

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

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

**Years Ended June 30, 2017 and 2016**

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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 the 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, 2017 and 2016 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 above present fairly, in all material respects, the fiduciary net position of the RHBT, a fiduciary fund of the State of West Virginia, as of June 30, 2017 and 2016, and the changes in its fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As discussed in Note 4 to the financial statements, during fiscal year 2017, RHBT adopted new accounting guidance Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. Our opinion is not modified with respect to this matter.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of RHBT are intended to present the fiduciary net position and the changes in fiduciary net position of only that portion of the fiduciary 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 fiduciary net financial position of the State of West Virginia as of June 30, 2017 and 2016, and the changes in its fiduciary net position for the years 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.

***Change in Classification***

As discussed in Note 8 to the financial statements, during fiscal year 2018 management reassessed the presentation of certain financial statement line item amounts on the statements of changes in fiduciary net position previously reported for the years ended June 30, 2017 and 2016, and determined that certain reclassifications should be made to more accurately reflect the information presented. Such reclassification adjustments did not impact the previously reported net position or net increase (decrease) in net position as of and for the years ended June 30, 2017 or 2016. 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 11 and the required supplementary information on pages 58 through 65 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 Supplementary Information***

Our audits were 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 66 through 74 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, 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 August 9, 2018 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  
August 9, 2018**

***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, 2017 and 2016. 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 43,000 policyholders and 63,000 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 Post-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 identified a supplemental pre-funding source dedicating \$30 million annually to the RHBT Fund. These funds will be transferred from personal income tax. 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. The first payment of \$5 million was received in October 2016 and then \$5 million per month was 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.

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 92.1% will be eligible for gain share incentives. During fiscal year 2017, the RHBT received financial incentives from Humana to reduce capitation payment costs savings of \$14.0 million, which is up \$13.2 million from the savings recorded in 2016.

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

***Overview of the financial statements***

The two basic financial statements (described below) are presented on the accrual basis of accounting:

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

Statement of Changes in Fiduciary 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 fiduciary net position is the government version of a for-profit income statement.

***Financial highlights***

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

***Statements of fiduciary net position***

	<u>2017</u>	<u>2016</u>	<u>Change 2017 - 2016</u>	
			<u>Amount</u>	<u>Percent</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 592	\$ 758	\$ (166)	(22)%
Equity position in investment pools	827,008	694,561	132,447	19
Contributions receivable, net	1,222	1,813	(591)	(33)
Due from the State	1,072	-	1,072	100
Due from PEIA	-	7,025	(7,025)	(100)
Other receivables	19,680	3,948	15,732	398
Total assets	849,574	708,105	141,469	20
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension	339	241	98	41
Total deferred outflows of resources	339	241	98	41
<b>LIABILITIES</b>				
Claims payable	9,670	11,950	(2,280)	(19)
Due to the State	-	6,222	(6,222)	(100)
Due to PEIA	1,449	-	1,449	100
Payables to MCO	11,387	-	11,387	100
Other liabilities	3,471	4,310	(839)	(19)
Total liabilities	25,977	22,482	3,495	16
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension	25	196	(171)	(87)
Total inflows of resources	25	196	(171)	(87)
Net Position:				
Net position restricted for OPEB	\$ 823,911	\$ 685,668	\$ 138,243	20%

**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 (2017 vs. 2016) for the statements of fiduciary net position are as follows:

***Cash and cash equivalents (\$166 decrease)***

A \$166 decrease is due to having sufficient cash available to pay current operating expenses and the timing of those payments.

***Equity position in investment pools (\$132,447 increase)***

A \$132,447 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).

***Contributions receivable, net (\$591 decrease)***

A \$591 decrease is attributable to increased collection efforts.

***Due from the State (\$1,072 increase)***

A \$1,072 increase is due to a payroll premium distribution error in the prior fiscal year causing RHBT to receive funds that should have been distributed to another state agency causing a due to the State.

***Due from PEIA (\$7,025 decrease)***

A \$7,025 decrease 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 (\$15,732 increase)***

A \$15,732 increase is primarily due to the net result of gain share financial incentives from Humana.

***Deferred outflows of resources related to pension (\$98 increase)***

The \$98 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 (\$2,280 decrease)***

The \$2,280 decrease is due to the change in the actuarial reserve estimate.

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

A \$6,222 decrease is due to a payroll premium distribution error in the prior fiscal year causing RHBT to receive funds that should have been distributed to another state agency causing a due to the State.

***Due to PEIA (\$1,449 increase)***

A \$1,449 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 liabilities and payables to managed care organizations (\$10,548 increase)***

A combined \$10,548 increase is due to the change in the timing of payments for services provided.



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

***Deferred inflows of resources related to pension (\$171 decrease)***

The \$171 decrease is related to the RHBT allocation of the current year pension amounts accounted for in accordance with GASB Statement No. 68.

***Statements of fiduciary net position***

	<u>2016</u>	<u>2015</u>	<u>Change 2016 - 2015</u>	
			<u>Amount</u>	<u>Percent</u>
<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	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	<u>3,948</u>	<u>4,889</u>	<u>(941)</u>	<u>(19)</u>
Total assets	708,105	723,213	(15,108)	(2)
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension	<u>241</u>	<u>104</u>	<u>137</u>	<u>132</u>
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	<u>4,310</u>	<u>6,172</u>	<u>(1,862)</u>	<u>(30)</u>
Total liabilities	22,482	18,502	3,980	22
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension	<u>196</u>	<u>223</u>	<u>(27)</u>	<u>(12)</u>
Total inflows of resources	196	223	(27)	(12)
Net Position:				
Net position restricted for OPEB	<u>\$ 685,668</u>	<u>\$ 704,592</u>	<u>\$ (18,924)</u>	<u>(3)%</u>

Comparative year-to-year major variance explanations (2016 vs. 2015) for the statement of fiduciary 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 BTI and the net effect of the change in fair value of investments with the WVIMB.

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

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

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

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***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 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.

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

***Statements of changes in fiduciary net position***

	<i>As Adjusted</i> <u>2017</u>	<i>As Adjusted</i> <u>2016</u>	<i>As Adjusted</i> <u>Change 2017 - 2016</u>	
			<u>Amount</u>	<u>Percent</u>
Additions:				
Employers	\$ 115,510	\$ 116,258	\$ (748)	(1)%
State appropriation (School Aid)	54,805	54,694	111	-
State appropriation (Premium)	5,000	-	5,000	100
State appropriation (OPEB)	<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>100</u>
Total contributions	205,315	170,952	34,363	20
Retiree drug subsidy	557	804	(247)	(31)
Interest and dividend income	6,929	3,159	3,770	119
Net appreciation (depreciation) in fair value of investments	<u>92,518</u>	<u>(3,002)</u>	<u>95,520</u>	<u>(3,182)</u>
Total additions	305,319	171,913	133,406	78
Deductions:				
Benefit Payments	163,376	185,908	(22,532)	(12)
Administrative service fees	1,447	1,770	(323)	(18)
Other expenses	<u>2,253</u>	<u>3,159</u>	<u>(906)</u>	<u>(29)</u>
Total deductions	<u>167,076</u>	<u>190,837</u>	<u>(23,761)</u>	<u>(12)</u>
Change in net position	138,243	(18,924)	157,167	(831)
Net position restricted for OPEB:				
Beginning of period	<u>685,668</u>	<u>704,592</u>	<u>(18,924)</u>	<u>(3)</u>
End of period	<u>\$ 823,911</u>	<u>\$ 685,668</u>	<u>\$ 138,243</u>	<u>20%</u>

Comparative year-to-year major variance explanations (2017 vs. 2016) for the statements of changes in fiduciary net position are as follows:

***State appropriation (Premium) (\$5,000 increase)***

A \$5,000 increase is due to SB 1013 transferring \$5 million permitting RHBT to offset retiree premiums for the current fiscal year.

***State appropriation (OPEB) (\$30,000 increase)***

A \$30,000 increase is due to the passage of SB 419, effective July 1, 2012, amended by West Virginia Code §11-21-96. The State identified a supplemental pre-funding source dedicating \$30 million annually to the RHBT Fund. The first payment of \$5 million was received in October 2016 and then \$5 million per month was received for the five months subsequent.

***Retiree drug subsidy (\$247 decrease)***

A \$247 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.

***Interest and dividend income (\$3,770 increase)***

A \$3,770 increase is primarily due to investments managed by WVIMB because of favorable market conditions.

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

***Net appreciation (depreciation) in fair value of investments (\$95,520 increase)***

A \$95,520 increase is due to investment appreciation from investments managed by WVIMB because of favorable market conditions.

***Benefit Payments (\$22,532 decrease)***

A \$22,532 decrease is due to an increase in the gain share incentive received in FY 2017 and favorable medical trends in FY 2017 and a decrease in IBNR at year-end.

***Administrative service fees (\$323 decrease)***

A \$323 decrease is due to a lower rate charged per member per month for non-Medicare retirees.

***Other expenses (\$906 decrease)***

A \$906 decrease is due to reduced bad debt expense for premium accounts and a decrease in payroll related expenses.

***Statements of changes in fiduciary net position***

	<u>As Adjusted 2016</u>	<u>As Adjusted 2015</u>	<u>As Adjusted Change 2016 - 2015</u>	
			<u>Amount</u>	<u>Percent</u>
Additions:				
Employers	\$ 116,258	\$ 119,004	\$ (2,746)	(2)%
State appropriation (School Aid)	<u>54,694</u>	<u>55,306</u>	<u>(612)</u>	<u>(1)</u>
Total contributions	170,952	174,310	(3,358)	(2)
Retiree drug subsidy	804	1,481	(677)	(46)
Interest and dividend income	3,159	3,046	113	4
Net (depreciation) appreciation in fair value of investments	<u>(3,002)</u>	<u>20,096</u>	<u>(23,098)</u>	<u>(115)</u>
Total additions	171,913	198,933	(27,020)	(14)
Deductions:				
Benefit Payments	185,908	180,042	5,866	3
Administrative service fees	1,770	1,954	(184)	(9)
Other expenses	<u>3,159</u>	<u>3,494</u>	<u>(335)</u>	<u>(10)</u>
Total deductions	<u>190,837</u>	<u>185,490</u>	<u>5,347</u>	<u>3</u>
Change in net position	(18,924)	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>\$ 685,668</u>	<u>\$ 704,592</u>	<u>\$ (18,924)</u>	<u>(3)%</u>

**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 changes in fiduciary 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 (depreciation) appreciation 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.

***Benefit payments (\$5,866 increase)***

A \$5,866 increase is due to an increase managed care members and monthly capitation rates along with the decrease in the gain share incentive received in FY 2016.

***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 total OPEB liability (TOL) at June 30, 2017 is \$3.3 billion, which is based on an actuarial valuation date of June 30, 2016. The \$3.3 billion TOL less \$824 million of actuarial value of assets results in a projected Net OPEB liability of \$2.5 billion at June 30, 2017. 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. Appropriations will be made through July 1, 2037, or if earlier, the year the benefit obligation is fully funded. The first payment of \$5 million was received in October 2016 and then \$5 million per month was received for the five months subsequent. 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.

**West Virginia Retiree Health Benefit Trust Fund  
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(in thousands)**

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***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 \$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 fiduciary 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.

***Adoption of new Accounting Standards***

During fiscal year 2017, RHBT implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. 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.

***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 Fiduciary Net Position**  
**June 30, 2017 and 2016**  
**(in thousands)**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 592	\$ 758
Equity position in investment pools	827,008	694,561
Contributions receivable – net of allowance for doubtful accounts of \$104 and \$406, respectively	1,222	1,813
Due from the State	1,072	-
Due from PEIA	-	7,025
Other receivables	19,680	3,948
	<u>849,574</u>	<u>708,105</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension	339	241
	<u>339</u>	<u>241</u>
Total deferred outflows of resources	<u>339</u>	<u>241</u>
<b>LIABILITIES</b>		
Claims payable	9,670	11,950
Due to the State	-	6,222
Due to PEIA	1,449	-
Payables to managed care organizations	11,387	-
Other liabilities	3,471	4,310
	<u>25,977</u>	<u>22,482</u>
Total liabilities	<u>25,977</u>	<u>22,482</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	25	196
	<u>25</u>	<u>196</u>
Total deferred inflows of resources	<u>25</u>	<u>196</u>
<b>NET POSITON</b>		
Net position restricted for other postemployment benefits	<u>\$ 823,911</u>	<u>\$ 685,668</u>

See accompanying notes.



**West Virginia Retiree Health Benefit Trust Fund**  
**Statements of Changes in Fiduciary Net Position**  
**For the Years Ended June 30, 2017 and 2016**  
**(in thousands)**

	<i>As Adjusted</i> <u>2017</u>	<i>As Adjusted</i> <u>2016</u>
Additions:		
Contributions:		
Employers	\$ 115,510	\$ 116,258
State appropriation (School Aid)	54,805	54,694
State appropriation (Premium)	5,000	-
State appropriation (OPEB)	30,000	-
Total contributions	<u>205,315</u>	<u>170,952</u>
Retiree drug subsidy	557	804
Interest and dividend income	6,929	3,159
Net appreciation (depreciation) in fair value of investments	<u>92,518</u>	<u>(3,002)</u>
Total additions	<u>305,319</u>	<u>171,913</u>
Deductions:		
Benefit payments	163,376	185,908
Administrative service fees	1,447	1,770
Other expenses	<u>2,253</u>	<u>3,159</u>
Total deductions	<u>167,076</u>	<u>190,837</u>
Net increase (decrease) in net position	<u>138,243</u>	<u>(18,924)</u>
Net position restricted for other postemployment benefits:		
Net position, beginning of year	<u>685,668</u>	<u>704,592</u>
Net position, end of year	<u>\$ 823,911</u>	<u>\$ 685,668</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), was 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 fiduciary net position and the changes in fiduciary net position for the State's fiduciary 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, 2017 and 2016, 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 Including Contribution and Benefit 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.

Active employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the applicable State retirement system and if their last employer immediately prior to retirement: is a participating employer under the Consolidated Public Retirement Board (CPRB) and, as of July 1, 2008 forward, is a participating employer with the Public Employees Insurance Agency (PEIA). Active employees who, as of July 1, 2008, have ten years or more of credited service in the CPRB and whose employer at the time of their retirement does participate with CPRB, but does not participate with PEIA will be eligible for PEIA retiree coverage provided: they otherwise meet all criteria under this heading and their employer agrees, in writing, upon a form prescribed by PEIA, that the employer will pay to PEIA the non-participating retiree premium on behalf of the retiree or retirees, or that the retiree agrees to pay the entire unsubsidized premium themselves. Active employees who are members of the Teacher's Defined Contribution Retirement plan must be either: 55 years of age and have 12 or more years of credited service; or be at least 60 years of age with five years of service; and their last employer immediately prior to retirement must be a participating employer under that, or the CPRB system to qualify to continue PEIA insurance benefits upon retirement. Employees who participate in non-State retirement systems but that are CPRB system affiliated, contracted, or approved (such as TIAA-CREF and similar plans), or are approved, in writing, by the PEIA Director must, in the case of education employees, meet the minimum eligibility requirements of the State Teacher's Retirement System, and in all other cases meet the minimum eligibility requirements of the Public Employees Retirement System to be eligible for PEIA benefits as a retiree.

The Plan provides the following benefits:

- Medical and prescription drug insurance
- Life insurance

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

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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 contributions. MCO capitation fee payments are recorded as a benefit payment deduction on the financial statements.

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

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

The Plan has the following characteristics:

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

Eligible participants of the Plan are retirees of:

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

Eligible participants hired after June 30, 2010, are 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 \$20.0 million and \$19.3 million during the fiscal years ended June 30, 2017 and 2016, respectively, and were remitted directly to the carrier. The RHBT functions as an agent

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

for these optional benefits and, accordingly, neither these premiums nor the related costs are reflected in the financial statements.

At June 30, RHBT membership consisted of the following:

	<u>Covered Policyholders</u>	
	<u>2017</u>	<u>2016</u>
Retirees and beneficiaries currently receiving benefit payments	42,501	41,838
Inactive plan members entitled to but not yet receiving benefit payments	12,242	12,242
Active plan members	<u>45,928</u>	<u>46,430</u>
Totals	<b>100,671</b>	100,510
Number of participating employers	<b>557</b>	550

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. Retiree premium payments are reflected as a reduction of benefit payments.

West Virginia Code section 5-16D-6 also assigns to the PEIA 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, 2017 and 2016, respectively, were:

	<u>2017</u>	<u>2017</u>	<u>2016</u>
	Jul 2016-Dec 2016	Jan 2017-Jun 2017	
Paygo premium	\$ 196	\$ 135	\$ 163
Annual Required Contribution (ARC) premium	<u>117</u>	<u>222</u>	<u>266</u>
	<u>\$ 313</u>	<u>\$ 357</u>	<u>\$ 429</u>

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. Appropriations will be made through July 1, 2037, or if earlier, the year the benefit obligation is fully funded. Additionally, RHBT received an additional \$5 million appropriation from the State for the year ending June 30, 2017 for retiree premiums. A similar State appropriation for \$5 has been approved for fiscal year ending June 30, 2018.

The State is a nonemployer contributing entity that provides funding through SB 469 which was passed February 10, 2012, granting Other Post-Employment Benefits Liability relief to the 55 County Boards of Education effective July 1, 2012. The Public School Support Plan is a basic foundation allowance program that provides funding to the local school boards for "any amount of the employer's annual required contribution allocated and billed to the county boards for employees who are employed as professional employees, employees who are employed as service personnel and employees who are employed as professional student support personnel", within the limits authorized by the Code. The special funding under the school aid formula subsidizes employer contributions of the county boards of education and contributes to the overall unfunded OPEB liability.

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

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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 PEIA 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 AAL.

As an employer, RHBT's obligation of \$569 and \$555 for fiscal years 2017 and 2016, respectively, are recorded in other liabilities in the statements of net position.

### **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 economic resources measurement focus and the accrual basis of accounting in conformity with GAAP for fiduciary funds 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 PEIA 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 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 10 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 10 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.

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

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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, 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 funds, 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 fiduciary net position as aggregations of different types of deferred amounts. Deferred outflows in the statements of fiduciary net position were composed of \$103 and \$87 for the years ending June 30, 2017 and 2016, respectively, related to employer contributions to the Public Employees Retirement System (PERS) made during the current fiscal year subsequent to the measurement date. Other deferred outflows consist of other amounts related to net differences between projected and actual earnings on pension plan investments, changes in differences between RHBT's contributions and proportionate share of contributions and differences between expected and actual experience related to pension.

***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 2017 and 2016, 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 fiduciary net position date (including claims reported and in process of settlement, claims reported but not yet processed for settlement and claims incurred for services

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

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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 fiduciary net position as aggregations of different types of deferred amounts. Deferred inflows in the statements of fiduciary 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 net 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 2017, the RHBT received financial incentives from Humana to reduce capitation payment costs savings of \$14.0 million, which is up \$13.2 million from the savings recorded in 2016.

***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.

***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.



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

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***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 WVIMB 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.
- 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 WVIMB's established procedures.

***Future adoption of accounting pronouncements***

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

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

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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 August 9, 2018, the date the financial statements were available for issuance.

**4. Adoption of New Accounting Pronouncement**

During fiscal year 2017, RHBT implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. 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. Certain fiscal year 2016 disclosure information has been revised to conform to the current year GASB Statement No. 74 presentation. The primary impact on RHBT's financial statements as a result of the implementation was expanded footnote disclosures related to the net OPEB liability and significant assumptions and the inclusion of additional required supplementary information related to the net OPEB obligation, contributions and investment returns.

**5. Deposit and Investment Disclosures**

***Investment policy and rate of return***

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. Investment expense information is not readily available as investment expenses are not separately reported by WVIMB and BTI, rather they are reflected within the reported rate of return and related deposit and investment income. More detailed information regarding the investment policies is below. There were no significant changes to the investment policies during the year.

For the years ended June 30, 2017 and 2016, the annual money-weighted rate of return on investments, net of investment expense, was 15.9% and 0.0%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

***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 \$91 and \$87 at June 30, 2017 and June 30, 2016, 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).

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

*Credit Risk and Interest Rate 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 an 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 A+ 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.

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:

<u>Investment Type</u>	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Fair Value</u>	<u>WAM Days</u>	<u>Fair Value</u>	<u>WAM Days</u>
Repurchase agreements	\$ 110,800	3	\$ 42,100	1
U.S. Treasury notes	97,823	44	231,398	88
U.S. Treasury bills	69,837	88	19,982	91
Commercial paper	1,064,527	36	922,891	48
Certificates of deposit	330,476	41	208,007	40
Corporate bonds and notes	9,485	79	49,282	14
U.S. agency bonds/notes	-	-	9,499	24
Money market funds	100,005	3	72,370	1
Total rated investments	<u>\$ 1,782,953</u>		<u>\$ 1,555,529</u>	

RHBT's amount invested in the West Virginia Money Market Pool is \$91 at June 30, 2017 and \$87 at June 30, 2016, representing approximately 5.1% and 5.6%, respectively, of total investments in this Pool.

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

<u>Security Type</u>	<u>Credit Rating</u>		<u>2017</u>		<u>2016</u>	
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percent</u>	<u>Carrying Value</u>	<u>Percent</u>
Commercial paper	P-1	A-1+	\$ 358,377	20.10%	\$ 290,118	18.65 %
	P-1	A-1	706,150	39.60	632,773	40.68
Corporate bonds and notes	Aa1	AA-	-	-	23,014	1.48
	Aa3	AA-	6,285	0.35	15,000	.96
	Aa3	NR	-	-	-	-
	A2	A	-	-	11,268	.72
	A1	A	3,200	0.18	-	-
U.S. agency bonds	Aaa	AA+	-	-	9,499	.61
U.S. Treasury notes	Aaa	AA+	97,823	5.49	231,398	14.88
U.S. Treasury bills	P-1	A-1+	69,837	3.92	19,982	1.28
Negotiable CDs	Aa2	AA-	-	-	3,000	.19
	Aa3	AA-	-	-	6,000	.39
	P-1	A-1+	174,000	9.76	78,006	5.02
	P-1	A-1	156,476	8.78	121,001	7.78

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

<i>(continued)</i> Security Type	Credit Rating		2017		2016	
	Moody's	S&P	Carrying Value	Percent	Carrying Value	Percent
Money market funds	Aaa	AAAm	\$ 100,005	5.61%	\$ 72,370	4.65 %
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AA+	-	-	42,100	2.71
	P-1	A-1	50,000	2.80	-	-
	NR	A-1	60,800	3.41	-	-
			<u>\$ 1,782,953</u>	<u>100.00%</u>	<u>\$ 1,555,529</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, 2017 and 2016, 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.

*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 fiduciary net position.

	June 30,	
	2017	2016
Large Cap Domestic Equity Pool	\$ 154,777	\$ 130,999
Non-Large Cap Domestic Equity Pool	31,038	31,019
International Equity Pool	141,899	118,113
International Non-Qualified Pool	65,925	48,963
Total Return Fixed Income Pool	76,385	55,439
Core Fixed Income Pool	32,438	25,400
Short-Term Fixed Income Pool	-	67
Hedge Funds Pool	68,094	66,295
Private Equity Pool	76,825	63,161
Real Estate Pool	74,041	64,582
Opportunistic Income Pool	14,395	3,053
	<u>\$ 735,817</u>	<u>\$ 607,091</u>

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

*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.

*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.)

<b>Asset Class</b>	<b>Policy Target</b>		<b>Strategic Allocation</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
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 RHBT.

**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 \$154,777 and \$130,999 at June 30, 2017 and 2016, respectively, represents approximately 4.4% and 4.0%, respectively, of total investments in this Pool.

*Credit Risk and Interest Rate 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. 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 tables provide the weighted average credit ratings and weighted average maturities (WAM) as of June 30:

<b>Investment Type</b>	<b>June 30, 2017</b>				<b>Percent of Total Investments</b>
	<b>Moody's</b>	<b>S&amp;P</b>	<b>WAM (Days)</b>	<b>Fair Value</b>	
Common stock	N/A	N/A	N/A	\$ 3,490,823	94.0 %
Money market mutual fund	Aaa	AAA	N/A	34,740	0.9
Repurchase agreements	Aaa	AA	3	110,335	3.0
Time deposits	A-1	P-1	3	<u>76,236</u>	<u>2.1</u>
Total investments				<u>\$ 3,712,134</u>	<u>100.0 %</u>

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

<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	\$ 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>

The table above 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.

<u>Investment Type</u>	<u>2016</u>	
	<u>Fair Value</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 314,482	2
Time deposits	<u>105,545</u>	1
Total	<u>\$ 420,027</u>	

*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, 2017 and 2016, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2017 and 2016, 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.

*Foreign Currency Risk*

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

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

*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>Assets</b>	<b>June 30, 2017</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Common stock	\$ 3,490,823	\$ -	\$ -	\$ 3,490,823
Investments made with cash collateral for securities loaned	-	186,571	-	186,571
Money market mutual funds	34,740	-	-	34,740
Total	<u>\$ 3,525,563</u>	<u>\$ 186,571</u>	<u>\$ -</u>	<u>\$ 3,712,134</u>

  

<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Futures	<u>\$ (65)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (65)</u>

<b>Assets</b>	<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>

**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 \$31,038 and \$31,019 at June 30, 2017 and 2016, respectively, represents approximately 4.3% and 4.0%, respectively, of total investments in this Pool.

*Credit Risk and Interest Rate 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. 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.

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

The following tables provide the weighted average credit ratings and weighted average maturities (WAM) as of June 30:

<u>June 30, 2017</u>					
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>WAM (Days)</u>	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Common stock	N/A	N/A	N/A	\$ 717,579	76.1 %
Money market mutual fund	Aaa	AAA	N/A	13,317	1.4
Repurchase agreements	Aaa	AA	3	125,660	13.3
Time deposits	A-1	P-1	3	<u>86,826</u>	<u>9.2</u>
Total investments				<u>\$ 943,382</u>	<u>100.0 %</u>

<u>June 30, 2016</u>					
<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	<u>22,357</u>	<u>1.9</u>	
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>	

The table above 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.

<u>Investment Type</u>	<u>2016</u>	
	<u>Fair Value</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 218,904	2
Time deposits	<u>73,468</u>	<u>1</u>
Total	<u>\$ 292,372</u>	

*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, 2017 and 2016, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2017 and 2016, 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.



**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.

*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, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock	\$ 717,579	\$ -	\$ -	\$ 717,579
Investments made with cash collateral for securities loaned	-	212,486	-	212,486
Money market mutual fund	<u>13,317</u>	<u>-</u>	<u>-</u>	<u>13,317</u>
Total	<u>\$ 730,896</u>	<u>\$ 212,486</u>	<u>\$ -</u>	<u>\$ 943,382</u>

<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>

*Redemption Provisions*

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

**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 \$141,899 and \$118,113 at June 30, 2017 and 2016, respectively, represents approximately 4.5% and 4.1%, respectively, of total investments in this Pool.

*Credit Risk and Interest Rate Risk*

The Pool is exposed to credit risk from 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. 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.

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

The following tables provide the weighted average credit ratings and weighted average maturities (WAM) as of June 30:

<b>June 30, 2017</b>					
Investment Type	Moody's	S&P	WAM (Days)	Fair Value	Percent of Total Investment
Common stock	N/A	N/A	N/A	\$ 2,958,970	93.2 %
Money market mutual funds	Aaa	AAA	N/A	38,306	1.2
Preferred stock	N/A	N/A	N/A	67,086	2.1
Repurchase agreements	Aaa	AA	3.0	63,972	2.0
Rights	N/A	N/A	N/A	2,562	0.1
Time deposits	A-1	P-1	3.0	44,201	1.4
Total investments				<u>\$ 3,175,097</u>	<u>100.0 %</u>

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

The table above 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.

Investment Type	<b>2016</b>	
	Fair Value	WAM (Days)
Repurchase agreements	\$ 112,380	2
Time deposits	37,716	1
Total investments	<u>\$ 150,096</u>	

*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, 2017 and 2016, 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, 2017 and 2016, 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.

*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:

<b>Currency</b>	<b>2017</b>			<b>2016</b>		
	<b>Investments</b>	<b>Cash</b>	<b>Total</b>	<b>Investments</b>	<b>Cash</b>	<b>Total</b>
Australian Dollar	\$ 86,903	\$ 3,905	\$ 90,808	\$ 70,519	\$ 1,384	\$ 71,903
Brazil Real	107,336	1,305	108,641	134,558	1,156	135,714
British Pound	268,603	8,426	277,029	251,332	2,256	253,588
Canadian Dollar	114,239	77	114,316	114,574	211	114,785
Chilean Peso	14,919	-	14,919	12,200	685	12,885
Czech Koruna	7,352	108	7,460	8,630	368	8,998
Danish Krone	11,750	(1)	11,749	21,390	1,390	22,780
Egyptian Pound	1,605	-	1,605	1,631	(20)	1,611
Emirati Dirham	6,060	10	6,070	5,631	5	5,636
Euro Currency Unit	463,410	6,309	469,719	423,512	504	424,016
Hong Kong Dollar	332,332	9,785	342,117	277,680	776	278,456
Hungarian Forint	6,749	58	6,807	8,991	135	9,126
Indian Rupee	93,581	1,604	95,185	64,154	697	64,851
Indonesian Rupiah	33,767	59	33,826	28,164	132	28,296
Israeli Shekel	13,482	35	13,517	16,429	49	16,478
Japanese Yen	371,110	2,302	373,412	381,024	2,588	383,612
Malaysian Ringgit	26,081	508	26,589	24,344	207	24,551
Mexican Peso	47,583	263	47,846	44,979	383	45,362
New Taiwan Dollar	75,661	2,418	78,079	63,355	1,166	64,521
New Zealand Dollar	6,060	7	6,067	7,782	3	7,785
Norwegian Krone	19,812	598	20,410	20,899	28	20,927
Pakistan Rupee	3,848	-	3,848	5,150	-	5,150
Philippine Peso	10,603	2	10,605	10,085	1	10,086
Polish Zloty	13,957	-	13,957	5,239	-	5,239
Qatari Riyal	99	32	131	407	16	423
Singapore Dollar	18,722	445	19,167	13,817	105	13,922
South African Rand	56,807	30	56,837	38,313	94	38,407
South Korean Won	218,594	1,856	220,450	188,612	1,479	190,091
Swedish Krona	37,428	(1)	37,427	52,296	1	52,297
Swiss Franc	109,989	1,566	111,555	95,697	-	95,697
Thailand Baht	54,069	(6)	54,063	47,149	1	47,150
Turkish Lira	55,190	96	55,286	55,220	507	55,727
<b>Total</b>	<b>\$ 2,688,001</b>	<b>\$ 41,796</b>	<b>\$ 2,729,797</b>	<b>\$ 2,493,763</b>	<b>\$ 16,307</b>	<b>\$ 2,510,070</b>

The table above excludes cash and securities held by the pool that are denominated in U.S. dollars. The fair value of the U.S. dollar denominated cash and investments is \$487,320 or 15.1% and \$531,171, or 17.5% for the years ended June 30, 2017 and 2016, respectively.

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

*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, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock	\$ 2,958,970	\$ -	\$ -	\$ 2,958,970
Foreign currency contracts	-	32	-	32
Investments made with cash collateral for securities loaned	-	108,173	-	108,173
Preferred stock	67,086	-	-	67,086
Rights	2,562	-	-	2,562
Money market mutual fund	38,306	-	-	38,306
Total	<u>\$ 3,066,924</u>	<u>\$ 108,205</u>	<u>\$ -</u>	<u>\$ 3,175,129</u>

<u>Liabilities</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Foreign currency contracts	\$ -	\$ (90)	\$ -	\$ (90)

<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	\$ 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>

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

**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, 2017 and 2016 was \$201,799 and \$141,311, 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 \$65,925 and \$48,963 at June 30, 2017 and 2016, respectively, represents approximately 32.7% and 34.7%, respectively, of total investments in this Pool.

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

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*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.

**Total Return Fixed Income Pool**

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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 \$76,385 and \$55,439 at June 30, 2017 and 2016, respectively, represented approximately 3.3% and 2.6%, respectively, of total investments in the Pool.

*Credit Risk and Interest Rate 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 WVIMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1% change in interest rates. The effective duration calculation takes into account the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds, commercial and residential mortgage-backed securities, asset-backed securities and collateralized mortgage obligations.

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. The Pool held \$463,424 and \$407,958 of these securities at June 30, 2017 and 2016, respectively, representing approximately 18% and 19% of the value of the Pool's securities.

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

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

<b>June 30, 2017</b>				
<u>Investment Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Total Investment</u>
Common stock	A	N/A	\$ 14	0.0 %
Corporate asset backed issues	Ba	AA	32,078	1.3
Corporate ABS residual	N/A	N/A	5,034	0.2
Corporate CMO	Baa	BB	46,766	1.9
Corporate preferred security	Ba	BB	10,436	0.4
Foreign asset backed issues	Baa	BBB	17,436	0.7
Foreign corporate bonds	Baa	BBB	285,298	11.3
Foreign government bonds	Baa	BBB	244,812	9.7
Investments in other funds	N/A	N/A	319,061	12.7
Money market mutual fund	Aaa	AAA	63,965	2.5
Municipal bonds	A	A	47,351	1.9
Options contracts purchased	N/A	N/A	2,098	0.1
Repurchase agreements	Aaa	AA	119,844	4.8
Time deposits	P-1	A-1	82,806	3.3
U.S. corporate bonds	Baa	BBB	460,676	18.1
U.S. Government agency bonds	Aaa	AA	11,630	0.5
U.S. Government agency CMO	Aaa	AA	51,865	2.1
U.S. Government agency CMO interest-only	Aaa	AA	3,796	0.2
U.S. Government agency MBS	Aaa	AA	289,155	11.5
U.S. Government agency TBAs	Aaa	AA	17,294	0.7
U.S. Treasury bonds	Aaa	AA	361,886	14.4
U.S. Treasury inflation protected securities	Aaa	AA	42,269	1.7
Total Investments			<u>\$ 2,515,570</u>	<u>100.0 %</u>

<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>
Bank loan	B	B	\$ 936	0.0 %
Corporate asset backed issues	A	A	36,980	1.7
Corporate CMO	Ba	BB	27,879	1.3
Corporate preferred securities	Ba	BB	10,472	0.5
Foreign asset backed issues	A	A	11,726	0.5
Foreign corporate bonds	Baa	BBB	293,586	13.6
Foreign government bonds	Ba	BB	217,700	10.1
Money market mutual funds	Aaa	AAA	66,469	3.1
Municipal bonds	A	A	40,081	1.9
Time deposits	P-1	A-1	20,028	0.9
U.S. corporate bonds	Baa	BBB	542,373	25.2
U.S. Government agency bonds	Aaa	AA	3,332	0.2
U.S. Government agency CMO	Aaa	AA	64,627	3.0
U.S. Government agency CMO interest-only	Aaa	AA	6,519	0.3
U.S. Government agency MBS	Aaa	AA	275,666	12.8
U.S. Government agency TBA	Aaa	AA	637	0.0

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

(continued)

June 30, 2016

Investment Type	Moody's	S&P	Fair Value	Percent of Total Investment
U.S. Treasury bonds	Aaa	AA	\$ 107,797	5.0 %
U.S. Treasury inflation-protected securities	Aaa	AA	26,550	1.2
Total rated investments			\$ 1,753,358	81.3 %

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.

The table above 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.

The following table provides the weighted average effective duration for the various asset types in the Pool as of June 30:

Investment Type	2017		2016	
	Fair Value	Effective Duration (Years)	Fair Value	Effective Duration (Years)
Bank loan	\$ -	0.0	\$ 936	0.1
Common stock	14	N/A	-	N/A
Corporate asset backed issues	32,078	2.0	36,980	1.8
Corporate ABS residual	5,034	N/A	5,385	N/A
Corporate CMO	46,766	0.9	27,879	1.9
Corporate preferred securities	10,436	0.1	10,472	0.1
Foreign asset backed issues	17,436	0.5	11,726	2.4
Foreign corporate bonds	285,298	6.6	292,987	6.6
Foreign government bond	244,812	5.3	217,698	6.0
Investments in other funds	319,061	2.4	360,669	2.9
Money market mutual funds	63,965	N/A	66,469	N/A
Municipal bonds	47,351	9.0	40,081	10.4
Options contracts purchase	2,098	N/A	1,192	N/A
Repurchase agreement	119,844	0.0	59,675	0.0
Time deposits	82,806	0.0	20,028	0.0
U.S. corporate bonds	460,676	7.0	540,049	8.3
U.S. Government agency bonds	11,630	0.7	2,699	3.3
U.S. Government agency CMO	51,865	1.4	64,627	0.9
U.S. Government agency CMO interest-only	3,796	1.8	6,519	34.0
U.S. Government agency MBS	289,155	3.0	254,842	1.7
U.S. Government agency TBA	17,294	5.4	637	0.0
U.S. Treasury bonds	361,886	7.8	101,702	3.0
U.S. Treasury inflation-protected securities	42,269	13.9	26,550	19.5
Total investments	\$ 2,515,570	5.0	\$ 2,149,802	5.1

**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, 2017 and 2016, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2017 and 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. 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.

*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 \$87,411, or 27.0%, of the commingled investment pools hold substantially all of their investments in foreign currencies. This represents approximately 3.0% 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:

<u>Currency</u>	<u>June 30, 2017</u>			<u>Percent of Total Investments and Cash</u>
	<u>Investments</u>	<u>Cash</u>	<u>Total</u>	
Argentine Peso	\$ 10,274	\$ 455	\$ 10,729	0.4 %
Australian Dollar	-	1,207	1,207	0.0
Azerbaijani Manat	652	-	652	0.0
Brazil Real	22,496	1	22,497	0.9
Canadian Dollar	7,653	-	7,653	0.3
Colombian Peso	5,003	-	5,003	0.2
Deutsche Mark	1,932	-	1,932	0.1
Euro Currency Unit	-	7,865	7,865	0.3
British Pound	4,800	61	4,861	0.2
Georgian Lari	1,678	-	1,678	0.1
Ghana Cedi	2,791	-	2,791	0.1
Indian Rupee	620	-	620	0.0
Japanese Yen	49,484	921	50,405	2.0
Kenyan Shilling	2,338	40	2,378	0.1
Mexican Peso	39,783	1,014	40,797	1.6
New Zealand Dollar	-	1,251	1,251	0.0
Peruvian Nuevo Sol	1,440	-	1,440	0.1
Russian Ruble	3,637	861	4,498	0.2
Swedish Krona	-	704	704	0.0
Turkish Lira	4,445	-	4,445	0.2
Ugandan Shilling	1,907	-	1,907	0.1
Uruguayan Peso	7,767	-	7,767	0.3
South African Rand	5,882	-	5,882	0.2
Total	<u>\$ 174,582</u>	<u>\$ 14,380</u>	<u>\$ 188,962</u>	<u>7.4 %</u>

The table above 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 \$2,346,267. This represents approximately 93.0% of the value of the Pool's investments and cash.



**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>

The table above 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.

*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>June 30, 2017</b>				
<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stock	\$ 14	\$ -	\$ -	\$ 14
Corporate asset backed issues	-	32,078	-	32,078
Corporate ABS residual	-	5,034	-	5,034
Corporate CMO	-	46,766	-	46,766
Corporate preferred security	10,436	-	-	10,436
Foreign asset backed issues	-	17,436	-	17,436
Foreign corporate bonds	-	285,298	-	285,298
Foreign currency forward contracts	-	911	-	911
Foreign government bonds	-	244,812	-	244,812
Future contracts	7,290	-	-	7,290
Investments made with cash collateral for securities loaned	-	202,650	-	202,650
Money market mutual fund	63,965	-	-	63,965
Municipal bonds	-	47,351	-	47,351
Options contracts purchased	2,098	-	-	2,098
Swaps	-	6,482	-	6,482
U.S. corporate bonds	-	460,676	-	460,676
U.S. Government agency bond	-	11,630	-	11,630

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

(continued)

<u>Assets</u>	June 30, 2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government agency CMO	\$ -	\$ 51,865	\$ -	\$ 51,865
U.S. Government agency CMO interest-only	-	3,796	-	3,796
U.S. Government agency MBS	-	289,155	-	289,155
U.S. Government agency TBAs	-	17,294	-	17,294
U.S. Treasury bonds	-	361,886	-	361,886
U.S. Treasury inflation protected securities	-	42,269	-	42,269
Total	<u>\$ 83,803</u>	<u>\$ 2,127,389</u>	<u>\$ -</u>	<u>2,211,192</u>
Investments in other funds				<u>319,061</u>
Total				<u>\$ 2,530,253</u>
<u>Liabilities</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Foreign currency forward contracts	\$ -	\$ (794)	\$ -	\$ (794)
Future contracts	(1,236)	-	-	(1,236)
Options contracts written	(538)	-	-	(538)
Swaps	-	(1,483)	-	(1,483)
Total	<u>\$ (1,774)</u>	<u>\$ (2,277)</u>	<u>\$ -</u>	<u>\$ (4,051)</u>

<u>Assets</u>	June 30, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

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

<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</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	\$ (7,155)	\$ (23,240)	\$ -	\$ (30,395)

*Redemption Provisions*

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

**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 outperform the Bloomberg Barclays U.S. Aggregate Bond Index over three and five year periods.

The RHBT's amount invested in the Core Fixed Income Pool of \$32,438 and \$25,400 at June 30, 2017 and 2016, respectively, and represented approximately 3.3% and 2.6%, respectively, of total investments in this Pool.

*Credit Risk and Interest Rate 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 WVIMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1% change in interest rates. The effective duration calculation takes into account the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds, commercial and residential mortgage-backed securities, asset-backed securities and collateralized mortgage obligations.

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, 2017 and 2016, the Pool held \$440,253 and \$464,526, respectively of these securities. This represents approximately 40.0% and 44%, respectively, of the value of the Pool's securities.

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

The following tables provide the weighted average credit ratings and the weighted average effective duration for the various asset types in the Pool as of June 30:

<b>June 30, 2017</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	Aa	A	\$ 102,422	9.3 %
Corporate CMO	A	A	41,600	3.8
Corporate CMO interest-only	B	NR	599	0.1
Corporate CMO principal-only	NR	AA	129	0.0
Foreign asset backed issues	Aaa	AAA	3,446	0.3
Foreign corporate bonds	A	A	52,706	4.8
Foreign government bonds	Aa	A	7,218	0.7
Money market mutual fund	Aaa	AAA	18,950	1.7
Municipal bonds	Aa	AA	9,013	0.8
Repurchase agreements	Aaa	AA	60,406	5.5
Time deposits	P-1	A-1	41,738	3.8
U.S. corporate bonds	A	A	226,894	20.7
U.S. Government agency bonds	Aaa	AA	22,596	2.1
U.S. Government agency CMO	Aaa	AA	114,552	10.5
U.S. Government agency CMO interest-only	Aaa	AA	3,635	0.3
U.S. Government agency CMO principal-only	Aaa	AA	7,159	0.7
U.S. Government agency MBS	Aaa	AA	166,711	15.2
U.S. Treasury bonds	Aaa	AA	215,469	19.7
U.S. Treasury inflation protected security	Aaa	AA	432	0.0
Total Investments			<u>\$ 1,095,675</u>	<u>100.0 %</u>

<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>
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>

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

The table above 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.

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

The following table provides the weighted average credit ratings and the weighted average effective duration for the various asset types in the Pool as of June 30:

<u>Investment Type</u>	<u>2017</u>		<u>2016</u>	
	<u>Fair Value</u>	<u>Effective Duration (Years)</u>	<u>Fair Value</u>	<u>Effective Duration (Years)</u>
Corporate asset backed issues	\$ 102,422	2.5	\$ 71,452	2.1
Corporate CMO	41,600	2.6	58,738	2.5
Corporate CMO interest-only	599	(11.6)	713	(17.4)
Corporate CMO principal-only	129	6.8	200	4.2
Foreign asset backed issues	3,446	2.5	1,793	0.1
Foreign corporate bonds	52,706	5.3	44,399	5.7
Foreign government bonds	7,218	8.5	7,251	9.0
Money market mutual funds	18,950	N/A	35,271	N/A
Municipal bonds	9,013	13.6	9,782	14.4
Repurchase agreements	60,406	0.0	39,023	0.0
Time deposits	41,738	0.0	13,097	0.0
U.S. corporate bonds	226,894	6.1	220,665	6.3
U.S. Government agency bonds	22,596	2.8	22,805	3.8
U.S. Government agency CMO	114,552	3.8	129,989	3.0
U.S. Government agency CMO interest-only	3,635	11.2	5,229	5.9
U.S. Government agency CMO principal only	7,159	6.8	9,002	7.2
U.S. Government agency MBS	166,711	4.2	187,410	4.4
U.S. Treasury bonds	215,469	9.0	200,740	8.5
U.S. Treasury inflation protected security	432	3.3	431	3.4
Total	<u>\$ 1,095,675</u>	<u>5.0</u>	<u>\$ 1,057,990</u>	<u>4.9</u>

*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, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2017, 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.

*Foreign Currency Risk*

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

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

*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>Assets</b>	<b>June 30, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Corporate asset backed issues	\$ -	\$ 102,422	\$ -	\$ 102,422
Corporate CMO	-	41,600	-	41,600
Corporate CMO interest - only	-	599	-	599
Corporate CMO principal - only	-	129	-	129
Foreign assets backed issues	-	3,446	-	3,446
Foreign corporate bonds	-	52,706	-	52,706
Foreign government bonds	-	7,218	-	7,218
Investments made with cash collateral for securities loaned	-	102,144	-	102,144
Money market mutual fund	18,950	-	-	18,950
Municipal bonds	-	9,013	-	9,013
U.S. corporate bonds	-	226,894	-	226,894
U.S. Government agency bond	-	22,596	-	22,596
U.S. Government agency CMO	-	114,552	-	114,552
U.S. Government agency CMO interest-only	-	3,635	-	3,635
U.S. Government agency CMO principal-only	-	7,159	-	7,159
U.S. Government agency MBS	-	166,711	-	166,711
U.S. Treasury bonds	-	215,469	-	215,469
U.S. Treasury inflation protected securities	-	432	-	432
<b>Total</b>	<b>\$ 18,950</b>	<b>\$ 1,076,725</b>	<b>\$ -</b>	<b>\$ 1,095,675</b>

<b>Assets</b>	<b>June 30, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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
<b>Total</b>	<b>\$ 35,271</b>	<b>\$ 1,022,719</b>	<b>\$ -</b>	<b>\$ 1,057,990</b>

**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 15 basis points.

The RHBT's amount invested in the Short-Term Fixed Income Pool of \$67 at June 30, 2016, represented approximately 0.02% of total investments in this Pool. There were no investments in the pool at June 30, 2017.

*Credit Risk and Interest Rate 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 weighted average maturity of the investments of the 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 information on the weighted average credit ratings and the weighted average maturities (WAM) of the Pool's investments as of June 30:

<u>Investment Type</u>	<u>June 30, 2016</u>		<u>Carrying Value</u>	<u>Percent of Total Investment</u>
	<u>Moody's</u>	<u>S&amp;P</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	88,046	24.9
Total rated investments			<u>\$ 353,423</u>	<u>100.0 %</u>

The table above 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.

<u>Investment Type</u>	<u>2016</u>	
	<u>Fair Value</u>	<u>WAM (Days)</u>
Commercial paper	\$ 52,734	22
Money market mutual fund	82,161	N/A
Repurchase agreement	13,000	1
U.S. government agency issues	130,482	55
U.S. Treasury issues	74,786	28
Total investments	<u>\$ 353,163</u>	

*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, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*Custodial Credit Risk*

At June 30, 2017, 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.

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

*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>

**Hedge Fund Pool**

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, 2017, 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 \$68,094 and \$66,295 at June 30, 2017 and 2016, respectively, represented approximately 3.7% and 4.1%, respectively, of total investments in this Pool.

*Investment Risk*

The Pool holds shares in hedge funds and shares of money market fund with the highest credit rating. The investments in hedge funds might be indirectly exposed to foreign currency risk, credit 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, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

*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 for the year ended June 30, 2017. The majority of the Pool's investments in hedge funds were valued using the net asset value (NAV) per share; as such, they have not been categorized in the fair value hierarchy for 2017. 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, 2017. At June 30, 2016, there were no assets at fair value in the pool; therefore, a fair value hierarchy table is not presented.

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual fund	\$ 22	\$ -	\$ -	\$ 22
Hedge funds				1,809,889
Total				<u>\$ 1,809,911</u>



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

The following table presents information on investments measured at the NAV as of June 30, 2017.

<u>Hedge Fund Strategies</u>	<u>Fair Value</u>	<u>Number of Funds</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Directional (a)	\$ 173,459	3	Mthly/Qtly	3 to 60 days
Equity long/short (b) 30 to 60 days	235,206	3	Mthly/Qtly/Every 3 yrs	
Event-driven (c)	44,907	1	Qtly	65 days
Long-biased (d)	49,427	1	Mthly	90 days
Multi-strategy (e)	1,165,427	16	Mthly/Qtly/Annually	3 to 95 days
Relative-value (f)	<u>141,463</u>	2	Mthly	45 to 60 days
Total investments measured at the NAV	<u>\$ 1,809,889</u>			

- (a) Directional strategies employ various techniques to forecast the direction of segments of the market and then invest in either long or short positions to take advantage of that. The segments may be geographic economies, industry sectors, currency, or asset class. The investments may be in physical securities or derivatives. The strategies may be trend-following or mean-reverting and may be specific to that segment or universally applied across them.
- (b) An equity long/short strategy is an investing strategy, used primarily by hedge funds, that involves taking long positions in stocks that are expected to increase in value and short positions in stocks that are expected to decrease in value. Investments representing approximately 64% of the fair value of the investments in this strategy are subject to maximum withdrawal restrictions.
- (c) Event-driven managers maintain positions in companies currently or prospectively involved in various corporate transactions including, but not limited to, mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated and frequently involve additional derivative securities. Event-driven exposure includes a combination of sensitivities to equity markets, credit markets and company-specific developments. The sole fund in this investment strategy is subject to maximum withdrawal restrictions.
- (d) Long-biased strategies employ analytical techniques in which the investment thesis is predicated on assessment of the valuation characteristics on the underlying companies with the goal of identifying undervalued companies. Long-biased strategies may vary the investment level or the level of long exposure over market cycles, but the primary distinguishing characteristic is that the manager maintains consistent long exposure.
- (e) Multi-strategy managers combine several strategies within the same fund in order to provide diversification benefits to reduce return volatility and decrease asset-class and single-strategy risks. These funds typically add incremental returns through active allocation adjustments based on market opportunities. Risk is managed through a combination of quantitative and qualitative constraints including, but not limited to, active risk, liquidity risk, currency risk, manager risk, derivatives risk and leverage risk. Investments representing approximately 62% of the fair value of the investments in this strategy are subject to maximum withdrawal restrictions.
- (f) Relative-value managers maintain positions in which the investment thesis is predicated on the realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment insights and security types range broadly across equity, fixed income, derivative or other security types. Fixed Income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk-adjusted spread between these instruments represents an attractive opportunity.

At June 30, 2016, the Pool was restricted to the following redemption provisions: ranging from monthly with three days prior written notice to every three years with 45 days prior written notice and subject to maximum withdrawal restrictions.

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

**Private Equity Pool**

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

This Pool holds limited partnerships, a commingled investment fund and a money market fund with the highest credit rating. The investments in limited partnerships 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, 2017, 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 \$76,825 and \$63,161 at June 30, 2017 and 2016, respectively, represented approximately 4.7% and 4.4%, 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 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.

<u>Assets</u>	<u>June 30, 2017</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investment in other funds	\$ 312,661	\$ -	\$ -	\$ 312,661
Money market mutual fund	35,764	-	-	35,764
Total	<u>\$ 348,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>348,425</u>
Private equity partnerships				<u>1,275,205</u>
Total				<u>\$ 1,623,630</u>

The following table presents information on investments measured at the NAV as of June 30, 2017.

<u>Strategies</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Contractual Termination Date Range (a)</u>
Corporate Finance (b)	\$ 663,406	\$ 677,544	2017 to 2031
Corporate Finance – Distressed debt (c)	221,540	32,317	2017 to 2025
Corporate Finance – Growth Equity (d)	58,223	44,186	2018 to 2020
Corporate Finance – Mezzanine (e)	52,254	79,739	2019 to 2024
Corporate Finance – Turnaround (f)	78,256	88,487	2017 to 2026
Venture Capital (g)	201,526	99,556	2023 to 2031
Total	<u>\$ 1,275,205</u>	<u>\$ 1,021,829</u>	

- (a) Investments cannot be redeemed until termination of the partnership.
- (b) Corporate Finance – Buyout funds acquire controlling or influential interest in companies.
- (c) Corporate Finance – Distressed Debt funds acquire the companies experiencing operational or financial distress usually converting the debt to equity and exercising control of the business.
- (d) Corporate Finance – Growth Equity funds invest in companies to expand or restructure operations, enter new markets, or finance an acquisition.

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

- (e) Corporate Finance – Mezzanine funds acquire or issue subordinated debentures frequently in businesses controlled by the General Partner, but in another fund.
- (f) Corporate Finance – Turnaround funds acquire the debt and or equity of companies experiencing operational or financial distress in order to radically reorganize and improve the business.
- (g) Venture Capital funds make investments in early stage through late stage companies, frequently start-ups in technology or healthcare.

<u>Assets</u>	<u>June 30, 2016</u>			<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	<u>\$ 172,542</u>	<u>\$ -</u>	<u>\$ -</u>	172,542
Private equity partnerships				1,091,308
Multiple strategy hedge fund				<u>172,646</u>
Total				<u>\$ 1,436,496</u>

*Redemption Provisions*

The Pool is restricted to the following redemption provisions: ranging from monthly with three 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 \$74,041 and \$64,582 at June 30, 2017 and 2016, respectively, represented approximately 4.5% and 4.3%, respectively, of total investments in this Pool.

*Credit Risk and Interest Rate 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 IMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1% change in interest rates. The effective duration calculation takes into account the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds.

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

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, 2017</u>				
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Effective Duration (Years)</u>	<u>Fair Value</u>	<u>Percent of Total Investments</u>
Common stock	N/A	N/A	N/A	\$ 113,172	6.9 %
Money market mutual fund	Aaa	AAA	N/A	40,335	2.5
Preferred stock	N/A	N/A	2.5	12,059	0.7
Real estate limited partnerships and funds	N/A	N/A	N/A	1,456,645	88.7
Repurchase agreements	Aaa	A	0.0	8,873	0.5
Time deposits	A-1	P-1	0.0	6,131	0.4
U.S. Treasury bonds	Baa	BBB	3.3	5,256	0.3
Total investments			<u>1.5</u>	<u>\$ 1,642,471</u>	<u>100.0 %</u>

<u>Investment Type</u>	<u>June 30, 2016</u>				
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Total Investments</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	
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	2,013	0.1	
Total rated investments			<u>108,182</u>	<u>6.9</u>	
Common stock			119,757	7.8	
Real estate limited partnerships and funds			1,314,563	85.3	
Total investments			<u>\$ 1,542,502</u>	<u>100.0 %</u>	

The table above 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.

<u>Investment Type</u>	<u>2016</u>	
	<u>Fair Value</u>	<u>Effective Duration (Years)</u>
Common stock	\$ 109,014	N/A
Money market mutual funds	70,652	N/A
Real estate limited partnerships and funds	1,314,563	N/A
Repurchase agreements	19,708	0.0
Time deposits	6,614	0.0
U.S. corporate bonds	8,083	2.5
U.S. preferred stock	12,767	2.2
Total	<u>\$ 1,541,401</u>	<u>1.0</u>

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

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

*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, 2017 and 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 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.

*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>2017</u>		<u>2016</u>	
	<u>Investments</u>	<u>Percent of Total Investments</u>	<u>Investments</u>	<u>Percent of Total Investments</u>
Australian Dollar	\$ 3,879	0.2%	\$ 4,949	0.3%
British Pound	4,029	0.2	3,641	0.2
Canadian Dollar	6,741	0.4	2,288	0.1
Euro Currency Unit	77,805	4.8	60,042	3.9
Hong Kong Dollar	5,699	0.3	4,331	0.3
Japanese Yen	8,241	0.5	9,529	0.6
Singapore Dollar	1,664	0.1	-	0.0
Swedish Krona	732	0.0	381	0.0
Total	<u>\$ 108,790</u>	<u>6.5%</u>	<u>\$ 85,161</u>	<u>5.4%</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, 2017 and 2016 was \$1,539,444 and \$1,456,240, respectively. This represents approximately 94% of the value of the Pool's investments for both June 30, 2017 and 2016.

*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 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.

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

<b>June 30, 2017</b>				
Assets	Level 1	Level 2	Level 3	Total
Common stock	\$ 113,172	\$ -	\$ -	\$ 113,172
Investments made with cash collateral for securities loaned	-	15,004	-	15,004
Money market mutual fund	40,335	-	-	40,335
U.S. corporate bonds	-	5,256	-	5,256
U.S. preferred stock	12,059	-	-	12,059
Total	<u>\$ 165,566</u>	<u>\$ 20,260</u>	<u>\$ -</u>	<u>185,826</u>
Real estate limited partnerships and funds				<u>1,456,645</u>
Total				<u>\$ 1,642,471</u>
Liabilities	Level 1	Level 2	Level 3	Total
Foreign currency contracts	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ (1)</u>

The following table presents information on investments measured at the NAV as of June 30, 2017.

Strategies	Fair Value	Unfunded Commitments	Contractual Termination Date Range (a)	Redemption/ Notice Period
Core Funds (b)	\$ 811,815	\$ 78,870	2020 to 2022	Qtr/45-60 days
Opportunistic Funds (c)	256,375	238,268	2018 to 2027	N/A
Value Funds (d)	388,455	394,813	2017 to 2027	N/A
Total	<u>\$ 1,456,645</u>	<u>\$ 711,951</u>		

- (a) Investments cannot be redeemed until termination of partnership.
- (b) Core funds are more conservative real estate investments that use a very modest level of financing to acquire and hold high-quality, stable properties typically located in major markets. These assets tend to have high occupancy rates, higher credit tenants and staggered lease terms with a number of long-term leases expiring in five-to-ten years.
- (c) Opportunistic Funds have higher risk/return profiles and have broad strategies to achieve these types of returns. Common strategies are properties that need significant rehabilitation or a total redevelopment to transition to a different type of property (for example, converting an office building to condominiums). It may also include new development, distressed debt strategies and more complex transactions, as well as more traditional value-add strategy that is financed with a higher level of leverage.
- (d) Value funds typically use more leverage than core funds and target higher return opportunities by acquiring properties that the manager believes they can add value through capital renovations to the physical facility or enhanced leasing and management activities. Most of these properties have in-place cash flow, which is expected to increase as the business plans are implemented. This could include making physical improvements to the asset that will allow it to command higher rents, increasing efforts to lease vacant space at the property to qualified tenants, or improving the management of the property and thereby increasing customer satisfaction or lowering operating expenses where possible.

**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>
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>

*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 Income Pool**

Effective April 1, 2017, this Pool was renamed the Opportunistic Income Pool (Pool). It was previously named the Opportunistic Debt Pool. This change was made to reflect the expansion of permissible investments to include not only middle market direct commercial loans, but also real estate loan funds and other income focused funds that meet the objectives of the Pool. 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% - 8% over a normal market cycle and/or 250 basis points 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.

The RHBT's amount invested in the Opportunistic Income Pool of \$14,395 at June 30, 2017 represented approximately 4.7% 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*

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, 2017 and 2016, the Pool was in compliance with this restriction.

*Custodial Credit Risk*

At June 30, 2017 and 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.

**West Virginia Retiree Health Benefit Trust Fund**  
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*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 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, 2017. 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.

<b>June 30, 2017</b>				
<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual fund	<u>\$ 58,592</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 58,592
Direct lending funds				<u>245,902</u>
Total				<u>\$ 304,494</u>

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

The Pool holds two direct lending funds with unfunded commitments of \$111,695. These funds seek to generate current income while preserving capital primarily through investments in senior secured loans to middle market companies domiciled in North America. Funds may be redeemed upon termination of the partnership or the limited liability company.

**6. Net OPEB Liability**

The projections of the net OPEB liability 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 the net OPEB liability 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 estimated liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. However, the preparation of any estimate of future post-employment costs requires consideration of a broad array of complex social and economic events. Future changes in the healthcare reform, 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 post-employment program costs contains considerable uncertainty and variability and actual experience may vary significantly by the current estimated net OPEB liability.



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Additional information for the latest actuarial valuation follows:

***Net OPEB Liability of the RHBT***

The components of the net OPEB liability of the RHBT at June 30, 2017 rolled forward, were as follows:

Total OPEB liability	\$ 3,282,900
Plan fiduciary net position	<u>823,911</u>
RHBT's net OPEB liability	<u>\$ 2,458,989</u>

Plan fiduciary net position as a percentage of the total OPEB liability	25.1%
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***Actuarial assumptions***

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	Dependent upon pension system ranging from 3.00% to 6.50%, including inflation
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll over a 21 year closed period
Remaining amortization period	21 years closed as of June 30, 2016

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Healthy Annuitant Mortality Table projected to 2025 with scale BB for Troopers A and B. Pre-Retirement: RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Non-Annuitant Mortality Table projected to 2020 with Scale BB for Troopers A and B.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 – June 30, 2015.

The long-term expected rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the WV Investment Management Board and an expected short-term rate of return of 3.0% for assets invested with the West Virginia Board of Treasury Investments. Long-term pre-funding assets are invested with the WVIMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the WVBTI.

The long-term rate of return on OPEB plan investments were determined using a building block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) was developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation

**West Virginia Retiree Health Benefit Trust Fund**  
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**(in thousands)**

percentages and by adding expected inflation. Best estimates of long-term geometric rates are summarized in the following table:

<b>Asset Class</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0
International Qualified	24.6
International Non-Qualified	24.3
International Equity	26.2
Short-Term Fixed	0.5
Total Return Fixed Income	6.7
Core Fixed Income	0.1
Hedge Fund	5.7
Private Equity	19.6
Real Estate	8.3
Opportunistic Income	4.8
Cash	0.0

***Discount rate***

The discount rate used to measure the total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Future pre-funding assumptions include a \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2036, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates. The discount rate used to measure the total OPEB liability at June 30, 2016 is a 0.45% increase from the June 30, 2015 valuation.

***Other key assumptions***

The projection assumes that the capped subsidy aggregate contribution limit of \$150 million for 2017 would increase by \$10 million per year on and after 2018. Additionally, the per member subsidy is projected to increase by at least 3.0% per year but no more than the healthcare trend inflation assumption such that the product of the projected subsidy and projected members is less than the projected aggregated capped costs; and the member's share of plan costs is expected remain stable as a percentage of total costs following the year that the program is fully funded. After 2035, the program is projected to be fully funded and the sponsor is assumed to contribute the residual portion of normal cost and operational expenses needed to maintain a funded ratio of 100% in future years. In addition, after 2035, the member's share of total plan costs is assumed to remain stable at approximately 61% of total plan costs. These assumptions produced per member annual capped subsidy increases of 3.0% per year from 2018 to 2023 and 4.5% per year after 2023.

Members hired on or after July 1, 2010, are required to pay 100% of expected cost of coverage, resulting in no implicit or explicit employer cost. Consequently, these members are excluded from the actuarial valuation.

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

***Sensitivity of the net OPEB liability to changes in the discount rate***

The following presents the net OPEB liability of the RHBT, as well as what the RHBT's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.15%) or 1-percentage-point higher (8.15%) than the current discount rate:

	<u>1% Decrease (6.15%)</u>	<u>Discount Rate (7.15%)</u>	<u>1% Increase (8.15%)</u>
Net OPEB liability	\$ 2,863,210	\$ 2,458,989	\$ 2,122,968

***Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.***

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower:

	<u>1% Decrease</u>	<u>Healthcare Cost Trent Rates</u>	<u>1% Increase</u>
Net OPEB liability	\$ 2,065,586	\$ 2,458,989	\$ 2,940,143

**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 10 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 15 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 15 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 12.0%, 13.5% and 14.0% for the years ended June 30, 2017, 2016 and 2015, respectively. 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 \$103, \$87 and \$104 for the fiscal years ended June 30, 2017, 2016 and 2015, respectively.

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

***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*. The West Virginia Consolidated Public Retirement Board (WVCPRB) administers this cost-sharing multiple-employer plan.

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, 2017 and 2016, the RHBT reported a liability of \$512 and \$301 for its proportionate share of the net pension liability. The net pension liability reported at June 30, 2017 was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016. For fiscal year 2016, the net pension liability 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 June 30, 2014, rolled forward to the measurement date of June 30, 2015. 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, 2016. At June 30, 2017, the RHBT’s proportionate share was 0.0557%, which was an increase of 0.0018% for its proportionate share measured as of June 30, 2016.

For the years ended June 30, 2017 and 2016, the RHBT recognized pension expense of \$25 and \$15. At June 30, 2017 and 2016, the RHBT reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 161	\$ -	\$ 92	\$ 158
Difference between expected and actual experience	43	-	62	-
Difference in assumptions	-	25	-	36
Changes in proportion and differences between RHBT’s contributions and proportionate share of contributions	32	-	-	2
RHBT’s contributions made subsequent to the measurement date	<u>103</u>	<u>-</u>	<u>87</u>	<u>-</u>
Total	<u>\$ 339</u>	<u>\$ 25</u>	<u>\$ 241</u>	<u>\$ 196</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

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

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:

<u>Year Ended June 30,</u>	<u>Pension Expense</u>
2018	\$ 73
2019	\$ 73
2020	\$ 63
2021	\$ 2

***Actuarial assumptions and methods***

The total pension liability in the actuarial valuations was determined using the following actuarial assumptions:

	<u>2017</u>	<u>2016</u>
Inflation	3.0%	1.9%
Salary increase	3.0-6.0%, avg., including inflation	3.0-6.0%, avg., including inflation
Investment rate of return	7.5%, net of pension plan investment expense	7.5%, net of pension plan investment expense

Mortality rates were based on 110% of the RP-2000 Healthy Annuitant table, projected with Scale AA on a fully generational basis for healthy males, 101% of RP-2000 Healthy Annuitant table, projected with Scale AA on a fully generational basis for healthy females, 96% of RP-2000 Disabled Annuitant table, projected with Scale AA on a fully generational basis for disabled males and 107% of RP-2000 Disabled Annuitant table, projected with Scale AA on a fully generational basis for disabled females. The actuarial assumptions used in the valuations were based on the results from an actual experience study for the period July 1, 2009 through June 30, 2014.

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 best estimates of long-term geometric rates of return for each major asset class included in the system's target asset allocation as of June 30, 2016, are summarized below:

<u>Asset Class</u>	<u>Long-Term Expected Rate of Return</u>
Domestic equity	7.0%
International equity	7.7%
Core fixed income	2.7%
High-yield fixed income	5.5%
TIPS	2.7%
Real estate	7.0%
Private equity	9.4%
Hedge funds	4.7%

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

**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 State contributions would continue to follow the current funding policy. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current system members. Therefore, the long-term expected rate of return on system investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the system's fiduciary net position, a municipal bond rate of 2.71% is to be used to discount the benefit payments not covered by the system's fiduciary net position. The 2.71% rate equals the S&P Municipal Bond 20 Year High Grade Index at June 30, 2016. 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>
\$ 927	\$ 512	\$ 160

**8. Change in Classification**

During fiscal year 2018, management reassessed the presentation of certain amounts on the statements of changes in fiduciary net position previously reported for the years ended June 30, 2017 and 2016, and determined that certain reclassifications should be made to more accurately reflect the information presented. The reclassification adjustments primarily related to management's reassessment of the cost sharing arrangement between employer and employer contributions between PEIA and RHBT resulting in an increase in employer contributions on RHBT, special funding amounts received from the State under the school aid formula being presented as a separate line item, and the reducing benefit payments by inactive plan member contributions. Such reclassification adjustments to certain financial statement line items in the statements of changes in fiduciary net position, which are summarized in the table below, did not impact the previously reported net position or net increase (decrease) in net position as of and for the years ended June 30, 2017 or 2016. Additionally, certain footnote disclosures in Note 2, management discussion and analysis, and required supplementary information on the Schedule of Changes in Net OPEB Liability and Related Ratios and the Schedule of Contributions have been updated to reflect the reclassification adjustments.

	<b>2017 (As Previously Reported)</b>	<b>Adjustments</b>	<b>2017 (As Adjusted)</b>	<b>2016 (As Previously Reported)</b>	<b>Adjustments</b>	<b>2016 (As Adjusted)</b>
Contributions:						
Employers	145,146	(29,636)	115,510	145,461	(29,203)	116,258
Plan members	88,482	(88,482)	-	84,675	(84,675)	-
State appropriation (School Aid)	-	54,805	54,805	-	54,694	54,694
Payments to managed care organizations	135,428	(135,428)	-	149,962	(149,962)	-
Claims expense, net	91,668	(91,668)	-	95,438	(95,438)	-
Benefit payments	-	163,376	163,376	-	185,908	185,908
Other expenses	1,846	407	2,253	2,851	308	3,159

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

**West Virginia Retiree Health Benefit Trust Fund**  
**Required Supplementary Information**  
**Schedule of Changes in Net OPEB Liability and Related Ratios**  
**Last 10 Fiscal Years**  
**(in thousands)**

	<i>As Adjusted</i> <b>2017</b>	<i>As Adjusted</i> <b>2016</b>	<i>As Adjusted</i> <b>2015</b>	(1) <b>2014</b>	(1) <b>2013</b>	(1) <b>2012</b>	(1) <b>2011</b>	(1) <b>2010</b>	(1) <b>2009</b>	(1) <b>2008</b>
<b>Total OPEB liability</b>										
Service cost	\$ 66,068	\$ 76,802	\$ 73,848	*	\$ 91,310	*	\$ 93,419	*	\$ 478,063	**
Interest	223,113	224,736	217,224	*	6,118	*	5,699	*	17,019	**
Changes of benefit terms	-	-	-	*	(12,120)	*	(2,682,585)	*	-	**
Differences between expected and actual experience	(10,451)	(140,495)	(118,656)	*	(254,822)	*	(185,666)	*	1,471,644	**
Changes of assumptions	-	(220,992)	-	*	(377,754)	*	(1,235,813)	*	(761,843)	**
Benefit payments and administrative expenses	(164,823)	(187,678)	(181,996)	(225,957)	(198,079)	(201,639)	(202,111)	(192,952)	(157,282)	**
<b>Net change in total OPEB liability</b>	<b>113,907</b>	<b>(247,627)</b>	<b>(9,580)</b>	*	<b>(745,347)</b>	*	<b>(4,207,057)</b>	*	<b>1,047,601</b>	**
<b>Total OPEB liability - beginning</b>	<b>3,168,993</b>	<b>3,416,620</b>	<b>3,426,200</b>	<b>3,262,553</b>	<b>4,007,900</b>	<b>3,841,243</b>	<b>8,048,300</b>	<b>7,410,241</b>	<b>6,362,640</b>	**
<b>Total OPEB liability - ending (a)</b>	<b>\$ 3,282,900</b>	<b>\$ 3,168,993</b>	<b>\$ 3,416,620</b>	<b>\$ 3,426,200</b>	<b>\$ 3,262,553</b>	<b>\$ 4,007,900</b>	<b>\$ 3,841,243</b>	<b>\$ 8,048,300</b>	<b>\$ 7,410,241</b>	<b>\$ 6,362,640</b>
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 115,510	\$ 116,258	\$ 119,004	\$ 160,054	\$ 165,989	\$ 153,699	\$ 148,297	\$ 131,079	\$ 236,404	**
Contributions - plan member	-	-	-	83,424	81,352	74,517	70,608	63,450	63,655	**
State appropriations - School Aid	54,805	54,694	55,306	-	-	-	-	-	-	**
State appropriations - OPEB	30,000	-	-	-	-	-	-	-	-	**
State appropriations - Premium	5,000	-	-	-	-	-	-	-	-	**
Net investment income	99,447	157	23,142	88,477	52,893	5,761	49,238	29,260	3,132	**
Benefit payments and administrative expenses	(164,823)	(187,678)	(181,996)	(225,957)	(198,079)	(201,639)	(202,111)	(192,952)	(157,282)	**
Other expense, net	(1,696)	(2,355)	(2,013)	(4,669)	(4,704)	(11,637)	(10,488)	(11,717)	(3,312)	**
<b>Net change in plan fiduciary net position</b>	<b>138,243</b>	<b>(18,924)</b>	<b>13,443</b>	<b>101,329</b>	<b>97,451</b>	<b>20,701</b>	<b>55,544</b>	<b>19,120</b>	<b>142,597</b>	**
<b>Plan fiduciary net position - beginning</b>	<b>685,668</b>	<b>704,592</b>	<b>691,149</b>	<b>590,230</b>	<b>492,779</b>	<b>472,078</b>	<b>416,534</b>	<b>397,414</b>	<b>254,817</b>	**
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 823,911</b>	<b>\$ 685,668</b>	<b>\$ 704,592</b>	<b>\$ 691,559</b>	<b>\$ 590,230</b>	<b>\$ 492,779</b>	<b>\$ 472,078</b>	<b>\$ 416,534</b>	<b>\$ 397,414</b>	<b>\$ 254,817</b>
<b>Net OPEB liability - ending (a) - (b)</b>	<b>\$ 2,458,989</b>	<b>\$ 2,483,325</b>	<b>\$ 2,712,028</b>	<b>\$ 2,734,641</b>	<b>\$ 2,672,323</b>	<b>\$ 3,515,121</b>	<b>\$ 3,369,165</b>	<b>\$ 7,631,766</b>	<b>\$ 7,012,827</b>	<b>\$ 6,107,823</b>
Plan fiduciary net position as a percentage of the total OPEB liability	25.10%	21.64%	20.62%	20.18%	18.09%	12.30%	12.29%	5.18%	5.36%	4.00%
Covered employee payroll	\$ 2,199,037	\$ 2,114,459	\$ 2,096,000	\$ 4,093,778	\$ 3,921,147	\$ 3,755,797	\$ 3,649,954	\$ 3,502,347	\$ 3,342,136	**
Net OPEB liability as a percentage of covered-employee payroll	111.82%	117.44%	129.39%	66.80%	68.15%	93.59%	92.31%	217.90%	209.83%	**

(1) For years 2014 and prior the information in the schedule does not reflect certain reclassifications made to the 2017, 2016 and 2015 information as such reclassification information is not readily available.

\* Data not available for years that the OPEB valuation was not performed.

\*\* OPEB valuation study not performed until 2009.

\*\*\* Represents Plan fiduciary net position - beginning, as adjusted by \$410. Adjustment relates to implementation of GASB 68.



**West Virginia Retiree Health Benefit Trust Fund**  
**Required Supplementary Information**  
**Schedule of Contributions**  
**Last 10 Fiscal Years**  
**(in thousands)**

	<i>As Adjusted</i> <b>2017</b>	<i>As Adjusted</i> <b>2016</b>	<i>As Adjusted</i> <b>2015</b>	(1) <b>2014</b>	(1) <b>2013</b>	(1) <b>2012</b>	(1) <b>2011</b>	(1) <b>2010</b>	(1) <b>2009</b>	(1) <b>2008</b>
Actuarially determined contribution	<b>\$ 224,710</b>	\$ 236,031	\$ 261,896	\$ 253,220	\$ 289,725	\$ 272,773	\$ 816,274	\$ 795,199	\$ 338,166	**
Contributions in relation to the actuarially determined contribution	<b>205,315</b>	170,952	174,310	165,054	171,221	156,476	150,513	152,799	235,137	**
Contribution deficiency (excess)	<b>\$ 19,395</b>	\$ 65,079	\$ 87,586	\$ 88,166	\$ 118,504	\$ 116,297	\$ 966,787	\$ 947,998	\$ 103,029	**
Covered-employee payroll	<b>\$ 2,199,037</b>	\$ 2,114,459	\$ 2,096,000	\$ 4,093,778	\$ 3,921,147	\$ 3,755,797	\$ 3,649,954	\$ 3,502,347	\$ 3,342,136	**
Contributions as a percentage of covered-employee payroll	<b>9.34%</b>	8.08%	8.32%	4.03%	4.37%	4.17%	4.12%	4.36%	7.04%	**

(1) For years 2014 and prior the information in the schedule does not reflect certain reclassifications made to the 2017, 2016 and 2015 information as such reclassification information is not readily available.

\*\* OPEB valuation study not performed until 2009.

**West Virginia Retiree Health Benefit Trust Fund**  
**Required Supplementary Information**  
**Schedule of Investment Returns**  
**Last 10 Fiscal Years**  
**(in thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual money-weighted rate of return, net of investment expense	15.90%	0.00%	3.90%	17.80%	11.90%	1.30%	11.80%	14.40%	0.60%	**

\*\* No returns reported for periods of less than a full year, i.e. FYE 6/30/2008

## **Notes to Required Supplementary Information - OPEB**

### **1. Valuation Date**

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Amortization period	21 year closed period as of June 30, 2016
Asset valuation method	Market value
Investment rate of return	7.15%, net of OPEB plan investment expense, including inflation
Inflation	2.75%
Salary increases	Dependent upon pension system. Ranging from 3.0% to 6.5%, including inflation
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2016 actuarial valuation
Mortality	Post-Retirement: RP-2000 Healthy Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Healthy Annuitant Mortality Table projected to 2025 with Scale BB for Troopers A and B. Pre-Retirement: RP-2000 Non-Annuitant Mortality Table projected with Scale AA on a fully generational basis for PERS and TRS. RP-2000 Non-Annuitant Mortality Table projected to 2020 with Scale BB for Troopers A and B.
Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
Aging Factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death"
Expenses	Health administrative expenses are included in the development of the per capita claims costs. Operating expenses are included as a component of the annual expense.

### **2. Changes in Assumptions**

Below are changes in the assumptions between the 2016 and 2015 valuations:

Certain economic and behavioral assumptions are unique to healthcare benefits. These assumptions include the healthcare trend, per capita claims costs, the likelihood that a member selects healthcare coverage and the likelihood that a retiree selects one-person, two person or family coverage. These assumptions were updated based on a recent experience study performed by the RHBT actuaries using five-year experience data through June 30, 2015. The updated per capita claims costs were also based on recent claims, enrollment and premium information as of the valuation date.

For the June 30, 2016 valuation, the retiree healthcare participation assumption for each retirement plan is slightly higher than the previous assumption used in the June 30, 2015 OPEB valuation. More members who were covered as actives will be assumed to participate as retirees.

**West Virginia Retiree Health Benefit Trust Fund**  
**Notes to Required Supplementary Information - OPEB**  
**(in thousands)**

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The 2016 and 2015 valuations include consideration of the \$30 million annual appropriations under Senate Bill 419, through July 1, 2037, or if earlier, the year the benefit obligation is fully funded. Additionally, 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, beginning June 30, 2015 actuarial valuation covered payroll 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.

Following are other changes in the assumptions between the 2008 to 2015 valuations:

- Medicare Advantage Prescription Drug Plan adopted FY 2008
- Subsidization level capped with 3% escalator FY 2009
- Reduced subsidy for life insurance for retirees FY 2009
- Change in discount rate from 3.56% to 6.10% FY 2009
- Life insurance for retirees no longer subsidized FY 2011
- Change in discount rate from 6.1% to 6.7% FY 2011
- New Mortality, Retirement and Pay Scale Assumptions updated to coincide with the public pension assumptions FY 2013

### **3. Benefits changes**

In 2016, benefit terms were modified for Non-Medicare Retiree and their enrolled dependents benefit changes by:

- Increase family out-of-pocket maximum for PEIA PPB Plans A and D from 1.5 times to twice the employee-only amount.
- Increase deductible by \$25 single and \$50 family. Change applies to all PPB Plans.
- Increase Primary Care Office Visit copayment from \$15 to \$20 per visit. Change applies to PPB Plans A, B and D, but not Plan C.
- Increased Specialist Office Visit copayment from \$25 to \$40 per visit. Change applies to PPB Plans A, B and D, but not Plan C.
- Add \$100 copay per admission to existing deductible and 20% coinsurance for inpatient hospital care. Change applies to PPB Plans A, B and D, but not Plan C.
- Increase outpatient surgery copay from \$50 to \$100. Change applies to PPB Plans A, B and D, but not Plan C.
- Increase emergency room copay to a \$100 with no discount. Change applies to PPB Plans A, B and D, but not Plan C.
- Increase generic drug copay for 30-day supply from \$5 to \$10 and for 90-day supply (maintenance only) from \$10 to \$20. Change applies to all PPB Plans (Plan C only after deductible is met and for medications on the Preventative Drug List).
- Increased preferred drug copay for 30-day supply by \$10 and for 90-day supply (maintenance only) by \$20. Change applies to all PPB Plans (Plan C only after deductible is met and for medications on the Preventative Drug List).

In 2016, benefit terms were modified for Medicare retirees in the Humana Plan or the Special Medicare Plan by:

- Increase deductible by \$75 per person
- Increased outpatient surgery copayment by \$50
- Increased co-payment for office visits to PCPs and Specialists by \$10 and \$20, respectively

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

**West Virginia Retiree Health Benefit Trust Fund**  
**Required Supplementary Information**  
**Schedule Of Proportionate Share of the Net Pension Liability of PERS**  
**Years Ended June 30, 2017 through 2015**  
**(in thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
RHBT's proportionate (percentage) of the net pension liability	<b>0.0557%</b>	0.0539%	0.0569%
RHBT's proportionate share of the net pension liability	<b>\$ 512</b>	\$ 301	\$ 210
RHBT's covered employee payroll	<b>\$ 644</b>	\$ 745	\$ 761
RHBT's proportionate share of the net pension's liability as a percentage of its covered employee payroll	<b>79.50%</b>	40.40%	27.60%
Plan fiduciary net position as a percentage of the total pension liability*	<b>86.11%</b>	91.29%	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**  
**Last Five Fiscal Years**  
**(in thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 103	\$ 87	\$ 104	\$ 110	\$ 107
Contributions in relation to the statutorily required contribution	<u>(103)</u>	<u>(87)</u>	<u>(104)</u>	<u>(110)</u>	<u>(107)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
RHBT's covered employee payroll	\$ 864	\$ 644	\$ 745	\$ 761	\$ 7884
Contributions as a percentage of covered employee payroll	12.0%	13.5%	14.0%	14.5%	12.0%

## Notes to Required Supplementary Information – PERS

### 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 15 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 15 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

A summary of changes in key actuarial valuation assumptions utilized in the actuarial valuations are as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Projected salary increases:			
State	3.0 - 4.6%	3.0 - 4.6%	4.25 - 6.0%
Non-state	3.35 - 6.0%	3.35 - 6.0%	4.25 - 6.0%
Inflation rate	3.0%	1.90%	2.20%
Mortality rates	Healthy males -110% of RP- 2000 Non-Annuitant, Scale AA Healthy females-101% or RP- 2000 Non-Annuitant, Scale AA Disabled males - 96% of RP- 2000 Disabled annuitant, Scale AA Disabled females - 107% of RP- 2000 Disabled annuitant, Scale AA	Healthy males -110% of RP- 2000 Non-Annuitant, Scale AA Healthy females-101% or RP- 2000 Non-Annuitant, Scale AA Disabled males - 96% of RP- 2000 Disabled annuitant, Scale AA Disabled females - 107% of RP- 2000 Disabled annuitant, Scale AA	Healthy males-1983 GAM Healthy females-1971 GAM Disabled males-1971 GAM Disabled females-Revenue Ruling 96-7
Withdrawal rates:			
State	1.75 - 35.1%	1.75 - 35.1%	1 - 26%
Non-state	2 - 35.8%	2 - 35.8%	2 - 31.2%
Disability rates	0 - .675%	0 - .675%	0 - .8%



***Other Supplementary Information  
(in thousands)***

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 7, Deposits Disclosure**  
**June 30, 2017**  
**(in thousands)**

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	<u>Carrying Amount</u>
Cash with Treasurer	<u>\$ 592</u>
Total carrying amount of deposits	<u><u>\$ 592</u></u> <sup>(1)</sup>

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

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 8, Investments Disclosure**  
**June 30, 2017**  
**(in thousands)**

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value
West Virginia Board of Treasury Investments (BTI):				
West Virginia Money Market Pool	\$ 91,191 <sup>(3)</sup>	\$ -	\$ 91,191	\$ 91,191 <sup>(1)(4)</sup>
Total equity position in investment pool with BTI	\$ 91,191	\$ -	\$ 91,191	\$ 91,191
West Virginia Investment Management Board (WVIMB) Investment Pool:				
Core Fixed Income	\$ 32,438	\$ -	\$ 32,438	\$ 32,438 <sup>(3)</sup>
Large Cap Domestic	154,777	-	154,777	154,777 <sup>(3)</sup>
Non-Large Cap Domestic	31,038	-	31,038	31,038 <sup>(3)</sup>
International Non-Qualified	65,925	-	65,925	65,925 <sup>(3)</sup>
Hedge	68,094	-	68,094	68,094 <sup>(3)</sup>
Private Equity	76,825	-	76,825	76,825 <sup>(3)</sup>
Real estate	74,041	-	74,041	74,041 <sup>(3)</sup>
Total Return Fixed Income	76,385	-	76,385	76,385 <sup>(3)</sup>
Opportunistic Income	14,395	-	14,395	14,395 <sup>(3)</sup>
International Equity	141,899	-	141,899	141,899 <sup>(3)</sup>
Total equity position in investment pool with WVIMB	\$ 735,817	\$ -	\$ 735,817	\$ 735,817 <sup>(1)</sup>

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

Equity position in investment pools:	
BTI	\$ 91,191
WVIMB	735,817
Equity position in investment pools	\$ 827,008 <sup>(2)</sup>

<sup>(2)</sup> Agrees to audited statement of fiduciary 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, 2017**  
**(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 \$ 592 <sup>(1)(2)</sup>

Equity position in investment pools as reported \$ 827,008 <sup>(1)(3)</sup>

<sup>(1)</sup> Agrees to audited statement of fiduciary 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, 2017**  
**(in thousands)**

External accounts receivable:	
Premium contributions	\$ 1,326
Less allowance for doubtful accounts	<u>104</u>
Net receivable	<u><u>\$ 1,222</u></u> <sup>(1)</sup>
Other receivables:	
Retiree drug subsidy	\$ 386
Prescription rebates	5,279
Other:	
Other	<u>14,015</u>
Total other receivable	<u><u>\$ 19,680</u></u> <sup>(1)</sup>
Form 9 – Net Receivable	\$ 1,222 <sup>(1)</sup>
Form 10 – Due (To) From Primary Government	788 <sup>(3)</sup>
Form 11 – Component Unit - A/R Balances	<u>284</u> <sup>(4)</sup>
Total	<u><u>\$ 2,294</u></u> <sup>(2)</sup>

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

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

Contributions receivable, net	\$ 1,222 <sup>(1)</sup>
Due to the State	<u>1,072</u> <sup>(1)</sup>
	<u><u>\$ 2,294</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, 2017**  
**(in thousands)**

<u>Agency</u>	<u>Total</u>
West Virginia Lottery Commission	\$ 5,207
Workforce WV/Payroll-05303	11,597
Workers' Compensation Commission	-
WV Public Employees Retirement Board	(265)
WV Public Employees Retirement Board	(104)
WV Teachers Retirement Board	(271)
Consolidated Retirement Bd/Judges Ret.	(1)
Deputy Sheriffs Retirement	(3)
Public Safety/Con.Pub.Emp.Ret.Bd.	(75)
ABC Commission	2,214
Human Services, Dept of	89,024
Attorney General	4,686
Board of Respiratory Care	9
Bd of Exam Speech, Language Path & Audio	3
Board of Examiners of Psychologists	42
Department of Education	891,194
Occupational Therapy, Board of	4
EMSRS Emergency Medical Services Retirement System	(10)
Governors Office	1,880
Homeland Security – Emergency Management	1,349
House of Delegates	1,864
Examiners in Counseling, Board of	33
Bureau for Senior Services	1,005
Board of Funeral Service Examiners	49
Administration, Dept of	21,165
Secretary of State	1,329
Senate	1,390
Supreme Court/Judicial	35,996
Tax Department	11,125
Tax Department – Budget Office	150
Tax Department – Office of Appeals	255
Treasurer of State's Office	4,281
WV Enterprise Planning Board	188
Anthony Correctional Center	2,183
Adjutant General	419
Auditors Office	5,318
Culture and History	3,355
Department of Corrections	7,908
Department of Education and Arts	775
Division of Forestry	3,179
Department of Highways	137,850
Board of Medicine	315

See independent auditors' report on other financial information.

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 10, Due (To) From Primary Government**  
**June 30, 2017**  
**(in thousands)**

<u>Agency</u>	<u>Total</u>
Aeronautics Commission	\$ 77
National Coal Heritage Area Authority	87
Huttonsville Correctional Center	9,022
Joint Comm on Govt and Finance	3,692
Library Commission	1,404
Pruntytown Correctional Center	3,251
Dept. of Commerce, Office of Secretary	90
Courthouse Facilities Imp	14
Corrections/Salem Corr, Dept of	731
Corrections/St. Marys Corr, Dept of	6,083
Dept of Corrections/Denmar Facility	2,232
Department of Labor	2,657
Agriculture	9,267
Board of Coal Mine Health & Safety	35
Division of Environmental Protection	23,267
Division of Financial Institution	414
Division of Protective Services	914
Division of Rehabilitation Services	15,846
Division of Tourism	1,931
Environmental Quality Board	79
Fire Commission	1,271
Gas and Oil Conservation	42
Geological Survey	1,029
Health Care Authority	1,149
Health Department	21,563
Hopemont State Hospital	3,942
Human Rights Commission	875
Insurance Commission	10,300
Jackie Withrow Hospital	4,125
John Manchin Sr. Health Care	1,874
Justice and Community Service	881
Lakin Correctional Facility	4,087
Lakin State Hospital	4,107
Martinsburg Correctional Center	1,713
Medical Imaging Board	30
Mildred Mitchell-Bateman Hospital	8,802
Military Affairs and Public Safety	449
Miners Health Safety & Training	(8)
Motor Vehicles	17,339
Mt Olive Correctional Facility	8,369
Municipal Bond Commission	110
Natural Resources	21,528

See independent auditors' report on other financial information.

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 10, Due (To) From Primary Government**  
**June 30, 2017**  
**(in thousands)**

<u>Agency</u>	<u>Total</u>
Northern Correctional Facility	\$ 2,947
Office of Miners Health, Safety and Training	2,117
Ohio County Correctional Center	742
Osteopathy, Board of	46
Physical Therapy, Board of	65
Public Port Authority	97
Public Safety	30,352
Public Service Commission	8,134
Public Transit	266
Real Estate Commission	148
Veterans Affairs	5,359
Welch Emergency Hospital	7,052
William R Sharpe Jr Hospital	9,708
WV Advisory Council on Vocational Ed	(2)
WV Armory Board	267
WV Barbers and Beauticians Commission	173
WV Bd of Examiners/Registered Nurses	327
WV Board of Accountancy	78
WV Board of Chiropractic Examiners	40
WV Board of Dental Examiners	49
WV Board of Optometry	39
WV Board of Pharmacy	155
WV Board of Social Worker Examiners	111
WV Board of Veterinary Medicine	39
WV Center for Nursing	65
WV Division of Energy	210
WV Division of Juvenile Services	17,277
WV DOT Office of Administrative Hearings	484
WV Economic Development Authority	-
WV Engineers Registration Board	40
WV Massage Therapy Licensure Board	33
WV Military Authority	7,616
WV Municipal Pensions Oversight Board	12
WV Parole Board	19
WV Real Estate Appraiser/Lic Cert Bd	27
WV School for the Deaf and Blind	5,083
WV Secondary Schools Activity Commission	374

See independent auditors' report on other financial information.



**West Virginia Retiree Health Benefit Trust Fund**  
**Form 10, Due (To) From Primary Government**  
**June 30, 2017**  
**(in thousands)**

<u>Agency</u>	<u>Total</u>
WV State Board of Architects	\$ 11
WV State Board of Examiners for LPNs	<u>61</u>
Total due to/from	<u>1,540,903</u>
Less: Allowance for ARC	<u>(1,540,115)</u>
Net total – due to/from	<u>\$ 788</u>
Tota primary government	\$ 788
Total component units Form 11	<u>284</u>
Due from the State, net	<u>\$ 1,072 <sup>(1)</sup></u>

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

**West Virginia Retiree Health Benefit Trust Fund**  
**Form 11, Component Unit - A/R Balances**  
**June 30, 2017**  
**(in thousands)**

Unit	Amount
Higher Education	\$ 336,625
Parkways, EDA, and Tourism	11,229
Regional Jail and Correction Facility Authority	25,259
Public Defender Corporation	4,508
WV EDA	2,725
Educational Broadcasting	2,528
Department of Transportation - Rail	544
School Building Authority	281
Racing Commission	1,156
Water Development Authority	226
SWMB	351
	385,432
Total component units	385,432
Less: Allowance for ARC receivables	(385,148)
Net accounts receivable – component units	\$ 284

## **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 statements of fiduciary net position as of June 30, 2017 and 2016 and the related statements of changes in fiduciary net position, for the years then ended and the related notes to the financial statements, and have issued our report thereon dated December 21, 2017.

### ***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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the following paragraph, that we consider to be a material weakness.

### **Census Data**

*Criteria:* The accuracy of the census data is key input into the net OPEB liability estimation process. Accordingly, internal control policies and procedures related to the compilation and validity of the census data is important in helping to prevent and detect errors that could have a significant impact on the net OPEB liability.

*Condition:* RHBT's consulting actuaries utilize certain member census data involving the breakdown of member information by status such as retiree and active to determine eligibility for plan benefits, which is then utilized as an element in estimating the net OPEB liability. In order to determine the member status, the consulting actuaries had to compile the data from various data sources including consolidated public retirement board (CPRB), leave warehouse (LW) and other census information provided by RHBT. Due to the lack of availability of hire date within the data sources, as well as various other missing key data elements, or inaccuracy of such information (i.e. moved to different State agency resetting hire date in system), the actuaries had to derive classifications, years of service, and other key elements to determine the impacts on the net OPEB liability. Additionally, information was not readily available to determine the number of participants that were inactive plan members entitled to but not receiving benefit payments and the likelihood of such population utilizing the benefit in the future. Consequently, management had to gather data from various sources and complete extensive data analysis to estimate this subset of the population and evaluate its potential impact of the estimated net OPEB obligation. There was also limited data available related to the explicit lapse assumption for retirees with healthcare coverage who may waive coverage in the future. Based on the limited data available, management along with their consulting actuaries, concluded that an excluding an explicit provision in the OPEB valuation for waived annuitants expected to re-enter the retiree healthcare program and retirees with healthcare coverage who may waive coverage in the future was not material to the overall estimated net OPEB obligation.

*Cause:* Currently, there are no formal internal control policies and procedures in place to compile, reconcile and validate the census data, which could lead to inaccuracies or significant fluctuations in the estimated net OPEB liability, which will serve as the basis for the allocated obligation to be recognized by participating employers upon adoption of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

*Effect:* During our testing of the census data, we noted discrepancies in the years of eligibility information for certain individuals between the CPRB and LW information. We also noted that certain members had originally been excluded from the valuation because sufficient information was not readily available to determine eligibility. Upon follow-up by management, it was determined that a significant number of these members were eligible resulting in an adjustment of approximately \$56,000,000 to increase the estimated net OPEB liability.

*Recommendation:* We recommend that formal policies and procedures be developed and implemented to ensure the accuracy and completeness of the member census information. Further, such procedures should include: 1) follow-up on members with insufficient information and obtain the necessary information to determine eligibility status in a timely manner and 2) controls and steps to ensure the accuracy of the various data sources and reports utilized in the process. Additionally, we recommend a more comprehensive analysis of the re-entry and lapse experience to determine if re-entry and lapse experience assumptions should be included in future actuarial valuations. Enhanced controls and procedures over the census data information should result in a more refined estimate of the net OPEB liability.

***Management's Response***

RHBT concurs with this internal control weakness. RHBT is currently reviewing the census data gathering process to identify points of inadequacy. Improvements have been, and are currently underway with the LW development process. The RHBT and CPRB data accuracy will be improved through increased reconciliation processes. RHBT will also develop controls to identify missing or inaccurate census data prior to submission to actuaries. This will permit RHBT to confirm completeness and accuracy of the data and, if applicable, request additional data from relevant sources.

***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*.

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

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

***Purpose of this Report***

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

*Dixon Hughes Goodman LLP*

**Charleston, West Virginia  
August 9, 2018**

**DHG**