no effect on RHBT's statements of net position or changes in net position, but primarily related to modifications to the disclosures related to RHBT's cash equivalents and investment disclosures in Note 5.

During fiscal year 2016, RHBT also implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies, in the context of the current government financial reporting environment, the hierarchy of GAAP. This statement supersedes GASB Statement No. 55. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state



**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The sources of authoritative GAAP are categorized as follows: Category A – officially established accounting principles (GASB Statements) and Category B – GASB Technical Bulletins, GASB Implementation Guides, and literature of the AICPA cleared by the GASB. The adoption of this standard had no effect on RHBT's statements of net position or changes in net position.

**5. Deposit and Investment Disclosures**

RHBT is mandated by statute to have its cash and investments managed by the WVIMB and BTI. However, RHBT currently does not have specific policies addressing limitations on specific risk types, such as credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

***Equity position in investment pool managed by BTI***

**West Virginia Money Market Pool**

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RHBT participates in BTI's West Virginia Money Market Pool, which has been deemed to meet the GASB 79 criteria to be reported at amortized cost. The criteria specify that the Pool must transact with their participants at a stable net asset value per share and meet requirements for portfolio maturity, portfolio quality, portfolio diversification, portfolio liquidity, and shadow pricing. The BTI does not place limitations on or restrictions on participant withdrawals from the Pool, such as redemption notice periods, maximum transaction amounts, and any authority to impose liquidity fees or redemption gates. Accordingly, as a Pool participant the RHBT measures its investment in this Pool at amortized cost that approximates market value of \$87 and \$104 at June 30, 2016 and June 30, 2015, respectively. These deposits are reported as equity position in investment pools. Investment income earned is pro-rated to RHBT at rates specified by the BTI based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the Pool. Such funds are available to RHBT with overnight notice. BTI's audited financial statements, including the West Virginia Money Market Pool, are available on their website [www.wvbt.com](http://www.wvbt.com).

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The WV Money Market Pool has been rated AAAm by Standard & Poor's. A fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's.

The BTI limits the exposure to credit risk in the West Virginia Money Market Pool by requiring all corporate bonds to be rated AA- by Standard and Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard and Poor's and P-1 by Moody's. The Pool must have at least 15% of its assets in U.S. Treasury obligations guaranteed as to repayment of interest and principal by the United States of America.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

The following table provides information on the weighted-average credit ratings of the West Virginia Money Market Pool's investments:

Security Type	Credit Rating		2016		2015	
	Moody's	S&P	Carrying Value	Percent	Carrying Value	Percent
Commercial paper	P-1	A-1+	\$ 290,118	18.65%	\$ 186,737	9.88 %
	P-1	A-1	632,773	40.68	660,027	34.91
Corporate bonds and notes	Aa1	AA-	23,014	1.48	-	-
	Aa3	A+	-	-	10,005	.53
	Aa3	AA-	15,000	.96	10,000	.53
	Aa3	NR	-	-	10,000	.53
	A2	A	11,268	.72	-	-
U.S. agency bonds	Aaa	AA+	9,499	.61	81,994	4.34
U.S. Treasury notes	Aaa	AA+	231,398	14.88	229,760	12.15
U.S. Treasury bills	P-1	A-1+	19,982	1.28	92,059	4.87
Negotiable CDs	Aa2	AA-	3,000	.19	10,000	.53
	Aa3	AA-	6,000	.39	-	-
	P-1	A-1+	78,006	5.02	51,000	2.70
	P-1	A-1	121,001	7.78	142,000	7.51
U.S. agency discount notes	P-1	A-1+	-	-	304,342	16.10
Money market funds	Aaa	AAAm	72,370	4.65	90,017	4.76
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AA+	42,100	2.71	1,323	.07
U.S. agency notes	Aaa	AA+	-	-	11,200	.59
			<u>\$ 1,555,529</u>	<u>100.00%</u>	<u>\$ 1,890,464</u>	<u>100.00%</u>

*Concentration Of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the WV Money Market Pool's investment in a single corporate issuer. West Virginia statutes prohibit the West Virginia Money Market Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2016 and 2015, the Pool did not have investments in any one private corporation or association that represented more than 5% of assets.

*Custodial Credit Risk*

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the WV Money Market Pool will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All pools and accounts are subject to interest rate risk.

The overall weighted-average maturity (WAM) of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides the WAM for the various asset types in the West Virginia Money Market Pool:

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<u>Investment Type</u>	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Fair Value</u>	<u>WAM Days</u>	<u>Fair Value</u>	<u>WAM Days</u>
Repurchase agreements	\$ 42,100	1	\$ 12,523	1
U.S. Treasury notes	231,398	88	229,760	75
U.S. Treasury bills	19,982	91	92,059	123
Commercial paper	922,891	48	846,764	30
Certificates of deposit	208,007	40	203,005	51
U.S. agency discount notes	-	-	304,342	60
Corporate bonds and notes	49,282	14	30,000	75
U.S. agency bonds/notes	9,499	24	81,994	58
Money market funds	72,370	1	90,017	1
Total rated investments	<u>\$ 1,555,529</u>	49	<u>\$ 1,890,464</u>	47

RHBT's amount invested in the West Virginia Money Market Pool is \$87 at June 30, 2016, and \$104 at June 30, 2015, representing approximately 5.6% and 5.8%, respectively, of total investments in this Pool.

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The WV Money Market's Pool does not hold securities subject to foreign currency risk.

***Equity position in investment pools managed by WVIMB***

The 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 investment pools on the statements of plan net position.

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Large Cap Domestic Equity Pool	\$ 130,999	\$ 133,328
Non-Large Cap Domestic Equity Pool	31,019	31,606
International Equity Pool	118,113	110,303
International Non-Qualified Pool	48,963	53,223
Total Return Fixed Income Pool	55,439	62,717
Core Fixed Income Pool	25,400	27,261
Short-Term Fixed Income Pool	67	112
Hedge Funds Pool	66,295	61,028
Private Equity Pool	63,161	63,600
Real Estate Pool	64,582	64,073
Opportunistic Debt Pool	3,053	-
	<u>\$ 607,091</u>	<u>\$ 607,251</u>

*Liquidity Needs and Investment Objectives*

The RHBT is expected to have minimal liquidity needs until fiscal year 2017 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**  
**(in thousands)**

*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 the RHBT. (Policy targets and strategic allocations are established on a market value basis.)

<u>Asset Class</u>	<u>Policy Target</u>		<u>Strategic Allocation</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Domestic equity	30.0%	30.0%	27.5%	27.5%
International equity	30.0	30.0	27.5	27.5
Private equity	-	-	10.0	10.0
Fixed income	40.0	40.0	15.0	15.0
Hedge funds	-	-	10.0	10.0
Real estate	-	-	10.0	10.0
Total equity	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
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**

The Pool's objective is to exceed, net of external investment management fees, the S&P 500 Stock Index over three-to-five-year periods. Assets are managed by INTECH Investment Management, LLC (INTECH) and State Street Global Advisors (SSgA). The RHBT's amount invested in the Large Cap Domestic Equity Pool of \$130,999 and \$133,328 at June 30, 2016 and 2015, respectively, represents approximately 4.0% and 3.9%, respectively, of total investments in this Pool.

*Credit Risk*

The Pool is exposed to credit risk from certain investments made with cash collateral for securities loaned. This risk is limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase.

<u>Investment Type</u>	<u>June 30, 2016</u>			<u>Percent of Total Investment</u>
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	
Foreign corporate bonds	A	A	\$ 3,156	0.1 %
Foreign government bonds	Aa	A	10	0.0
Money market mutual funds	Aaa	AAA	132,987	3.6
Time deposits	P-1	A-1	105,546	2.8
U.S. corporate bonds	A	A	12,246	0.3
U.S. Government agency bonds	Aaa	AA	3,335	0.1
U.S. Government agency MBS	Aaa	AA	109,742	2.9
U.S. Treasury bonds	Aaa	AA	32,119	0.9
Total rated investments			<u>399,141</u>	<u>10.7</u>
Common stock			<u>3,322,262</u>	<u>89.3</u>
Total investments			<u>\$ 3,721,403</u>	<u>\$ 100.0 %</u>

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

This table includes investments received as collateral for repurchase agreements with a fair value of \$332,025 as compared to the amortized cost of the repurchase agreements of \$314,482.

<b>June 30, 2015</b>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Total Investment</u>
Corporate asset backed issues	Aaa	AAA	\$ 6,225	0.2 %
Corporate CMO	Aaa	AAA	2,345	0.1
Foreign asset backed issues	Aaa	AAA	529	0.0
Foreign corporate bonds	Aa	A	1,748	0.0
Foreign government bonds	Aa3	A	251	0.0
Preferred stock	A	A	42	0.0
Short-term issue	P-1	A-1	158,805	4.1
U.S. corporate bonds	A1	A	1,006	0.0
U.S. Government agency bonds	Aaa	AA	235	0.0
U.S. Government agency CMO interest-only	Aaa	AA	45	0.0
U.S. Government agency MBS	Aaa	AA	111,550	2.9
U.S. Treasury bonds	Aaa	AA	<u>39,426</u>	<u>1.0</u>
Total rated investments			<u>322,207</u>	<u>8.3</u>
Common stock			<u>3,533,100</u>	<u>91.7</u>
Total investments			<u>\$ 3,855,307</u>	<u>\$ 100.0 %</u>

This table includes investments received as collateral for repurchase agreements with a fair value of \$302,436 as compared to the amortized cost of the repurchase agreements of \$286,428.

*Concentration of Credit Risk*

The Pool is restricted from investing more than 5% of the value of the Pool in any one company. At June 30, 2016 and 2015, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2016 and 2015, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102% and the collateral is held in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB.

*Interest Rate Risk*

The Pool is exposed to interest rate risk from certain investments made with cash collateral for securities loaned. The weighted average maturity for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the WAM for applicable investments made with cash collateral for securities loaned as of June 30:

<u>Investment Type</u>	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>WAM (Days)</u>	<u>Fair Value</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 314,482	2	\$ 286,428	1
Asset backed issues	-	-	197	22
Time deposits	<u>105,545</u>	<u>1</u>	<u>137,472</u>	<u>1</u>
Total	<u>\$ 420,027</u>	<u>1</u>	<u>\$ 424,097</u>	<u>1</u>

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

*Foreign Currency Risk*

The Pool is exposed to no or minimal foreign currency risk.

The tables below summarize the valuation of the investment securities in accordance with the fair value hierarchy levels as of June 30:

<u>Assets</u>	<b>June 30, 2016</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Common stock	\$ 3,150,846	\$ -	\$ -	\$ 3,150,846
Futures contracts	3,026	-	-	3,026
Investments made with cash collateral for securities loaned	110,454	420,027	-	530,481
Money market mutual funds	22,533	-	-	22,533
Total	<u>\$ 3,286,859</u>	<u>\$ 420,027</u>	<u>\$ -</u>	<u>\$ 3,706,886</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2016.

<u>Assets</u>	<b>June 30, 2015</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Common stock	\$ 3,393,869	\$ -	\$ -	\$ 3,393,869
Investments made with cash collateral for securities loaned	-	424,097	-	424,097
Short-term issues	21,333	-	-	21,333
Total	<u>\$ 3,415,202</u>	<u>\$ 424,097</u>	<u>\$ -</u>	<u>\$ 3,839,299</u>

**Liabilities**

Futures contracts	\$ (203)	\$ -	\$ -	\$ (203)
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There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2015.

**Non-Large Cap Domestic Equity Pool**

The pool invests in the equities of small to mid-sized companies and its objective is to exceed, net of external investment management fees, the Russell 2500 Index over three-to-five-year periods. Assets are managed by AJO and Westfield Capital Management (Westfield). The RHBT's amount invested in the Non-Large Cap Domestic Pool of \$31,019 and \$31,606 at June 30, 2016 and 2015, respectively, represents approximately 4.0% and 3.9%, respectively, of total investments in this Pool.

*Credit Risk*

The Pool is exposed to credit risk from certain investments made with cash collateral for securities loaned. This risk is limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

The following tables provide information on the weighted average credit ratings of the Pool's investments as of June 30:

<b>June 30, 2016</b>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Total Investment</u>
Foreign corporate bonds	A	A	\$ 2,198	0.2 %
Foreign government bonds	Aa	A	7	0.0
Money market mutual funds	Aaa	AAA	88,686	7.7
Time deposits	P-1	A-1	73,468	6.4
U.S. corporate bonds	A	A	8,524	0.7
U.S. Government agency bonds	Aaa	AA	2,322	0.2
U.S. Government agency MBS	Aaa	AA	76,389	6.6
U.S. Treasury bonds	Aaa	AA	22,357	1.9
Total rated investments			<u>273,951</u>	<u>23.7</u>
Common stock			<u>880,130</u>	<u>76.3</u>
Total investments			<u>\$ 1,154,081</u>	<u>\$ 100.0 %</u>

This table includes investments received as collateral for repurchase agreements with a fair value of \$231,116 as compared to the amortized cost of the repurchase agreements of \$218,904.

<b>June 30, 2015</b>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Total Investment</u>
Corporate asset backed issues	Aaa	AAA	\$ 4,720	0.4 %
Corporate CMO	Aaa	AAA	1,778	0.2
Foreign asset backed issues	Aaa	AAA	401	0.0
Foreign corporate bonds	Aa	A	1,325	0.1
Foreign government bonds	Aa#	A	190	0.0
Preferred stock	A	A	32	0.0
Short-term issue	P-1	A-1	112,978	9.8
U.S. corporate bonds	A1	A	762	0.1
U.S. Government agency bonds	Aaa	AA	178	0.0
U.S. Government agency CMO interest-only	Aaa	AA	34	0.0
U.S. Government agency MBS	Aaa	AA	84,577	7.4
U.S. Treasury bonds	Aaa	AA	29,892	2.6
Total rated investments			<u>236,867</u>	<u>20.6</u>
Common stock			<u>911,488</u>	<u>79.4</u>
Total investments			<u>\$ 1,148,355</u>	<u>\$ 100.0 %</u>

This table includes investments received as collateral for repurchase agreements with a fair value of \$229,307 as compared to the amortized cost of the repurchase agreements of \$217,169.

*Concentration of Credit Risk*

The Pool is restricted from investing more than 5% of the value of the Pool in any one company. At June 30, 2016 and 2015, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

*Custodial Credit Risk*

At June 30, 2016 and 2015, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102% and the collateral is held in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB.

*Interest Rate Risk*

The Pool is exposed to interest rate risk from certain investments made with cash collateral for securities loaned. The weighted average maturity for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the WAM for applicable investments made with cash collateral for securities loaned as of June 30:

<u>Investment Type</u>	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>WAM (Days)</u>	<u>Fair Value</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 218,904	2	\$ 217,169	1
Asset backed issues	-	-	149	22
Time deposits	<u>73,468</u>	<u>1</u>	<u>104,230</u>	<u>1</u>
Total	<u>\$ 292,372</u>	<u>1</u>	<u>\$ 321,548</u>	<u>1</u>

*Foreign Currency Risk*

The Pool is exposed to no or minimal foreign currency risk.

*Fair Value Measurements*

The tables below summarize the valuation of the investment securities in accordance with the fair value hierarchy levels as of June 30:

<u>Assets</u>	<u>June 30, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock	\$ 760,811	\$ -	\$ -	\$ 760,811
Investments made with cash collateral for securities loaned	76,886	292,372	-	369,258
Money market mutual fund	<u>11,800</u>	<u>-</u>	<u>-</u>	<u>11,800</u>
Total	<u>\$ 849,497</u>	<u>\$ 292,372</u>	<u>\$ -</u>	<u>\$ 1,141,869</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2016.

<u>Assets</u>	<u>June 30, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock	\$ 805,922	\$ -	\$ -	\$ 805,922
Investments made with cash collateral for securities loaned	-	321,548	-	321,548
Short-term issue	<u>8,747</u>	<u>-</u>	<u>-</u>	<u>8,747</u>
Total	<u>\$ 814,669</u>	<u>\$ 321,548</u>	<u>\$ -</u>	<u>\$ 1,136,217</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2015.



**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

**International Equity Pool**

This pool invests in the equities of international companies. Assets are managed by Acadian Asset Management, LLC (Acadian), Axiom International Investors, LLC (Axiom), Brandes Investment Partners, L.P. (Brandes), LSV Asset Management (LSV), and Oberweis Asset Management, Inc. (Oberweis). The objective of the Pool is to exceed, net of external investment management fees, Morgan Stanley Capital International's All Country World Free Ex US Index over three-to-five-year periods.

The RHBT's amount invested in the International Equity Pool of \$118,113 and \$110,303 at June 30, 2016 and 2015, respectively, represents approximately 4.1% and 4.0%, respectively, of total investments in this Pool.

*Credit Risk*

The pool is exposed to credit risk from certain investments made with cash collateral for securities loaned. This risk is limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase.

<u>Investment Type</u>	<u>June 30, 2016</u>			<u>Percent of Total Investment</u>
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	
Foreign corporate bonds	<b>A</b>	<b>A</b>	<b>\$ 1,127</b>	<b>0.0 %</b>
Foreign government bonds	<b>Aa</b>	<b>A</b>	<b>4</b>	<b>0.0</b>
Money market mutual funds	<b>Aaa</b>	<b>AAA</b>	<b>69,992</b>	<b>2.4</b>
Time deposits	<b>P-1</b>	<b>A-1</b>	<b>37,717</b>	<b>1.2</b>
U.S. corporate bonds	<b>A</b>	<b>A</b>	<b>4,376</b>	<b>0.1</b>
U.S. Government agency bonds	<b>Aaa</b>	<b>AA</b>	<b>1,192</b>	<b>0.0</b>
U.S. Government agency MBS	<b>Aaa</b>	<b>AA</b>	<b>39,216</b>	<b>1.3</b>
U.S. Treasury bonds	<b>Aaa</b>	<b>AA</b>	<b>11,478</b>	<b>0.4</b>
Total rated investments			<b>165,102</b>	<b>5.4</b>
Common stock			<b>2,797,848</b>	<b>92.4</b>
Preferred stock			<b>68,037</b>	<b>2.2</b>
Rights			<b>217</b>	<b>0.0</b>
Total investments			<b>\$ 3,031,204</b>	<b>\$ 100.0 %</b>

This table includes investments received as collateral for repurchase agreements with a fair value of \$118,650 as compared to the amortized cost of the repurchase agreements of \$112,380.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<b>June 30, 2015</b>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Total Investment</u>
Corporate asset backed issues	Aaa	AAA	\$ 3,101	0.1 %
Corporate CMO	Aaa	AAA	1,168	0.0
Foreign asset backed issues	Aaa	AAA	264	0.0
Foreign corporate bonds	Aa	A	871	0.0
Foreign government bonds	Aa	A	125	0.0
Short-term issue	Aaa	AAA	32,015	1.1
Time deposits	P-1	A-1	68,488	2.3
U.S. corporate bonds	A	A	501	0.0
U.S. Government agency bonds	Aaa	AA	117	0.0
U.S. Government agency CMO interest only	Aaa	AA	22	0.0
U.S. Government agency MBS	Aaa	AA	55,574	1.9
U.S. Treasury bonds	Aaa	AA	19,642	0.7
Total rated investments			<u>181,888</u>	<u>6.1</u>
Common stock			2,747,001	92.5
Preferred stock			40,815	1.4
Rights			8	0.0
Total investments			<u>\$ 2,969,712</u>	<u>\$ 100.0 %</u>

This table includes investments received as collateral for repurchase agreements with a fair value of \$150,672 as compared to the amortized cost of the repurchase agreements of \$142,698.

*Concentration of Credit Risk*

The pool is restricted from investing more than 5% of the value of the pool in any one company. At June 30, 2016 and 2015, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2016 and 2015, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102% and the collateral is held in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB.

*Interest Rate Risk*

The Pool is exposed to interest rate risk from certain investments made with cash collateral for securities loaned. The weighted average maturity for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the WAM for applicable investments made with cash collateral for securities loaned as of June 30:

<u>Investment Type</u>	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>WAM (Days)</u>	<u>Fair Value</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 112,380	2	\$ 142,698	1
Asset backed issues	-	-	97	22
Time deposits	<u>37,716</u>	<u>1</u>	<u>68,488</u>	<u>1</u>
Total investments	<u>\$ 150,096</u>	<u>1</u>	<u>\$ 211,283</u>	<u>1</u>

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

*Foreign Currency Risk*

The Pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. The tables below show the amounts at fair value (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30:

<u>Currency</u>	<u>June 30, 2016</u>			<u>Percent of Total Investments and Cash</u>
	<u>Investments</u>	<u>Cash</u>	<u>Total</u>	
Australian Dollar	\$ 70,519	\$ 1,384	\$ 71,903	2.4 %
Brazil Real	134,558	1,156	135,714	4.5
British Pound	251,332	2,256	253,588	8.3
Canadian Dollar	114,574	211	114,785	3.8
Chilean Peso	12,200	685	12,885	0.4
Czech Koruna	8,630	368	8,998	0.3
Danish Krone	21,390	1,390	22,780	0.7
Egyptian Pound	1,631	(20)	1,611	0.1
Emirati Dirham	5,631	5	5,636	0.2
Euro Currency Unit	423,512	504	424,016	13.8
Hong Kong Dollar	277,680	776	278,456	9.2
Hungarian Forint	8,991	135	9,126	0.3
Indian Rupee	64,154	697	64,851	2.1
Indonesian Rupiah	28,164	132	28,296	0.9
Israeli Shekel	16,429	49	16,478	0.5
Japanese Yen	381,024	2,588	383,612	12.6
Malaysian Ringgit	24,344	207	24,551	0.8
Mexican Peso	44,979	383	45,362	1.5
New Taiwan Dollar	63,355	1,166	64,521	2.1
New Zealand Dollar	7,782	3	7,785	0.3
Norwegian Krone	20,899	28	20,927	0.7
Pakistan Rupee	5,150	-	5,150	0.2
Philippine Peso	10,085	1	10,086	0.3
Polish Zloty	5,239	-	5,239	0.2
Qatari Riyal	407	16	423	0.0
Singapore Dollar	13,817	105	13,922	0.5
South African Rand	38,313	94	38,407	1.3
South Korean Won	188,612	1,479	190,091	6.3
Swedish Krona	52,296	1	52,297	1.7
Swiss Franc	95,697	-	95,697	3.1
Thailand Baht	47,149	1	47,150	1.6
Turkish Lira	55,220	507	55,727	1.8
Total	<u>\$ 2,493,763</u>	<u>\$ 16,307</u>	<u>\$ 2,510,070</u>	<u>82.5 %</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 \$531,171, or 17.5%.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<b>June 30, 2015</b>				
<b>Currency</b>	<b>Investments</b>	<b>Cash</b>	<b>Total</b>	<b>Percent of Total Investments and Cash</b>
Australian Dollar	\$ 71,411	\$ 21	\$ 71,432	2.4 %
Brazil Real	113,460	829	114,289	3.8
British Pound	272,285	1,049	273,334	9.2
Canadian Dollar	130,182	62	130,244	4.4
Czech Koruna	11,113	-	11,113	0.4
Danish Krone	24,755	1	24,756	0.8
Egyptian Pound	3,762	-	3,762	0.1
Emirati Dirham	3,773	-	3,773	0.1
Euro Currency Unit	410,970	(51)	410,919	13.9
Hong Kong Dollar	267,032	979	268,011	9.0
Hungarian Forint	9,379	106	9,485	0.3
Indian Rupee	49,212	1,019	50,231	1.7
Indonesian Rupiah	19,720	39	19,759	0.7
Israeli Shekel	19,243	3	19,246	0.6
Japanese Yen	401,766	2,410	404,176	13.6
Malaysian Ringgit	12,366	252	12,618	0.4
Mexican Peso	35,498	5	35,503	1.2
New Taiwan Dollar	70,408	2,623	73,031	2.5
New Zealand Dollar	1,056	57	1,113	0.0
Norwegian Krone	26,742	34	26,776	0.9
Pakistan Rupee	5,610	-	5,610	0.2
Philippine Peso	8,810	-	8,810	0.3
Polish Zloty	10,753	71	10,824	0.4
Qatari Riyal	300	9	309	0.0
Singapore Dollar	13,923	151	14,074	0.5
South African Rand	48,901	551	49,452	1.7
South Korean Won	174,570	1,238	175,808	5.9
Swedish Krona	48,637	1	48,638	1.6
Swiss Franc	97,333	14	97,347	3.3
Thailand Baht	25,382	29	25,411	0.9
Turkish Lira	45,967	-	45,967	1.5
Total	<u>\$ 2,434,319</u>	<u>\$ 11,502</u>	<u>\$ 2,445,821</u>	<u>82.3 %</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 \$527,419, or 17.7%.

*Fair Value Measurements*

The tables below summarize the valuation of the investment securities in accordance with the fair value hierarchy levels as of June 30:

<b>June 30, 2016</b>				
<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stock	\$ 2,736,592	\$ -	\$ -	\$ 2,736,592
Foreign currency contracts	-	68	-	68
Investments made with cash collateral for securities loaned	39,472	150,096	-	189,568
Preferred stock	68,037	-	-	68,037
Rights	217	-	-	217
Money market mutual fund	30,520	-	-	30,520
Total	<u>\$ 2,874,838</u>	<u>\$ 150,164</u>	<u>\$ -</u>	<u>\$ 3,025,002</u>

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<u>Liabilities</u>	<u>June 30, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Foreign currency contracts	<u>\$ -</u>	<u>\$ (63)</u>	<u>\$ -</u>	<u>\$ (63)</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2016.

<u>Assets</u>	<u>June 30, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stock	\$ 2,677,637	\$ -	\$ -	\$ 2,677,637
Foreign currency contracts	-	35	-	35
Investments made with cash collateral for securities loaned	-	211,283	-	211,283
Preferred stock	40,795	-	-	40,795
Rights	8	-	-	8
Money market mutual fund	<u>32,015</u>	<u>-</u>	<u>-</u>	<u>32,015</u>
Total	<u>\$ 2,750,455</u>	<u>\$ 211,318</u>	<u>\$ -</u>	<u>\$ 2,961,773</u>

<u>Liabilities</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Foreign currency contracts	<u>\$ -</u>	<u>\$ (62)</u>	<u>\$ -</u>	<u>\$ (62)</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2015.

**International Non-qualified Pool**

This Pool invests in The Silchester International Investors International Value Equity Trust (Silchester). The Pool's objective is to produce investment returns that exceed the Morgan Stanley Capital International's Europe Australasia Far East 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*). The Pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this Pool at June 30, 2016 and 2015 was \$141,311 and \$153,554, respectively. This pool, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. The Pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

The RHBT's amount invested in the International Non-qualified Pool of \$48,963 and \$53,223 at June 30, 2016 and 2015, respectively, represents approximately 34.7% and 34.7%, respectively, of total investments in this Pool.

*Fair Value Measurements*

GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share practical expedient. The investment in Silchester is valued using the net asset value per share practical expedient. As Silchester is the only investment in the pool, a fair value hierarchy table is not presented.

*Redemption Provisions*

The Pool is restricted to the following redemption provisions: monthly on the first business day.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

**Total Return Fixed Income Pool**

This Pool's objective is to earn superior returns with low volatility by actively investing in the extended fixed income markets. Dodge & Cox (DAC), Franklin Templeton Investments (FTI), and Western Asset Management Company (Western) manage the Pool. The Pool's investment objective, net of external investment management fees, is to meet or exceed the Barclay Capital Universal Index.

The RHBT's amount invested in the Total Return Fixed Income Pool of \$55,439 and \$62,717 at June 30, 2016 and 2015, respectively, represented approximately 2.6% and 2.6%, respectively, of total investments in the 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 tables provide the weighted average credit ratings of the rated assets in the Pool as of June 30:

<u>Investment Type</u>	<u>June 30, 2016</u>			<u>Percent of Total Investment</u>
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	
Bank loan	<b>B</b>	<b>B</b>	\$ 936	0.0 %
Corporate asset backed issues	<b>A</b>	<b>A</b>	36,980	1.7
Corporate CMO	<b>Ba</b>	<b>BB</b>	27,879	1.3
Corporate preferred securities	<b>Ba</b>	<b>BB</b>	10,472	0.5
Foreign asset backed issues	<b>A</b>	<b>A</b>	11,726	0.5
Foreign corporate bonds	<b>Baa</b>	<b>BBB</b>	293,586	13.6
Foreign government bonds	<b>Ba</b>	<b>BB</b>	217,700	10.1
Money market mutual funds	<b>Aaa</b>	<b>AAA</b>	66,469	3.1
Municipal bonds	<b>A</b>	<b>A</b>	40,081	1.9
Time deposits	<b>P-1</b>	<b>A-1</b>	20,028	0.9
U.S. corporate bonds	<b>Baa</b>	<b>BBB</b>	542,373	25.2
U.S. Government agency bonds	<b>Aaa</b>	<b>AA</b>	3,332	0.2
U.S. Government agency CMO	<b>Aaa</b>	<b>AA</b>	64,627	3.0
U.S. Government agency CMO interest-only	<b>Aaa</b>	<b>AA</b>	6,519	0.3
U.S. Government agency MBS	<b>Aaa</b>	<b>AA</b>	275,666	12.8
U.S. Government agency TBA	<b>Aaa</b>	<b>AA</b>	637	0.0
U.S. Treasury bonds	<b>Aaa</b>	<b>AA</b>	107,797	5.0
U.S. Treasury inflation-protected securities	<b>Aaa</b>	<b>AA</b>	26,550	1.2
Total rated investments			<u>\$ 1,753,358</u>	<u>81.3 %</u>

Unrated investments include investments in common stock valued at \$32,528, investments in corporate ABS residual valued at \$5,385, investments in other funds valued at \$360,669, and options contracts purchased valued at \$1,192. These unrated securities represent 18.7% of the fair value of the Pool's investments.

This table includes investments received as collateral for repurchase agreements with a fair value of \$63,005 as compared to the amortized cost of the repurchase agreements of \$59,675.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<b>June 30, 2015</b>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Total Investment</u>
Corporate asset backed issues	A	AA	\$ 116,267	4.8 %
Corporate CMO	B	B	101,927	4.2
Corporate CMO interest-only	C	Not Rated	7,706	0.3
Corporate preferred securities	Ba	BB	10,430	0.4
Foreign asset backed issues	A	A	20,876	0.9
Foreign corporate bonds	Baa	BBB	286,053	11.9
Foreign government bonds	Baa	BB	212,335	8.8
Municipal bonds	A	A	51,734	2.2
Short-term issues	Aaa	AAA	102,153	4.3
Time deposits	P-1	A-1	7,174	0.3
U.S. corporate bonds	Baa	BBB	578,292	24.2
U.S. Government agency bonds	Aaa	AA	2,579	0.1
U.S. Government agency CMO	Aaa	AA	80,795	3.4
U.S. Government agency CMO interest-only	Aaa	AA	3,819	0.2
U.S. Government agency MBS	Aaa	AA	298,744	12.4
U.S. Government agency TBA	Aaa	AA	884	0.0
U.S. Treasury bonds	Aaa	AA	113,459	4.7
U.S. Treasury inflation-protected securities	Aaa	AA	20,616	0.9
Total rated investments			<u>\$ 2,015,843</u>	<u>84.0 %</u>

Unrated investments include investments in common stock valued at \$7,266, investments in corporate CMO residuals valued at \$21,983, investments in other funds valued at \$356,277, and options contracts purchased valued at \$1,114. These unrated securities represent 16% of the fair value of the Pool's investments.

This table includes investments received as collateral for repurchase agreements with a fair value of \$15,783 as compared to the amortized cost of the repurchase agreements of \$14,948.

*Concentration of Credit Risk*

The Pool is restricted from investing more than 5% of the value of the Pool in any one corporate name. At June 30, 2016 and 2015, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2016 and 2015, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102% and the collateral is held in the name of the WVIMB. Investments in commingled funds are held in an account in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

*Interest Rate Risk*

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

<b>Investment Type</b>	<b>2016</b>		<b>2015</b>	
	<b>Fair Value</b>	<b>Effective Duration (Years)</b>	<b>Fair Value</b>	<b>Effective Duration (Years)</b>
Bank loan	\$ 936	0.1	\$ -	-
Corporate asset backed issues	36,980	1.8	115,952	2.2
Corporate ABS residual	5,385	N/A	-	-
Corporate CMO	27,879	1.9	101,802	1.8
Corporate CMO interest-only			7,706	18.8
Corporate preferred securities	10,472	0.1	10,428	0.3
Foreign asset backed issues	11,726	2.4	20,849	1.6
Foreign corporate bonds	292,987	6.6	285,960	6.0
Foreign government bond	217,698	6.0	212,324	6.3
Investments in other funds	360,669	2.9	356,277	3.2
Money market mutual funds	66,469	N/A	-	-
Short-term issue			102,153	0.0
Municipal bonds	40,081	10.4	51,734	8.4
Options contracts purchase	1,192	N/A	-	-
Repurchase agreement	59,675	0.0	14,948	-
Time deposits	20,028	0.0	7,173	-
U.S. corporate bonds	540,049	8.3	578,249	6.6
U.S. Government agency bonds	2,699	3.3	2,566	4.3
U.S. Government agency CMO	64,627	0.9	80,795	2.1
U.S. Government agency CMO interest-only	6,519	34.0	3,816	2.2
U.S. Government agency MBS	254,842	1.7	292,921	2.6
U.S. Government agency TBA	637	0.0	884	2.1
U.S. Treasury bonds	101,702	3.0	111,398	4.2
U.S. Treasury inflation-protected securities	26,550	19.5	20,616	14.0
Total investments	<u>\$ 2,149,802</u>	<u>5.1</u>	<u>\$ 2,378,551</u>	<u>4.5</u>

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. The Pool held \$407,958 and \$623,846 of these securities at June 30, 2016 and 2015, respectively, representing approximately 19.0% and 26.0% of the value of the Pool's securities.

*Foreign Currency Risk*

The Pool has foreign government bonds and foreign corporate bonds that are denominated in foreign currencies and are exposed to foreign currency risks. The Pool also has foreign denominated futures contracts, a currency swap, and foreign exchange forward contracts. Additionally, the Pool has indirect exposure to foreign currency risk through its ownership interests in certain of the commingled investment pools. Approximately \$82,390, or 23%, of the commingled investment pools hold substantially all of their investments in foreign currencies. This represents approximately 4% of the value of the Pool's securities. The tables below show the amounts at fair value (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30:



**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<b>June 30, 2016</b>				
<b>Currency</b>	<b>Investments</b>	<b>Cash</b>	<b>Total</b>	<b>Percent of Total Investments and Cash</b>
Brazil Real	\$ 18,357	\$ 739	\$ 19,096	0.9 %
British Pound	(16)	29	13	0.0
Colombian Peso	3,827	-	3,827	0.2
Deutsche Mark	2,242	-	2,242	0.1
Euro Currency Unit	7,012	4,749	11,761	0.5
Ghana Cedi	1,871	308	2,179	0.1
Indian Rupee	3,192	-	3,192	0.1
Japanese Yen	50,390	1,458	51,848	2.4
Kenyan Shilling	2,149	-	2,149	0.1
Mexican Peso	36,421	-	36,421	1.7
Russian Ruble	9,159	588	9,747	0.4
South African Rand	4,814	192	5,006	0.2
Turkish Lira	5,094	-	5,094	0.2
Ugandan Shilling	1,919	-	1,919	0.1
Uruguayan Peso	3,759	-	3,759	0.2
Zambian Kwacha	-	311	311	0.0
Total	<u>\$ 150,190</u>	<u>\$ 8,374</u>	<u>\$ 158,564</u>	<u>7.2 %</u>

This table excludes investments and cash held by the Pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated investments and cash is \$2,029,009. This represents approximately 93% of the value of the Pool's investments and cash.

<b>June 30, 2015</b>				
<b>Currency</b>	<b>Investments</b>	<b>Cash</b>	<b>Total</b>	<b>Percent of Total Investments and Cash</b>
Brazil Real	\$ 16,991	\$ -	\$ 16,991	0.7 %
Colombian Peso	2,706	-	2,706	0.1
Deutsche Mark	2,086	-	2,086	0.0
Euro Currency Unit	29,225	2,006	31,231	1.3
Ghana Cedi	1,267	-	1,267	0.1
Indian Rupee	3,385	-	3,385	0.1
Japanese Yen	53,751	2,782	56,533	2.3
Kenyan Shilling	1,937	-	1,937	0.1
Mexican Peso	35,266	162	35,428	1.5
Nigerian Naira	461	-	461	0.0
Russian Ruble	5,933	192	6,125	0.3
Serbian Dinar	1,634	-	1,634	0.1
South African Rand	5,431	214	5,645	0.2
Swiss Franc	1,375	-	1,375	0.1
Turkish Lira	3,302	-	3,302	0.1
Ugandan Shilling	1,248	3	1,251	0.1
Uruguayan Peso	4,093	-	4,093	0.2
Zambian Kwacha	2,594	12	2,606	0.1
Total	<u>\$ 172,685</u>	<u>\$ 5,371</u>	<u>\$ 178,056</u>	<u>7.4 %</u>

This table excludes investments and cash held by the Pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated investments and cash is \$2,234,766. This represents approximately 93% of the value of the Pool's investments and cash.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

*Fair Value Measurements*

GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share practical expedient. The tables that follow set forth information about the level within the fair value hierarchy at which the Pool's assets and liabilities are measured at June 30. All the Pool's investments in other funds were valued using the net asset value per share practical expedient, as such they have not been categorized in the fair value hierarchy.

<b>Assets</b>	<b>June 30, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Bank loan	\$ -	\$ 936	\$ -	\$ 936
Corporate asset backed issues	-	36,980	-	36,980
Corporate ABS residual	-	5,385	-	5,385
Corporate CMO	-	27,879	-	27,879
Corporate preferred security	10,472	-	-	10,472
Foreign asset backed issues	-	11,726	-	11,726
Foreign corporate bonds	-	292,987	-	292,987
Foreign currency forward contracts	-	1,054	-	1,054
Foreign government bonds	-	217,698	-	217,698
Future contracts	5,597	-	-	5,597
Investments made with cash collateral for securities loaned	20,960	79,703	-	100,663
Money market mutual fund	45,509	-	-	45,509
Municipal bonds	-	40,081	-	40,081
Options contracts purchased	849	343	-	1,192
Swaps	-	837	-	837
U.S. corporate bonds	-	540,049	-	540,049
U.S. Government agency bond	-	2,699	-	2,699
U.S. Government agency CMO	-	64,627	-	64,627
U.S. Government agency CMO interest-only	-	6,519	-	6,519
U.S. Government agency MBS	-	254,842	-	254,842
U.S. Government agency TBA	-	637	-	637
U.S. Treasury bonds	-	101,702	-	101,702
U.S. Treasury inflation protected securities	-	26,550	-	26,550
Total	<u>\$ 83,387</u>	<u>\$ 1,713,234</u>	<u>\$ -</u>	<u>\$ 1,796,621</u>
Investments in other funds				<u>360,669</u>
Total				<u>\$ 2,157,290</u>
<b>Liabilities</b>				
Foreign currency forward contracts	\$ -	\$ (4,747)	\$ -	\$ (4,747)
Future contracts	(7,013)	-	-	(7,013)
Options contracts written	(142)	(293)	-	(435)
Swaps	-	(18,200)	-	(18,200)
Total	<u>\$ (7,155)</u>	<u>\$ (23,240)</u>	<u>\$ -</u>	<u>\$ (30,395)</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2016.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<u>Assets</u>	<b>June 30, 2015</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate asset backed issues	\$ -	\$ 115,941	\$ -	\$ 115,941
Corporate ABS residual	-	21,983	-	21,983
Corporate CMO	-	101,802	-	101,802
Corporate CMO interest-only	-	7,706	-	7,706
Corporate preferred security	10,428	-	-	10,428
Foreign asset backed issues	-	20,849	-	20,849
Foreign corporate bonds	-	285,960	-	285,960
Foreign currency forward contracts	-	2,675	-	2,675
Foreign government bonds	-	212,324	-	212,324
Future contracts	3,193	-	-	3,193
Investments made with cash collateral for securities loaned	-	22,132	-	22,132
Municipal bonds	-	51,734	-	51,734
Options contracts purchased	1,114	-	-	1,114
Short-term issue	102,153	-	-	102,153
Swaps	-	531	-	531
U.S. corporate bonds	-	578,249	-	578,249
U.S. Government agency bond	-	2,566	-	2,566
U.S. Government agency CMO	-	80,795	-	80,795
U.S. Government agency CMO interest-only	-	3,816	-	3,816
U.S. Government agency MBS	-	292,921	-	292,921
U.S. Government agency TBA	-	884	-	884
U.S. Treasury bonds	-	111,398	-	111,398
U.S. Treasury inflation protected securities	-	20,616	-	20,616
Total	<u>\$ 116,888</u>	<u>\$ 1,934,882</u>	<u>\$ -</u>	<u>\$ 2,051,770</u>
Investments in other funds				<u>356,277</u>
Total				<u>\$ 2,408,047</u>
<b><u>Liabilities</u></b>				
Foreign currency forward contracts	\$ -	\$ (292)	\$ -	\$ (292)
Future contracts	(660)	-	-	(660)
Options contracts written	<u>(1,244)</u>	<u>-</u>	<u>-</u>	<u>(1,244)</u>
Total	<u>\$ (1,904)</u>	<u>\$ (292)</u>	<u>\$ -</u>	<u>\$ (2,196)</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2015.

*Redemption Provisions*

The Pool is restricted to the following redemption provisions: daily.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

**Core Fixed Income Pool**

The main objective of this Pool is to generate investment income, provide stability and diversification, but not at the expense of the total return. JP Morgan Investment Advisors, Inc. (JPM) manages this Pool. This Pool's investment objective, net of external management fees, is to meet or exceed the Barclays Capital U.S. Aggregate Index.

The RHBT's amount invested in the Core Fixed Income Pool of \$25,400, and \$27,261 at June 30, 2016 and 2015, respectively, and represented approximately 2.6% and 2.6%, respectively, of total investments in this Pool.

*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 tables provide the weighted-average credit ratings of the rated assets in the Pool as of June 30:

<u>Investment Type</u>	<u>June 30, 2016</u>			<u>Percent of Total Investment</u>
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	
Corporate asset backed issues	Aa	AA	\$ 71,452	6.7 %
Corporate CMO	A	A	58,738	5.5
Corporate CMO interest-only	Ba	AAA	713	0.1
Corporate CMO principal-only	B	AA	200	0.0
Foreign asset backed issues	Aa	AA	1,793	0.2
Foreign corporate bonds	A	A	44,793	4.2
Foreign government bonds	Aa	A	7,252	0.7
Money market mutual funds	Aa	AAA	35,271	3.3
Municipal bonds	Aa	AA	9,782	0.9
Time deposits	P-1	A-1	13,097	1.2
U.S. corporate bonds	A	A	222,175	21.1
U.S. Government agency bonds	Aaa	AA	23,219	2.2
U.S. Government agency CMO	Aaa	AA	129,989	12.3
U.S. Government agency CMO interest-only	Aaa	AA	5,229	0.5
U.S. Government agency CMO principal only	Aaa	AA	9,002	0.8
U.S. Government agency MBS	Aaa	AA	201,029	19.0
U.S. Treasury bonds	Aaa	AA	204,730	19.3
U.S. Treasury inflation protected security	Aaa	AA	431	0.0
Total rated investments			<u>\$ 1,038,895</u>	<u>98.0 %</u>

Unrated securities include investments made with common stock valued at \$21,270, or 2.0% of the fair value of the Pool's investments.

This table includes investments received as collateral for repurchase agreements with a fair value of \$41,198 as compared to the amortized cost of the repurchase agreements of \$39,023.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<b>June 30, 2015</b>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Total Investment</u>
Corporate asset backed issues	A	A	\$ 76,880	7.0 %
Corporate CMO	A	A	87,661	8.0
Corporate CMO interest-only	Ba	AAA	1,198	0.1
Corporate CMO principal-only	B	AA	278	0.0
Foreign asset backed issues	Aa	AA	2,813	0.3
Foreign corporate bonds	A	A	46,435	4.3
Foreign government bonds	Aa	A	7,814	0.7
Municipal bonds	Aa	AA	8,646	0.8
Preferred stock	A	A	2	0.0
Short-term issue	Aaa	AAA	41,293	3.8
Time deposits	P-1	A-1	7,044	0.6
U.S. corporate bonds	A	A	222,329	20.4
U.S. Government agency bonds	Aaa	AA	21,742	2.0
U.S. Government agency CMO	Aaa	AA	144,364	13.2
U.S. Government agency CMO interest-only	Aaa	AA	6,921	0.6
U.S. Government agency CMO principal only	Aaa	AA	10,501	1.0
U.S. Government agency MBS	Aaa	AA	194,546	17.8
U.S. Treasury bonds	Aaa	AA	204,400	18.7
U.S. Treasury inflation protected security	Aaa	AA	415	0.0
Total rated investments			<u>1,085,282</u>	<u>99.3</u>
Common stock			<u>7,134</u>	<u>0.7</u>
Total			<u>\$ 1,092,416</u>	<u>100.0 %</u>

This table includes investments received as collateral for repurchase agreements with a fair value of \$15,496 as compared to the amortized cost of the repurchase agreements of \$14,676.

*Concentration of Credit Risk*

The Pool is restricted from investing more than 5% of the value of the Pool in any one corporate name. At June 30, 2016, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2016, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102% and the collateral is held in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

*Interest Rate Risk*

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

<u>Investment Type</u>	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>Effective Duration (Years)</u>	<u>Fair Value</u>	<u>Effective Duration (Years)</u>
Corporate asset backed issues	\$ 71,452	2.1	\$ 76,574	2.0
Corporate CMO	58,738	2.5	87,539	2.0
Corporate CMO interest-only	713	(17.4)	1,198	(8.5)
Corporate CMO principal-only	200	4.2	278	3.2
Foreign asset backed issues	1,793	0.1	2,786	0.1
Foreign corporate bonds	44,399	5.7	46,346	5.7
Foreign government bonds	7,251	9.0	7,800	8.7
Money market mutual funds	35,271	N/A	-	-
Municipal bonds	9,782	14.4	8,646	13.9
Repurchase agreements	39,023	0.0	14,676	0.0
Short-term issue	-	-	41,293	0.0
Time deposits	13,097	0.0	7,044	0.0
U.S. corporate bonds	220,665	6.3	222,273	6.1
U.S. Government agency bonds	22,805	3.8	21,730	4.7
U.S. Government agency CMO	129,989	3.0	144,364	3.7
U.S. Government agency CMO interest-only	5,229	5.9	6,919	7.6
U.S. Government agency CMO principal only	9,002	7.2	10,501	7.4
U.S. Government agency MBS	187,410	4.4	188,831	4.8
U.S. Treasury bonds	200,740	8.5	202,383	7.2
U.S. Treasury inflation protected security	431	3.4	415	5.4
Total	<u>\$ 1,057,990</u>	<u>4.9</u>	<u>\$ 1,091,596</u>	<u>4.8</u>

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective 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, 2016, the Pool held \$464,526 of these securities. This represents approximately 44.0% of the value of the Pool's securities.

*Foreign Currency Risk*

None of the securities held by the Pool are exposed to foreign currency risk.

*Fair Value Measurements*

The tables below summarize the valuation of the investment securities in accordance with the fair value hierarchy levels as of June 30:

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<u>Assets</u>	<u>June 30, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate asset backed issues	\$ -	\$ 71,452	\$ -	\$ 71,452
Corporate CMO	-	58,738	-	58,738
Corporate CMO interest - only	-	713	-	713
Corporate CMO principal - only	-	200	-	200
Foreign asset backed issues	-	1,793	-	1,793
Foreign corporate bonds	-	44,399	-	44,399
Foreign government bonds	-	7,251	-	7,251
Investments made with cash collateral for securities loaned	13,705	52,120	-	65,825
Money market mutual fund	21,566	-	-	21,566
Municipal bonds	-	9,782	-	9,782
U.S. corporate bonds	-	220,665	-	220,665
U.S. Government agency bond	-	22,805	-	22,805
U.S. Government agency CMO	-	129,989	-	129,989
U.S. Government agency CMO interest-only	-	5,229	-	5,229
U.S. Government agency CMO principal-only	-	9,002	-	9,002
U.S. Government agency MBS	-	187,410	-	187,410
U.S. Treasury bonds	-	200,740	-	200,740
U.S. Treasury inflation protected securities	-	431	-	431
Total	<u>\$ 35,271</u>	<u>\$ 1,022,719</u>	<u>\$ -</u>	<u>\$ 1,057,990</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2016.

<u>Assets</u>	<u>June 30, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate asset backed issues	\$ -	\$ 76,563	\$ -	\$ 76,563
Corporate CMO	-	87,539	-	87,539
Corporate CMO interest - only	-	1,198	-	1,198
Corporate CMO principal - only	-	278	-	278
Foreign asset backed issues	-	2,786	-	2,786
Foreign corporate bonds	-	46,346	-	46,346
Foreign government bonds	-	7,800	-	7,800
Investments made with cash collateral for securities loaned	-	21,731	-	21,731
Municipal bonds	-	8,646	-	8,646
Short-term issue	41,293	-	-	41,293
U.S. corporate bonds	-	222,273	-	222,273
U.S. Government agency bond	-	21,730	-	21,730
U.S. Government agency CMO	-	144,364	-	144,364
U.S. Government agency CMO interest-only	-	6,919	-	6,919
U.S. Government agency CMO principal-only	-	10,501	-	10,501
U.S. Government agency MBS	-	188,831	-	188,831
U.S. Treasury bonds	-	202,383	-	202,383
U.S. Treasury inflation protected securities	-	415	-	415
Total	<u>\$ 41,293</u>	<u>\$ 1,050,303</u>	<u>\$ -</u>	<u>\$ 1,091,596</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2015.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

**Short-Term Fixed Income Pool**

The main objective of this Pool is to maintain sufficient liquidity to fund withdrawals by the participant plans and to invest cash contributions until such time as the money can be transferred to other asset classes without sustaining capital losses. JP Morgan Investment Advisors, Inc. (JPM) manages the Pool. The Pool's investment objective, net of external investment fees, is to meet or exceed the Citigroup ninety-day T-bill Index plus fifteen basis points.

The RHBT's amount invested in the Short-Term Fixed Income Pool of \$67 and \$112 at June 30, 2016 and 2015, respectively, represented approximately 0.02% and 0.04%, respectively, of total investments in this Pool.

*Credit Risk*

The WVIMB limits the exposure to credit risk in the 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 tables provide information on the weighted average credit ratings of the Short-Term Fixed Income Pool's investments as of June 30.

<b>June 30, 2016</b>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percent of Total Investment</u>
Commercial paper	P-1	A-1	\$ 52,734	14.9 %
Money market mutual fund	Aaa	AAA	82,161	23.2
U.S. Government agency issues	P-1	A-1	130,482	37.0
U.S. Treasury issues	Aaa	AA	<u>88,046</u>	<u>24.9</u>
Total rated investments			<u>\$ 353,423</u>	<u>100.0 %</u>

This table includes U.S. Treasury notes received as collateral for repurchase agreements with a fair value of \$13,260 as compared to the amortized cost of the repurchase agreements of \$13,000.

<b>June 30, 2015</b>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percent of Total Investment</u>
Commercial paper	Aaa	AA	\$ 22,999	8.5 %
U.S. Government agency issues	Aaa	AA	136,763	50.5
U.S. Treasury issues	Aaa	AA	<u>110,922</u>	<u>41.0</u>
Total rated investments			<u>\$ 270,684</u>	<u>100.0 %</u>

This table includes U.S. Treasury notes received as collateral for repurchase agreements with a fair value of \$65,365 as compared to the amortized cost of the repurchase agreements of \$64,341.



**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

*Concentration of Credit Risk*

The Pool is restricted from investing more than 5% of the value of the Pool in any one corporate name. At June 30, 2016, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2016, the Pool held no investments that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the WVIMB. All remaining investments are held by the WVIMB's custodian in the name of the WVIMB.

*Interest Rate Risk*

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

<u>Investment Type</u>	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>WAM (Days)</u>	<u>Fair Value</u>	<u>WAM (Days)</u>
Commercial paper	\$ 52,734	22	\$ 22,999	19
Money market mutual fund	82,161	N/A	-	-
Repurchase agreement	13,000	1	64,341	1
U.S. Government agency issues	130,482	55	136,763	52
U.S. Treasury issues	74,786	28	45,557	70
Total investments	<u>\$ 353,163</u>	<u>39</u>	<u>\$ 269,660</u>	<u>40</u>

*Foreign Currency Risk*

The Pool has no investments that are subject to foreign currency risk.

*Fair Value Measurements*

The tables below summarize the valuation of the investment securities in accordance with the fair value hierarchy levels as of June 30:

<u>Assets</u>	<u>June 30, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Commercial paper	\$ -	\$ 52,734	\$ -	\$ 52,734
Money market mutual fund	82,161	-	-	82,161
Repurchase agreement	-	13,000	-	13,000
U.S. Government agency bonds	-	130,482	-	130,482
U.S. Treasury bonds	-	74,786	-	74,786
Total	<u>\$ 82,161</u>	<u>\$ 271,002</u>	<u>\$ -</u>	<u>\$ 353,163</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2016.

<u>Assets</u>	<u>June 30, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Commercial paper	\$ -	\$ 22,999	\$ -	\$ 22,999
Repurchase agreement	-	64,341	-	64,341
U.S. Government agency issues	-	136,763	-	136,763
U.S. Treasury bonds	-	45,557	-	45,557
Total	<u>\$ -</u>	<u>\$ 269,660</u>	<u>\$ -</u>	<u>\$ 269,660</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2015.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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**Hedge Fund Pool**

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This 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.

This 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. The Pool is restricted from investing more than 10% of the value of the Pool with any single manager. At June 30, 2016, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

The RHBT's amount invested in the Hedge Fund Pool of \$66,295 and \$61,028 at June 30, 2016 and 2015, respectively, represented approximately 4.1% and 3.7%, respectively, of total investments in this Pool.

*Fair Value Measurements*

U.S. GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share practical expedient. All of the Pool's investments in hedge funds were valued using the net asset value per share practical expedient. As these are the only investments in the Pool, a fair value hierarchy table is not presented.

**Private Equity Pool**

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This Pool was established to hold the WVIMB's investments in private equity funds, a hedge fund, and commingled investment fund. Franklin Park Associates, LLC has been retained by the WVIMB to provide consulting services for private equity funds. The hedge fund is managed by Bridgewater Associates, LP and the commingled investment fund is managed by State Street Global Advisors.

This Pool holds limited partnerships, shares in a hedge fund, a commingled investment fund 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. The commingled investment fund is held in an account in the name of the WVIMB. The Pool is restricted from investing more than 10% of the WVIMB's total private equity exposure in a single fund. At June 30, 2016, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

The RHBT's amount invested in the Private Equity Pool of \$63,161 and \$63,600 at June 30, 2016 and 2015, respectively, represented approximately 4.4% and 4.5%, respectively, of total investments in this Pool.

*Fair Value Measurements*

U.S. GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share practical expedient. The tables that follow sets forth information about the level within the fair value hierarchy at which the Pool's assets and liabilities are measured at June 30. All the Pool's investments in private equity partnerships and its investment in a multiple strategy hedge fund were valued using the net asset value per share practical expedient; as such, they have not been categorized in the fair value hierarchy.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

<u>Assets</u>	June 30, 2016			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investment in other fund	\$ 121,185	\$ -	\$ -	\$ 121,185
Money market mutual fund	51,357	-	-	51,357
Total	\$ 172,542	\$ -	\$ -	\$ 172,542
Private equity partnerships				1,091,308
Multiple strategy hedge fund				172,646
Total				<u>\$ 1,436,496</u>

There were no transfers in or out of Levels 1 and 2 and 3 during the year ended June 30, 2016.

<u>Assets</u>	June 30, 2015			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Short-term issue	\$ 56,757	\$ -	\$ -	\$ 56,757
Investment in other fund				31,813
Private equity partnerships				964,895
Multiple strategy hedge fund				350,711
Total				<u>\$ 1,404,176</u>

There were no transfers in or out of Levels 1 and 2 and 3 during the year ended June 30, 2015.

*Redemption Provisions*

The Pool is restricted to the following redemption provisions: ranging from monthly with 3 days prior written notice to every three years with 45 days prior written notice and subject to maximum withdrawal restrictions.

**Real Estate Pool**

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

The RHBT's amount invested in the Real Estate Pool of \$64,582 and \$64,073 at June 30, 2016 and 2015, respectively, represented approximately 4.3% and 4.3%, respectively, of total investments in this Pool.

*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 tables provide the weighted-average credit ratings of the rated assets in the Pool as of June 30.

<u>Investment Type</u>	June 30, 2016			<u>Percent of Total Investment</u>
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	
Foreign corporate bonds	A	A	\$ 198	0.0 %
Foreign government bonds	Aa	A	1	0.0
Money market mutual funds	Aaa	AAA	70,652	4.6
Time deposits	P-1	A-1	6,614	0.4
U.S. corporate bonds	Baa	BBB	8,850	0.6
U.S. Government agency bonds	Aaa	AA	209	0.0

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

June 30, 2016				
<i>(continued)</i>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percent of Total Investment</u>
U.S. Government agency MBS	Aaa	AA	6,878	0.4
U.S. preferred stock	Baa	BB	12,767	0.8
U.S. Treasury bonds	Aaa	AA	<u>2,013</u>	<u>0.1</u>
Total rated investments			<u>\$ 108,182</u>	<u>6.9 %</u>
Common stock			119,757	7.8
Real estate limited partnerships and funds			<u>1,314,563</u>	<u>85.3</u>
Total investments			<u>\$ 1,542,502</u>	<u>100.0 %</u>

This table includes investments received as collateral for repurchase agreements with a fair value of \$20,809 as compared to the amortized cost of the repurchase agreements of \$19,708.

June 30, 2015				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percent of Total Investment</u>
Corporate asset backed issues	Aaa	AAA	\$ 154	0.0 %
Corporate CMO	Aaa	AAA	58	0.0
Foreign asset backed issues	Aaa	AAA	13	0.0
Foreign corporate bonds	Aa	A	44	0.0
Foreign government bonds	Aa	A	6	0.0
Money market mutual funds	Aaa	AAA	37,584	2.5
Time deposits	P-1	A-1	3,422	0.2
U.S. corporate bonds	A1	A	48,954	3.3
U.S. Government agency bonds	Aaa	AA	6	0.0
U.S. Government agency CMO interest-only	Aaa	AA	1	0.0
U.S. Government agency MBS	Aaa	AA	2,776	0.2
U.S. preferred stock	Baa	BB	72,960	4.9
U.S. Treasury issues	Aaa	AA	<u>981</u>	<u>0.1</u>
Total rated investments			<u>166,959</u>	<u>11.2</u>
Common stock			165,490	11.0
Real estate limited partnerships and funds			<u>1,166,391</u>	<u>77.8</u>
Total investments			<u>\$ 1,498,840</u>	<u>100.0 %</u>

This table includes investments received as collateral for repurchase agreements with a fair value of \$7,526 as compared to the amortized cost of the repurchase agreements of \$7,130.

*Concentration of Credit Risk*

The Pool's investments in real estate limited partnerships and funds might be indirectly exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2016, the Pool held no securities that were directly subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102% and the collateral is held in the name of the WVIMB. All remaining securities, except for the investments in real estate limited partnerships and funds, are held

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

by the WVIMB's custodian in the name of the WVIMB. The investments in real estate limited partnerships and funds might be indirectly exposed to custodial credit risk.

*Interest Rate Risk*

The WVIMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool.

<u>Investment Type</u>	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>Effective Duration (Years)</u>	<u>Fair Value</u>	<u>Effective Duration (Years)</u>
Asset backed issues	\$ -	0.0	\$ 4	1.0
Common stock	109,014	N/A	-	0.0
Money market mutual funds	70,652	N/A	-	0.0
Real estate limited partnerships and funds	1,314,563	N/A	-	0.0
Repurchase agreements	19,708	0.0	7,130	0.0
Short-term issue	-	0.0	37,584	0.0
Time deposits	6,614	0.0	3,422	0.0
U.S. corporate bonds	8,083	2.5	48,929	1.7
U.S. preferred stock	12,767	2.2	72,959	1.9
Total	<u>\$ 1,541,401</u>	<u>1.0</u>	<u>\$ 170,028</u>	<u>1.3</u>

Investments in real estate limited partnerships and funds and common stocks do not have an effective duration.

*Foreign Currency Risk*

The Pool has real estate investment trusts and real estate limited partnerships and funds that are denominated in foreign currencies and are exposed to foreign currency risks. The table below shows the amounts at fair value (in U.S. dollars) of investments denominated in foreign currencies as of June 30:

<u>Currency</u>	<u>2016</u>		<u>2015</u>	
	<u>Investments</u>	<u>Percent of Total Investments</u>	<u>Investments</u>	<u>Percent of Total Investments</u>
Australian Dollar	\$ 4,949	0.3%	\$ 4,884	0.3%
British Pound	3,641	0.2	5,856	0.4
Canadian Dollar	2,288	0.1	156	0.0
Euro Currency Unit	60,042	3.9	48,995	3.4
Hong Kong Dollar	4,331	0.3	5,948	0.4
Japanese Yen	9,529	0.6	8,907	0.6
Singapore Dollar	-	0.0	2,179	0.1
Swedish Krona	381	0.0	297	0.0
Swiss Franc	-	0.0	220	0.0
Total	<u>\$ 85,161</u>	<u>5.4%</u>	<u>\$ 77,442</u>	<u>5.2%</u>

This table excludes investments held by the Pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated investments at June 30, 2016 and 2015 was \$1,456,240 and \$1,421,002, respectively. This represents approximately 95% of the value of the Pool's investments for both June 30, 2016 and 2015.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

*Fair Value Measurements*

U.S. GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share practical expedient. The tables that follow set forth information about the level within the fair value hierarchy at which the Pool's assets and liabilities are measured at June 30. All the Pool's investments in real estate limited partnerships and funds were valued using the net asset value per share practical expedient, as such, they have not been categorized in the fair value hierarchy.

<b>June 30, 2016</b>				
Assets	Level 1	Level 2	Level 3	Total
Common stock	\$ 109,014	\$ -	\$ -	\$ 109,014
Investments made with cash collateral for securities loaned	6,922	26,322	-	33,244
Money market mutual fund	63,730	-	-	63,730
U.S. corporate bonds	-	8,083	-	8,083
U.S. preferred stock	<u>12,767</u>	<u>-</u>	<u>-</u>	<u>12,767</u>
Total	<u>\$ 192,433</u>	<u>\$ 34,405</u>	<u>\$ -</u>	<u>226,838</u>
Real estate limited partnerships and funds				<u>1,314,563</u>
Total				<u>\$ 1,541,401</u>

There were no transfers in or out of Levels 1 and 2 and 3 during the year ended June 30, 2016.

<b>June 30, 2015</b>				
Assets	Level 1	Level 2	Level 3	Total
Common stock	\$ 162,025	\$ -	\$ -	\$ 162,025
Investments made with cash collateral for securities loaned	-	10,556	-	10,556
Short-term issue	37,584	-	-	37,584
U.S. corporate bonds	-	48,929	-	48,929
U.S. preferred stock	<u>72,959</u>	<u>-</u>	<u>-</u>	<u>72,959</u>
Total	<u>\$ 272,568</u>	<u>\$ 59,485</u>	<u>\$ -</u>	<u>332,053</u>
Real estate limited partnerships and funds				<u>1,166,391</u>
Total				<u>\$ 1,498,444</u>

**Liabilities**

Foreign currency contracts	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ (1)</u>
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There were no transfers in or out of Levels 1 and 2 and 3 during the year ended June 30, 2015.

*Redemption Provisions*

The Pool is restricted to the following redemption provisions: ranging from quarterly on the last business day to upon termination of the partnership.

**Opportunistic Debt Pool**

This Pool was established to hold the WVIMB's investments in middle market direct loans. The Pool was established in 2016. Assets are managed by Angelo, Gordon & Co. and TCW Asset Management Company. The objective of the Pool is to generate a total net return of 7 - 9% over a normal market cycle (typically a 5 - 7 year period), and/or 250 basis points above the return of the credit Suisse Leveraged Loan Index.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

The RHBT's amount invested in the Opportunistic Debt Pool of \$3,053 at June 30, 2016 represented approximately 2.7% of total investments in this Pool.

*Credit Risk*

The Pool is exposed to credit risk from investments in unrated direct lending funds. This risk is limited by requiring that underlying fund holdings are at least 90% collateralized by one or more assets of the issuer. The Pool also holds shares of a money market fund with the highest credit rating.

*Concentration of Credit Risk*

Due to being in the infancy stage of the program, the fund is exposed to concentration of credit risk. Approximately 32% of committed capital has been called. As the program becomes fully funded, the concentration of credit risk will be mitigated. Each asset manager is restricted from investing more than 10% of the capital commitment in a single issuer for investments that are expected to be held longer than one year. At June 30, 2016, the Pool was in compliance with this restriction.

*Custodial Credit Risk*

At June 30, 2016, the Pool held no securities that were subject to custodial credit risk.

*Interest Rate Risk*

The Pool is exposed to interest rate risk from investments in direct lending funds. The WVIMB manages interest rate risk of the Pool by requiring at least 80% of the fund holdings that mature in more than one year to have variable of floating interest rate structures.

*Foreign Currency Risk*

The investments in direct lending funds might be indirectly exposed to foreign currency risk.

*Fair Value Measurements*

U.S. GAAP does not require the Pool to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value per share practical expedient. The table that follows sets forth information about the level within the fair value hierarchy at which the Pool's assets and liabilities are measured at June 30, 2016. All the Pool's investments in direct lending funds were valued using the net asset value per share practical expedient; as such, they have not been categorized in the fair value hierarchy.

<u>Assets</u>	<u>June 30, 2016</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Money market mutual fund	\$ 100	\$ -	\$ -	\$ 100
Direct lending funds				114,158
Total				<u>\$ 114,258</u>

There were no transfers in or out of Levels 1 and 2 during the year ended June 30, 2016.

*Redemption Provisions*

The Pool is restricted to the following redemption provisions: upon termination of the partnership or limited liability company.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

**6. Funded Status and Funding Progress**

The funded status of the OPEB Plan as of the most recent actuarial valuation is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Accrued Actuarial Liability (AAL) (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll [(B-A)/C]</u>
June 30, 2015	\$ 704,592	\$ 3,416,620	\$ 2,712,028	20.62%	\$ 2,096,000	129.39%

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 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.



**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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Additional information for the latest actuarial valuation follows:

	<u>Valuation Date – June 30, 2015</u>
Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of pay over a 22-year closed period
Remaining amortization period	22 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.70% blended rate reflecting long-term expected returns on the RHBT and State investments held by WVBTI and WVIMB
	7.50% - Return on Assets invested with WVIMB
	4.25% - Return on assets invested with WVBTI
	7.50% and 0.00% for pre and post Medicare
Health care trend rate	

## **7. Pension Plan**

### ***Plan description***

All full-time RHBT employees are eligible to participate in the State's Public Employees' Retirement System (PERS), a multiple-employer defined benefit cost-sharing public employee retirement system administered by the West Virginia Consolidated Public Retirement Board (CPRB). Chapter 5, Article 10 of the West Virginia Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Benefits under PERS include deferred retirement, early retirement, death and disability benefits and have been established and may be amended by action of the State Legislature. The CPRB issues a publicly available financial report that includes financial statements for PERS that may be obtained at [www.wvretirement.com](http://www.wvretirement.com).

### ***Benefits provided***

Employees are eligible for normal retirement at age 60 with five or more years of credited service, of at least age 55 with age and service equal to 80 or greater. For all employees hired on or after July 1, 2015, qualification for normal retirement is age 62 with ten years of service or at least age 55 with 30 or more years of service. The straight-life annuity retirement benefit, established by State statute, is equivalent to 2% of the employee's final average salary multiplied by years of service. Final average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired on or after July 1, 2015, average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired on or after July 1, 2015 who have separated from employment with a participating PERS agency prior to retirement, the retirement age increases to age 64.

### ***Contributions***

While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. Current funding policy requires employer contributions of 13.5%, 14.0% and 14.5% for the years ended June 30, 2016, 2015 and 2014, respectively. As permitted by legislation, RHBT has elected to pay 100% of all costs relating to the Plan, including the employee's 4.5% contribution for employees hired on or before February 6, 2012. Beginning February 7, 2012, new hires are required to pay the employee's contribution of 4.5%. For all employees hired on or after July 1, 2015 the employee contribution increased to 6.0%. The RHBT's contributions to the Plan were \$87, \$104, and \$110 for the fiscal years ended June 30, 2016, 2015 and 2014, respectively.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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***Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions***

Effective July 1, 2014, the RHBT adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an Amendment of GASB Statement No. 68. As summarized below, a cumulative effect adjustment of \$410 has been recorded to decrease net position previously reported at the beginning of fiscal year 2015. The RHBT determined that it was not practical to restate the prior year financial statements, as the information was not provided by the CPRB, which administers this cost-sharing multiple-employer plan. These statements reclassified some items previously reported as expenses as deferred outflows and now requires the RHBT to record the net pension liability and a more comprehensive measure of pension expense.

Net Position at the Beginning of the Year Required Statement:	
Net Position beginning of year, as previously reported	\$ 691,559
Total cumulative effect adjustment	<u>(410)</u>
Net Position at June 30, 2014, restated	<u>\$ 691,149</u>

During fiscal year 2016, RHBT, along with other State of West Virginia agencies participating in PERS adopted GASB Statement 73, *Accounting and Financial Reporting for Pensions and related Assets That Are Not within the Scope of GASB 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and GASB Statement 82, *Pension Issues and Amendment of GASB Statements 67, 68, and 73*. The impact of adopting these statements was not material to the RHBT's financial statements.

At June 30, 2016 and 2015, the RHBT reported a liability of \$301 and \$210 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2016 was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, rolled forward to the measurement date of June 30, 2015. For fiscal year 2015, the net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to the measurement date of June 30, 2014. The RHBT's proportion of the net pension liability was based on the RHBT's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2015. At June 30, 2015, the RHBT's proportionate share was 0.0539%, which was a decrease of 0.003% for its proportionate share measured as of June 30, 2014.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

For the years ended June 30, 2016 and 2015, the RHBT recognized pension expense of \$15 and \$23. At June 30, 2016 and 2015, the RHBT reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016		June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 92	\$ 158	\$ -	\$ 222
Difference between expected and actual experience	62	-	-	-
Difference in assumptions	-	36	-	-
Changes in proportion and differences between RHBT's contributions and proportionate share of contributions	-	2	-	1
RHBT's contributions made subsequent to the measurement date	<u>87</u>	<u>-</u>	<u>104</u>	<u>-</u>
Total	<u>\$ 241</u>	<u>\$ 196</u>	<u>\$ 104</u>	<u>\$ 223</u>

Employer contributions to the PERS made during the fiscal year, subsequent to the pension liability measurement date, are recorded as deferred outflows of resources, and will be recognized as a reduction of the net pension liability in the following year. The net difference between projected and actual investment earnings on pension plan investments is amortized over a five-year period. All other deferred outflows of resources and deferred inflows of resources relating to pension amounts reported in the financial statements are amortized and included in pension expense over the average remaining service life, rounded to the nearest whole year, of four years. These other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2017	\$ (25)
2018	\$ (25)
2019	\$ (15)
2020	\$ 23

***Actuarial assumptions and methods***

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	1.9%
Salary increase	3.0 – 6.0%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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Mortality rates were based on 110% of the RP-2000 Non-Annuitant, Scale AA for healthy males, 101% of RP-2000 Non-Annuitant Scale for healthy females, 96% of RP-2000 Disabled Annuitant, Scale AA for disabled males, and 107% of RP-2000 Disabled Annuitant, Scale AA for disabled females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results from an actual experience study for the period July 1, 2009 through June 30, 2014.

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.2%
Salary increase	4.25 – 6.0%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense

Mortality rates were based on the 1983 Group Annuity Mortality (GAM) for healthy males, 1971 GAM for healthy females, 1971 GAM for disabled males, and Revenue Ruling 96-7 for disabled females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 through June 30, 2009.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	15.0%	2.9-4.8%
Domestic equity	27.5%	7.6%
International equity	27.5%	8.5%
Real estate	10.0%	6.8%
Private equity	10.0%	9.9%
Hedge funds	10.0%	5.0%
Total	100.0%	

***Discount rate***

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will continue to be made at statutorily required rates, which are determined by actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Financial Statements**  
**(in thousands)**

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***Sensitivity of the RHBT's proportionate share of the net pension liability to changes in the discount rate***

The following presents the proportionate share of the net pension liability of the RHBT, calculated using the discount rate of 7.5%, as well as what the RHBT's net pension liability would be if it were calculated using a discount rate that is 1 percentage - point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

<b>Net Pension Liability</b>		
<b>1% Decrease 6.50%</b>	<b>Current Discount Rate 7.50%</b>	<b>1% Increase 8.50%</b>
\$ 694	\$ 301	\$ (31)

***Required Supplementary Information  
(in thousands)***

**West Virginia Retiree Health Benefit Trust Fund**  
**Required Supplementary Information**  
**Schedule Of Funding Progress**  
**(in thousands)**  
**Years Ended June 30**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Accrued Actuarial Liability (AAL) (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll [(B-A)/C]</u>
June 30, 2015	\$ 704,592	\$ 3,416,620	\$ 2,712,028	20.6%	\$ 2,096,000*	129.39%
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 as of June 30, 2015 was 6.7%. This is unchanged from the 6.7% rate of return for June 30, 2013.

\* The presentation of covered payroll was changed for the June 30, 2015 actuarial valuation. Participating employees hired before July 1, 2010 pay retiree premiums that are subsidized based on years of service at retirement. Participating employees hired on or after July 1, 2010 are required to fully fund premium contributions upon retirement. Consequently, the June 30, 2015 actuarial valuation covered payroll of \$2,096,000 represents only the payroll for those OPEB eligible participating employees that were hired before July 1, 2010 allowing a better representation of the UAAL as a percentage of covered payroll, whereas, for the prior years, covered payroll is in total for all participating employees.

**West Virginia Retiree Health Benefit Trust Fund**  
**Required Supplementary Information**  
**Schedule Of Employer Contributions**  
**(in thousands)**  
**Years Ended June 30**

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		<u>Annual Percentage Contribution</u>	<u>Percentage Contributed</u>
2016	\$	283,972	66%
2015	\$	261,896	58%
2014	\$	253,220	65%
2013	\$	289,725	59%



**West Virginia Retiree Health Benefit Trust Fund**  
**Required Supplementary Information**  
**Schedule Of Proportionate Share of the Net Pension Liability of PERS**  
**(in thousands)**  
**Years Ended June 30**

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	<u>2016</u>	<u>2015</u>
RHBT's proportionate (percentage) of the net pension liability	<b>0.0539%</b>	0.0569%
RHBT's proportionate share of the net pension liability	<b>\$ 301</b>	\$ 210
RHBT's covered employee payroll	<b>\$ 745</b>	\$ 761
RHBT's proportionate share of the net pension's liability as a percentage of its covered employee payroll	<b>40.40%</b>	27.60%
Plan fiduciary net position as a percentage of the total pension liability*	<b>91.29%</b>	93.98%

\* This is the same percentage for all participant employers in the PERS plan.

Note: All amounts presented are as of the measurement date, which is one year prior to the fiscal year end date.

**West Virginia Retiree Health Benefit Trust Fund**  
**Required Supplementary Information**  
**Schedule of Contributions to PERS**  
**(in thousands)**  
**Years Ended June 30**

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	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 87	\$ 104	\$ 110	\$ 107
Contributions in relation to the statutorily required contribution	<u>(87)</u>	<u>(104)</u>	<u>(110)</u>	<u>(107)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
RHBT's covered employee payroll	\$ 644	\$ 745	\$ 761	\$ 764
Contributions as a percentage of covered employee payroll	13.5%	14.0%	14.5%	14.0%

## Notes to Required Supplementary Information

### 1. Trend Information Presented

The accompanying schedules of RHBT's proportionate share of the net pension liability and contributions to PERS are required supplementary information to be presented for 10 years. However, until a full 10-year trend is compiled, information is presented in the schedules for those years for which information is available.

### 2. Plan Amendment

The PERS was amended to make changes that apply to new employees hired on or after July 1, 2015 as follows:

- For employees hired prior to July 1, 2015, qualification for normal retirement is age 60 with five years of service or at least age 55 with age and service equal to 80 or greater. For employees hired on or after July 1, 2015, qualification for normal retirement is 62 with 10 years of service or at least age 55 with 30 or more years of service.
- The straight life annuity retirement benefit is equivalent to 2% of average salary multiplied by years of service. For employees hired prior to July 1, 2015, average salary is the average of the three consecutive highest annual earnings out of the last fifteen years of earnings. For all employees hired on or after July 1, 2015 average salary is the average of the five consecutive highest annual earnings out of the last fifteen years of earnings.
- For employees hired prior to July 1, 2015, terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired on or after July 1, 2015, this age increases to 64.
- For all employees hired prior to July 1, 2015, employees are required to contribute 4.5% of annual earnings. All employees hired on or after July 1, 2015, are required to contribute 6% of annual earnings.

### 3. Changes in Assumptions

An experience study, which was based on the years 2009 through 2014, was completed prior to the 2015 actuarial valuation. As a result, several assumptions were changed for the actuarial valuation for the year ending June 30, 2015 as follows:

	<u>2015</u>	<u>2014</u>
Projected salary increases:		
State	3.0 - 4.6%	4.25 - 6.0%
Non-state	3.35 - 6.0%	4.25 - 6.0%
Inflation rate	1.90%	2.20%
Mortality rates	Healthy males - 110% of RP- 2000 Non-Annuitant, Scale AA	Healthy males - 1983 GAM
	Healthy females - 101% of RP 2000 Non-Annuitant, Scale AA	Healthy females - 1971 GAM
	Disabled males - 96% of RP-2000 Disabled annuitant, Scale AA	Disabled males - 1971 GAM
	Disables females - 107% of RP-2000 Disabled annuitant, Scale AA	Disabled females - Revenue ruling 96-7
Withdrawal rates:		
State	1.75 - 35.1%	1 - 26%
Non-state	2 - 35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .8%

***Other Financial Information***  
***(in thousands)***

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 7, Deposits Disclosure**  
**June 30, 2016**  
**(in thousands)**

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	<u>Carrying Amount</u>
Cash with Treasurer	<u>\$ 758</u>
Total carrying amount of deposits	<u><u>\$ 758</u></u> <sup>(1)</sup>

<sup>(1)</sup> Agrees to audited statement of plan net position

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 8, Investments Disclosure**  
**June 30, 2016**  
**(in thousands)**

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value
West Virginia Board of Treasury Investments (BTI):				
West Virginia Money Market Pool	\$ 87,470 <sup>(3)</sup>	\$ -	\$ 87,470	\$ 87,470 <sup>(1)(4)</sup>
Total equity position in investment pool with BTI	\$ 87,470	\$ -	\$ 87,470	\$ 87,470
West Virginia Investment Management Board (WVIMB) Investment Pool:				
Short-term fixed income	\$ 67	\$ -	\$ 67	\$ 67 <sup>(3)</sup>
Core – fixed income	25,400	-	25,400	25,400 <sup>(3)</sup>
Large cap domestic	130,999	-	130,999	130,999 <sup>(3)</sup>
Non-large cap domestic	31,019	-	31,019	31,019 <sup>(3)</sup>
International non-qualified	48,963	-	48,963	48,963 <sup>(3)</sup>
Hedge	66,295	-	66,295	66,295 <sup>(3)</sup>
Private equity	63,161	-	63,161	63,161 <sup>(3)</sup>
Real estate	64,582	-	64,582	64,582 <sup>(3)</sup>
Total return fixed income	55,439	-	55,439	55,439 <sup>(3)</sup>
Opportunistic Debt	3,053	-	3,053	3,053 <sup>(3)</sup>
International equity	118,113	-	118,113	118,113 <sup>(3)</sup>
Total equity position in investment pool with WVIMB	\$ 607,091	\$ -	\$ 607,091	\$ 607,091 <sup>(1)</sup>

<sup>(1)</sup> Agrees to audited statement of plan net position as follows:

Equity position in investment pools:	
BTI	\$ 87,470
WVIMB	607,091
Equity position in investment pools	\$ 694,561 <sup>(2)</sup>

<sup>(2)</sup> Agrees to audited statement of plan net position

<sup>(3)</sup> Agrees to footnote 5, Deposit and Investment Risk Disclosures

<sup>(4)</sup> Amortized cost approximates fair value.

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 8-A, Deposits and Investments Disclosure**  
**June 30, 2016**  
**(in thousands)**

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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 \$ 758 <sup>(1)(2)</sup>

Equity position in investment pools as reported \$ 694,561 <sup>(1)(3)</sup>

<sup>(1)</sup> Agrees to audited statement of plan net position

<sup>(2)</sup> Agrees to Form 7

<sup>(3)</sup> Agrees to Form 8

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 9, Accounts Receivable**  
**June 30, 2016**  
**(in thousands)**

External accounts receivable:	
Premium contributions	\$ 2,219
Less allowance for doubtful accounts	<u>406</u>
Net receivable	<u><u>\$ 1,813</u></u> <sup>(1)</sup>
Other receivables:	
Retiree drug subsidy	\$ 193
Prescription rebates	2,773
Other:	
Other	<u>982</u>
Total other receivable	<u><u>\$ 3,948</u></u> <sup>(1)</sup>
Form 9 – Net receivable	\$ 1,813 <sup>(1)</sup>
Form 10 – Due (To) From Primary Government	(6,215) <sup>(3)</sup>
Form 11 – Component Unit - A/R Balances	<u>(7) <sup>(4)</sup></u>
Total	<u><u>\$ (4,409)</u></u> <sup>(2)</sup>

<sup>(1)</sup> Agrees to audited statement of plan net position

<sup>(2)</sup> Agrees to audited statement of plan net position as follows:

Contributions receivable, net	\$ 1,813 <sup>(1)</sup>
Due to the State	<u>(6,222) <sup>(1)</sup></u>
	<u><u>\$ (4,409)</u></u>

<sup>(3)</sup> Agrees to Form 10

<sup>(4)</sup> Agrees to Form 11



**West Virginia Retiree Health Benefit Trust Fund**  
**Form 10, Due (To) From Primary Government**  
**June 30, 2016**  
**(in thousands)**

<u>Agency</u>	<u>Total</u>
West Virginia Lottery Commission	\$ 4,991
Workforce WV/Payroll-05303	11,362
Workers' Compensation Commission	-
WV Public Employees Retirement Board	(141)
WV Public Employees Retirement Board	(100)
WV Teachers Retirement Board	(197)
Consolidated Retirement Bd/Judges Ret.	(1)
Deputy Sheriffs Retirement	(1)
Public Safety/Con.Pub.Emp.Ret.Bd.	(23)
ABC Commission	2,149
Human Services, Dept of	86,562
Attorney General	4,531
Board of Respiratory Care	7
Bd of Exam Speech, Language Path & Audio	3
Board of Examiners of Psychologists	40
Department of Education	861,592
Occupational Therapy, Board of	2
EMSRS Emergency Medical Services Retirement System	3
Governors Office	1,854
Homeland Security – Emergency Management	1,312
House of Delegates	1,811
Examiners in Counseling, Board of	37
Bureau for Senior Services	962
Board of Funeral Service Examiners	47
Administration, Dept of	14,704
Secretary of State	1,300
Senate	1,359
Supreme Court/Judicial	34,554
Tax Department	10,837
Tax Department – Budget Office	142
Tax Department – Office of Appeals	249
Treasurer of State's Office	4,109
WV Enterprise Planning Board	146
Anthony Correctional Center	2,130
Adjutant General	172
Auditors Office	5,157
Culture and History	3,268
Department of Corrections	7,495
Department of Education and Arts	742

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 10, Due (To) From Primary Government**  
**June 30, 2016**  
**(in thousands)**

<u>Agency</u>	<u>Total</u>
Division of Forestry	\$ 3,112
Department of Highways	133,183
Board of Medicine	308
Aeronautics Commission	73
National Coal Heritage Area Authority	85
Huttonsville Correctional Center	8,785
Joint Comm on Govt and Finance	3,610
Library Commission	1,362
Pruntytown Correctional Center	3,154
Dept. of Commerce, Office of Secretary	88
Courthouse Facilities Imp	14
Corrections/Salem Corr, Dept of	584
Corrections/St. Marys Corr, Dept of	5,954
Dept of Corrections/Denmar Facility	2,163
Department of Labor	2,559
Agriculture	8,962
Board of Coal Mine Health & Safety	33
Division of Environmental Protection	22,714
Division of Financial Institution	385
Division of Protective Services	876
Division of Rehabilitation Services	15,366
Division of Tourism	1,899
Environmental Quality Board	75
Fire Commission	1,242
Gas and Oil Conservation	40
Geological Survey	1,009
Health Care Authority	1,099
Health Department	20,892
Hopemont State Hospital	3,947
Human Rights Commission	845
Insurance Commission	9,950
Jackie Withrow Hospital	4,053
John Manchin Sr. Health Care	1,841
Justice and Community Service	859
Lakin Correctional Facility	3,959
Lakin State Hospital	4,040
Martinsburg Correctional Center	1,663
Medical Imaging Board	28
Mildred Mitchell-Bateman Hospital	8,570
Military Affairs and Public Safety	431
Miners Health Safety & Training	(8)
Motor Vehicles	16,824
Mt Olive Correctional Facility	8,177

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 10, Due (To) From Primary Government**  
**June 30, 2016**  
**(in thousands)**

<b>Agency</b>	<b>Total</b>
Municipal Bond Commission	\$ 107
Natural Resources	21,058
Northern Correctional Facility	2,912
Office of Miners Health, Safety and Training	2,098
Ohio County Correctional Center	720
Osteopathy, Board of	44
Physical Therapy, Board of	65
Public Port Authority	97
Public Safety	29,173
Public Service Commission	7,879
Public Transit	250
Real Estate Commission	149
Veterans Affairs	5,205
Welch Emergency Hospital	6,872
William R Sharpe Jr Hospital	9,486
WV Advisory Council on Vocational Ed	(2)
WV Armory Board	233
WV Barbers and Beauticians Commission	173
WV Bd of Examiners/Registered Nurses	319
WV Board of Accountancy	76
WV Board of Chiropractic Examiners	37
WV Board of Dental Examiners	44
WV Board of Optometry	37
WV Board of Pharmacy	148
WV Board of Social Worker Examiners	112
WV Board of Veterinary Medicine	37
WV Center for Nursing	65
WV Division of Energy	206
WV Division of Juvenile Services	16,902
WV DOT Office of Administrative Hearings	459
WV Economic Development Authority	3
WV Engineers Registration Board	36
WV Massage Therapy Licensure Board	31
WV Military Authority	7,579
WV Municipal Pensions Oversight Board	10
WV Real Estate Appraiser/Lic Cert Bd	29
WV School for the Deaf and Blind	4,946
WV Secondary Schools Activity Commission	358

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 10, Due (To) From Primary Government**  
**June 30, 2016**  
**(in thousands)**

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<u>Agency</u>	<u>Total</u>
WV State Board of Architects	\$ 10
WV State Board of Examiners for LPNs	60
Total due to/from	<u>1,485,994</u>
Less: Allowance for ARC	<u>(1,492,209)</u>
Net total – due to/from	<u>\$ (6,215)</u>

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 11, Component Unit - A/R Balances**  
**June 30, 2016**  
**(in thousands)**

<u>Unit</u>	<u>Amount</u>
Higher Education	\$ 327,167
Parkways, EDA, and Tourism	10,868
Regional Jail and Correction Facility Authority	24,641
Public Defender Corporation	4,305
WV EDA	2,678
Educational Broadcasting	2,489
Department of Transportation - Rail	532
School Building Authority	269
Racing Commission	1,120
Water Development Authority	217
SWMB	339
	<hr/>
Total Component Units	374,625
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Less: Allowance for ARC receivables	(374,632)
	<hr/>
Net accounts receivable – component units	<u>\$ (7)</u>



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

Finance Board and Management  
West Virginia Retiree Health Benefit Trust Fund  
Charleston, West Virginia

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, 2016, and the related statement 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 December 21, 2016.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the 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 the RHBT's internal control. Accordingly, we do not express an opinion on the effectiveness of the RHBT's internal control.

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

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

### ***Compliance and Other Matters***

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



***Purpose of this Report***

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

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
December 21, 2016**

**DHG**