

**WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER**

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

**Year ended June 30, 2006  
and  
Independent Auditors' Report**

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Financial Statements, Required Supplementary Information  
and Other Financial Information  
June 30, 2006  
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## INDEPENDENT AUDITORS' REPORT

West Virginia Offices of the Insurance Commissioner  
Charleston, West Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the West Virginia Offices of the Insurance Commissioner as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the West Virginia Offices of the Insurance Commissioner, as listed in the table of contents. These financial statements are the responsibility of the West Virginia Offices of the Insurance Commissioner's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the West Virginia Offices of the Insurance Commissioner's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the West Virginia Offices of the Insurance Commissioner are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities business-type activities, and each major fund of the State of West Virginia that is attributable to the transactions of the West Virginia Offices of the Insurance Commissioner. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the West Virginia Offices of the Insurance Commissioner at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 11, the unaudited supplemental claims information on pages 46 through 51 and the budgetary comparison schedule on page 52 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Suttle & Stalnaker, PLLC*

Charleston, West Virginia  
January 26, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Expressed in Thousands)

This section of the West Virginia Offices of the Insurance Commissioner's annual financial report presents management's discussion and analysis of its financial performance for the fiscal year which ended June 30, 2006. Please read it in conjunction with the financial statements, which follow this section.

On February 16, 2005, the West Virginia Legislature enacted "Senate Bill 1004", which created a mechanism to transition the state's monopolistic Workers' Compensation Commission into a private employers' mutual insurance company and also laid the foundation for an open, competitive compensation market by July 1, 2008. With the termination of the West Virginia Workers' Compensation Commission on December 31, 2005, the Workers' Compensation Commission's regulatory powers were transferred to the West Virginia Offices of the Insurance Commissioner and to the Industrial Council established by "Senate Bill 1004" to assist the West Virginia Offices of the Insurance Commissioner in the regulation of the state workers' compensation system. As a result of this transfer, the residual assets and liabilities in the funds of the former Workers' Compensation Commission became part of the West Virginia Offices of the Insurance Commissioner during fiscal year 2006. Fiscal year 2006 is the first year that stand alone financial statements were prepared for the West Virginia Offices of the Insurance Commissioner, and it is the first year that an independent audit was required of the entity. Since this is the first required audit for the West Virginia Offices of the Insurance Commissioner, comparisons to the prior year will be limited to an analysis of the equity transferred from the former Worker's Compensation Commission and changes in the liability estimates of the former workers' compensation related funds that transferred to the West Virginia Offices of the Insurance Commissioner.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The West Virginia Offices of the Insurance Commissioner's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities and insurance enterprises where applicable. The West Virginia Offices of the Insurance Commissioner, which is an agency of the state of West Virginia, is the governmental body charged with the regulation and oversight of the insurance industry within the state. In addition to serving as the entity that regulates the recently privatized workers' compensation insurance market, the Insurance Commissioner is also charged with the administrative oversight of the current and former state run workers' compensation related funds. The oversight, management and financial reporting responsibilities of the following funds are now duties of the Insurance Commissioner: the Old Fund, which consists of the assets and liabilities transferred from the former Worker's Compensation Fund and the Coal-workers Pneumoconiosis Fund, which was closed to future liabilities effective December 31, 2005. The West Virginia Offices of the Insurance Commissioner is also responsible for the administration of active proprietary funds including the Uninsured Employers' Fund, the Self-Insured Funds, the Private Carrier Guaranty Fund (all established by Senate Bill 1004), and Access West Virginia. Access West Virginia (Access WV) is a high risk health insurance pool that provides health insurance for medically uninsurable individuals and their dependents.

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(Expressed in Thousands)

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other financial information.

The basic financial statements include two kinds of statements that present different views of the West Virginia Offices of the Insurance Commissioner. The statement of net assets and the related statement of activities are government-wide financial statements that provide both long-term and short-term information about the West Virginia Offices of the Insurance Commissioner's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the West Virginia Offices of the Insurance Commissioner's activities, reporting its operations in more detail than the government-wide statements. The financial statements also include notes that explain the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that presents budgetary comparisons and further explains and supports the information in the financial statements.

### **GOVERNMENT-WIDE STATEMENTS**

The statement of net assets and the statement of activities together comprise the government-wide statements, which report information about the West Virginia Offices of the Insurance Commissioner as a whole using the full accrual basis of accounting similar to those used by private-sector companies. This means all revenues and expenses are recognized regardless of whether cash has been received or paid, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the entity's net assets - the difference between total assets and total liabilities - and how they have changed from the prior year.

The activities on the government-wide financial statements are divided into three categories:

- **Governmental activities** - These are the activities that are necessary for the government to function and meet its intended purpose. They are generally funded through a tax. In the financial statements of the West Virginia Insurance Commissioner, the governmental funds include the main operating fund of the entity.
- **Business-type activities** - The West Virginia Offices of the Insurance Commissioner charges fees to customers to help it cover the costs of certain services it provides, and receives special revenues and assessments dedicated to fund specific liabilities. For the West Virginia Offices of the Insurance Commissioner, this consists of the combined Workers' Compensation funds and Access West Virginia.

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Expressed in Thousands)

- Component units - The West Virginia Offices of the Insurance Commissioner has no component units. However, the West Virginia Offices of the Insurance Commissioner is an agency of the State of West Virginia, and is considered part of the primary government in the State of West Virginia Comprehensive Annual Financial Report.

### FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the West Virginia Offices of the Insurance Commissioner's major funds, not the West Virginia Offices of the Insurance Commissioner as a whole. Funds are accounting devices that government agencies use to keep track of specific sources of funding and spending for particular purposes. The WV State Legislature has established these funds to control and manage money for the specific purposes stated in Chapter 23 of the WV Code and to show that certain taxes, fees, assessments and grants are used properly.

The West Virginia Offices of the Insurance Commissioner has two kinds of funds:

- Governmental funds - Most of the West Virginia Offices of the Insurance Commissioner's basic services are included in the governmental fund, which focuses on (1) how cash and other financial assets that may readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view to help determine whether there are more or fewer financial resources that may be spent in the near future to finance the West Virginia Offices of the Insurance Commissioner's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is included at the bottom of the governmental fund statement that provides a reconciliation to the government-wide statements.
- Proprietary funds - Proprietary funds include enterprise funds and account for activities that are operated in a manner similar to private-sector businesses. Like the government-wide statements, proprietary fund statements are presented using the accrual basis of accounting and provide both long- and short-term financial information. Services for which the West Virginia Offices of the Insurance Commissioner charges customers a fee or receives special revenues are generally reported in proprietary funds. For the West Virginia Offices of the Insurance Commissioner, this consists of Workers' Compensation and Access West Virginia.

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Expressed in Thousands)

The following table summarizes the financial position and results of operations of the West Virginia Offices of the Insurance Commissioner for the fiscal year 2006.

**STATEMENT OF NET ASSETS**  
(Expressed in Thousands)

	<b>Governmental Activities 2006</b>	<b>Business-type Activities 2006</b>	<b>Total Primary Government 2006</b>
Current Assets	\$ 24,398	\$ 996,630	\$ 1,021,028
Capital Assets	1,403	-	1,403
Other Long-Term Assets	-	200,000	200,000
Total Assets	<u>25,801</u>	<u>1,196,630</u>	<u>1,222,431</u>
Current Liabilities	1,204	399,726	400,930
Long-Term Liabilities	<u>1,255</u>	<u>2,895,077</u>	<u>2,896,332</u>
Total Liabilities	<u>2,459</u>	<u>3,294,803</u>	<u>3,297,262</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	1,403	-	1,403
Restricted	-	127,137	127,137
Unrestricted (Deficit)	<u>21,939</u>	<u>(2,225,310)</u>	<u>(2,203,371)</u>
Total Net Assets	<u>\$ 23,342</u>	<u>\$ (2,098,173)</u>	<u>\$ (2,074,831)</u>

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Expressed in Thousands)

**CHANGES IN NET ASSETS**  
**(Expressed in Thousands)**

	<b>Governmental Activities <u>2006</u></b>	<b>Business - Type Activities <u>2006</u></b>	<b>Total Primary Government <u>2006</u></b>
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$ 24,784	\$ 197,068	\$ 221,852
General Revenues:			
Investment Earnings	117	9,875	9,992
Net Increase(Decrease) in the Fair Value of Investments	<u>-</u>	<u>(5,359)</u>	<u>(5,359)</u>
Total Revenues	<u>24,901</u>	<u>201,584</u>	<u>226,485</u>
<b>Expenses</b>			
Program Expenses:			
Workers' Compensation	-	50,731	50,731
Access WV	-	1,156	1,156
General Government	<u>9,912</u>	<u>-</u>	<u>9,912</u>
Total Expenses	<u>9,912</u>	<u>51,887</u>	<u>61,799</u>
Change in Net Assets Before BrickStreet Transactions and Transfers	14,989	149,697	164,686
BrickStreet Transactions, Net	<u>(6,717)</u>	<u>(91,076)</u>	<u>(97,793)</u>
Change in Net Assets Before Transfers	8,272	58,621	66,893
Net Transfers from Workers' Compensation	8,255	(2,165,393)	(2,157,138)
Other Transfers In (Out)	<u>(7,089)</u>	<u>7,089</u>	<u>-</u>
Change in Net Assets (Deficit)	9,438	(2,099,683)	(2,090,245)
Net Assets, Beginning of Year	<u>13,904</u>	<u>1,510</u>	<u>15,414</u>
Net Assets (Deficit), End of Year	<u>\$ 23,342</u>	<u>\$ (2,098,173)</u>	<u>\$ (2,074,831)</u>

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Expressed in Thousands)

**FINANCIAL HIGHLIGHTS**

- On February 16, 2005, the West Virginia Legislature enacted "Senate Bill 1004", which established a framework for the privatization of the ninety-two year old state run monopolistic workers' compensation insurance system into an open, competitive market. Effective January 1, 2006, all regulatory duties for workers' compensation insurance transitioned to the Offices of the West Virginia Insurance Commissioner, as did the administrative oversight of certain assets and liabilities of the former West Virginia Workers' Compensation Commission. A supporting schedule of the transfer of assets and liabilities is included in Note 2 of the footnotes to these financial statements.
- In accordance with Senate Bill 1004, the Workers' Compensation Commission ceased to exist effective December 31, 2005. By proclamation of Governor Joe Manchin III, the following transfers took place on the first business day of calendar year 2006: Six hundred fifty million dollars (\$650,000) was transferred to the Old Fund, five million dollars (\$5,000) was transferred into the Uninsured Employers Fund, one million two hundred fifty thousand dollars (\$1,250) was transferred into the Self-Insured Guaranty Risk Pool, and two million (\$2,000) which was the remaining balance in the Mutualization Transition Fund, was transferred into the Private Carrier Guaranty Fund. The State Treasurer is custodian of the aforementioned funds, and the West Virginia Offices of the Insurance Commissioner has administrative oversight of the funds. The Governor's proclamation also provided that four hundred million dollars (\$400,000) be transferred to the New Fund and then to BrickStreet Mutual Insurance Company, as the successor to the Workers' Compensation Commission. Of the four hundred million dollars transferred to the private sector, two hundred million dollars (\$200,000) was in the form of a surplus note which is to be repaid to the state by BrickStreet in accordance with the provisions of the surplus note agreement, and the remaining two hundred million dollars (\$200,000) was provided to satisfy and provide for the liabilities that BrickStreet assumed.
- Senate Bill 1004 also created new revenue sources, which will be dedicated to the elimination of the deficit of the former Workers' Compensation Fund (now named the Old Fund). Additional discussions of the revenues dedicated to fund the workers' compensation deficit can be found in Note 6 of these financial statements.

FINANCIAL STATEMENTS

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
STATEMENT OF NET ASSETS  
JUNE 30, 2006  
(In Thousands)

Assets	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 23,888	\$ 942,401	\$ 966,289
Receivables, Net:			
Statutory Allocations	-	15,000	15,000
Taxes and Fees	-	11,722	11,722
Assessments	472	676	1,148
Premiums	-	26,645	26,645
Other	38	186	224
Total Current Assets	<u>24,398</u>	<u>996,630</u>	<u>1,021,028</u>
<b>Noncurrent Assets:</b>			
Surplus Note	-	200,000	200,000
Capital Assets, Net	1,403	-	1,403
Total Noncurrent Assets	<u>1,403</u>	<u>200,000</u>	<u>201,403</u>
Total Assets	<u>25,801</u>	<u>1,196,630</u>	<u>1,222,431</u>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	-	365,425	365,425
Excess Deposits	-	33,300	33,300
Compensated Absences	692	542	1,234
Accrued Expenses and Other Liabilities	512	459	971
Total Current Liabilities	<u>1,204</u>	<u>399,726</u>	<u>400,930</u>
<b>Noncurrent Liabilities:</b>			
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	-	2,894,095	2,894,095
Compensated Absences	1,255	982	2,237
Total Noncurrent Liabilities	<u>1,255</u>	<u>2,895,077</u>	<u>2,896,332</u>
Total Liabilities	<u>2,459</u>	<u>3,294,803</u>	<u>3,297,262</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	1,403	-	1,403
Restricted for:			
Coal Workers' Pneumoconiosis	-	115,871	115,871
Uninsured Fund	-	4,789	4,789
Self-Insured Funds	-	893	893
Private Carrier Guaranty Fund	-	2,000	2,000
Access WV	-	3,584	3,584
Unrestricted (Deficit)	21,939	(2,225,310)	(2,203,371)
Total Net Assets (Deficit)	<u>\$ 23,342</u>	<u>\$ (2,098,173)</u>	<u>\$ (2,074,831)</u>

*See accompanying notes to financial statements.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006  
(In Thousands)

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets		Totals
			Governmental Activities	Business-Type Activities	
Primary Government:					
Governmental Activities					
General Government	\$ 9,800	\$ 24,784	\$ 14,984	\$ -	\$ 14,984
Depreciation	<u>112</u>	<u>-</u>	<u>(112)</u>	<u>-</u>	<u>(112)</u>
Total Governmental Activities	<u>9,912</u>	<u>24,784</u>	<u>14,872</u>	<u>-</u>	<u>14,872</u>
Business-type Activities:					
Workers' Compensation	50,731	194,001	-	143,270	143,270
Access WV	<u>1,156</u>	<u>3,067</u>	<u>-</u>	<u>1,911</u>	<u>1,911</u>
Total Business-Type Activities	<u>51,887</u>	<u>197,068</u>	<u>-</u>	<u>145,181</u>	<u>145,181</u>
Total Primary Government	<u>\$ 61,799</u>	<u>\$ 221,852</u>	<u>14,872</u>	<u>145,181</u>	<u>160,053</u>
General Revenues:					
Investment Earnings			117	9,875	9,992
Net Increase (Decrease) in Fair Value of Investments			<u>-</u>	<u>(5,359)</u>	<u>(5,359)</u>
Change in Net Assets Before BrickStreet Transactions and Transfers			14,989	149,697	164,686
BrickStreet Transactions, Net			<u>(6,717)</u>	<u>(91,076)</u>	<u>(97,793)</u>
Change in Net Assets Before Transfers			8,272	58,621	66,893
Net Transfers from Workers' Compensation Commission			8,255	(2,165,393)	(2,157,138)
Other Transfers In (Out)			<u>(7,089)</u>	<u>7,089</u>	<u>-</u>
Change in Net Assets (Deficit)			9,438	(2,099,683)	(2,090,245)
Net Assets-Beginning of Year			<u>13,904</u>	<u>1,510</u>	<u>15,414</u>
Net Assets (Deficit)-End of Year			<u>\$ 23,342</u>	<u>\$ (2,098,173)</u>	<u>\$ (2,074,831)</u>

*See accompanying notes to financial statements.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2006  
(In Thousands)

	<u>Operating Fund</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 23,888
Accounts Receivable - Other	38
Accounts Receivable - Assessments	<u>472</u>
Total assets	<u>\$ 24,398</u>
<b>LIABILITIES:</b>	
Accounts Payable	318
Accrued Expenditures and Other Liabilities	<u>886</u>
Total liabilities	<u>1,204</u>
<b>FUND BALANCE:</b>	
Unreserved	<u>23,194</u>
Total Fund Balance	<u>23,194</u>
Total Liabilities and Fund Balances	<u>\$ 24,398</u>
Total Fund Balance	\$ 23,194
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,403
Long term liabilities (compensating absences) are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,255)</u>
Net assets of Governmental Activities	<u>\$ 23,342</u>

*See accompanying notes to financial statements.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
For the Year Ended June 30, 2006  
(In Thousands)

	<u>Operating Fund</u>
Revenues:	
Fees and Assessments	\$ 23,565
Investment Earnings	<u>117</u>
Total Revenues	23,682
Expenditures:	
General and Administrative	<u>8,325</u>
Excess (Deficiency) of Revenues over Expenditures	15,357
Transfers In from Workers' Compensation Commission	1,219
Other Transfers In (Out)	<u>(7,089)</u>
Net Change in Fund Balance	9,487
Fund Balance - Beginning of Year	<u>13,707</u>
Fund Balance - End of Year	<u>\$ 23,194</u>
Net Change in Fund Balance - Total Governmental Funds	\$ 9,487
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenses over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.	1,206
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(1,255)</u>
Change in Net Assets of Governmental Activities	<u>\$ 9,438</u>

*See accompanying notes to financial statements.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2006  
(In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>Access WV</u>	<u>Total</u>
<b>Assets:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 938,525	\$ 3,876	\$ 942,401
Receivables, Net:			
Statutory Allocations	15,000	-	15,000
Taxes and Fees	11,722	-	11,722
Assessments	676	-	676
Premiums	26,645	-	26,645
Other	29	157	186
Total Current Assets	<u>992,597</u>	<u>4,033</u>	<u>996,630</u>
Noncurrent Assets:			
Surplus Note	<u>200,000</u>	-	<u>200,000</u>
Total Noncurrent Assets	<u>200,000</u>	-	<u>200,000</u>
Total Assets	<u>1,192,597</u>	<u>4,033</u>	<u>1,196,630</u>
<b>Liabilities:</b>			
Current Liabilities:			
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	365,005	420	365,425
Excess Deposits	33,300	-	33,300
Compensated Absences	539	3	542
Accrued Expenses and Other Liabilities	437	22	459
Total Current Liabilities	<u>399,281</u>	<u>445</u>	<u>399,726</u>
Noncurrent Liabilities:			
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	2,894,095	-	2,894,095
Compensated Absences	978	4	982
Total Noncurrent Liabilities	<u>2,895,073</u>	<u>4</u>	<u>2,895,077</u>
Total Liabilities	<u>3,294,354</u>	<u>449</u>	<u>3,294,803</u>
<b>Net Assets:</b>			
Restricted for:			
Coal Workers' Pneumoconiosis	115,871	-	115,871
Uninsured Fund	4,789	-	4,789
Self-Insured Funds	893	-	893
Private Carrier Guaranty Fund	2,000	-	2,000
Access WV	-	3,584	3,584
Unrestricted (Deficit)	<u>(2,225,310)</u>	-	<u>(2,225,310)</u>
Total Net Assets (Deficit)	<u>\$ (2,101,757)</u>	<u>\$ 3,584</u>	<u>\$ (2,098,173)</u>

*See accompanying notes to financial statements.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2006  
(In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>Access WV</u>	<u>Total</u>
<b>Operating Revenues:</b>			
Statutory Allocations	\$ 56,976	\$ 2,328	\$ 59,304
Fees	82,083	-	82,083
Assessments	35,634	-	35,634
Net Premium Revenue	17,978	739	18,717
Other Operating Revenue	<u>1,330</u>	<u>-</u>	<u>1,330</u>
Total Operating Revenue	194,001	3,067	197,068
<b>Operating Expenses:</b>			
Claims and Claim Adjustment Expenses (See Note 5)	(542)	734	192
General and Administration	<u>51,273</u>	<u>422</u>	<u>51,695</u>
Total Operating Expenses	50,731	1,156	51,887
Operating Income	<u>143,270</u>	<u>1,911</u>	<u>145,181</u>
<b>Nonoperating Revenues (Expenses):</b>			
Investment Earnings	9,739	136	9,875
Net Increase (Decrease) in Fair Value of Investments	<u>(5,359)</u>	<u>-</u>	<u>(5,359)</u>
Total Nonoperating Revenues (Expenses)	4,380	136	4,516
Change in Net Assets Before BrickStreet Transactions and Transfers	147,650	2,047	149,697
BrickStreet Transactions, Net	<u>(91,076)</u>	<u>-</u>	<u>(91,076)</u>
Change in Net Assets Before Transfers	56,574	2,047	58,621
Net Transfers from Workers' Compensation Commission	(2,165,393)	-	(2,165,393)
Other Transfers In (Out)	<u>7,062</u>	<u>27</u>	<u>7,089</u>
Change in Net Assets (Deficit)	(2,101,757)	2,074	(2,099,683)
Total Net Assets - Beginning of Year	<u>-</u>	<u>1,510</u>	<u>1,510</u>
Total Net Assets (Deficit) - End of Year	<u>\$ (2,101,757)</u>	<u>\$ 3,584</u>	<u>\$ (2,098,173)</u>

*See accompanying notes to financial statements.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
STATEMENTS OF CASH FLOWS-PROPRIETARY FUNDS  
Year Ended June 30, 2006  
(In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>Access WV</u>	<u>Totals</u>
Cash Flows from Operating Activities:			
Receipts from Statutory Allocations, Fees and Assessments	\$ 136,007	\$ 2,171	\$ 138,178
Receipts from Policyholders	17,978	739	18,717
Payments to Claimants and Providers	(199,894)	20	(199,874)
Payments to Employees	(6,810)	(125)	(6,935)
Payments to Suppliers	<u>(11,364)</u>	<u>(602)</u>	<u>(11,966)</u>
Net Cash Provided (Used) by Operating Activities	<u>(64,083)</u>	<u>2,203</u>	<u>(61,880)</u>
Cash flows from Financing Activities:			
Cash Transfers in from Workers' Compensation	1,419,894	-	1,419,894
Cash Payments to BrickStreet	(230,211)	-	(230,211)
Other Transfers	<u>8,545</u>	<u>27</u>	<u>8,572</u>
Net Cash Provided by Financing Activities	<u>1,198,228</u>	<u>27</u>	<u>1,198,255</u>
Cash flows from Investing Activities:			
Cash paid for Surplus Note Receivable	(200,000)	-	(200,000)
Investment Earnings	9,739	136	9,875
Net Increase (Decrease) in the Fair Value of Investments	<u>(5,359)</u>	<u>-</u>	<u>(5,359)</u>
Net Cash Provided (Used) by Investing Activities	<u>(195,620)</u>	<u>136</u>	<u>(195,484)</u>
Net increase in Cash and Cash Equivalents	938,525	2,366	940,891
Cash and Cash Equivalents - Beginning of Year	<u>-</u>	<u>1,510</u>	<u>1,510</u>
Cash and Cash Equivalents - End of Year	<u>\$ 938,525</u>	<u>\$ 3,876</u>	<u>\$ 942,401</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 143,270	\$ 1,911	\$ 145,181
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Net change in assets and liabilities:			
Receivables, net	(37,308)	(157)	(37,465)
Premium Advanced Deposits	(1,037)	-	(1,037)
Estimated liability for claims and claim adjustment expenses	(168,133)	420	(167,713)
Compensated Absences	(1,083)	7	(1,076)
Accrued expenses and other liabilities	<u>208</u>	<u>22</u>	<u>230</u>
Net cash provided (used) by operating activities	<u>\$ (64,083)</u>	<u>\$ 2,203</u>	<u>\$ (61,880)</u>

*See accompanying notes to financial statements.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
NOTES TO FINANCIAL STATEMENTS  
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## **1. Financial Reporting Entity**

The West Virginia Offices of the Insurance Commissioner (the Commission) is an agency of the State of West Virginia (the State) and, accordingly, is reported as a part of the primary government in the State's Comprehensive Annual Financial Report (CAFR).

The mission of the Commission is to promote a competitive and solvent insurance market, with adequate consumer protection, by fairly and consistently administering the insurance laws of the State of West Virginia.

The Insurance Commissioner is responsible for the regulation and oversight of all insurance transactions conducted in the State. The Insurance Commissioner is also responsible for the administration and oversight of the remaining assets and liabilities of the former West Virginia Workers' Compensation Commission (WCC). West Virginia operated an exclusive state-managed workers' compensation insurance fund from 1913 until 2005, which provided for the payment of benefits to all employees sustaining personal injuries in the course of and as a result of their covered employment.

The Coal Workers' Pneumoconiosis Fund (CWPF) was established in 1973 to comply with the Federal Coal Mine Health and Safety Act of 1969 to provide benefits to coal miners who are totally disabled or to beneficiaries of coal miners who die as a result of coal-workers' pneumoconiosis. The CWPF ceased operations as of December 31, 2005 and is also in run-off status under the administrative oversight of the Insurance Commissioner.

The Insurance Commissioner is responsible for proprietary funds created by Senate Bill 1004 that were established for the purpose of maintaining an effective workers' compensation system. Those funds include the Uninsured Employers' Fund, the Self-Insured Funds, and the Private Carrier Guaranty Fund. The Commission also administers the West Virginia Health Insurance Plan known as Access WV, which is a high risk health insurance pool. Access WV provides health insurance for medically uninsurable individuals and their dependents. The Old Fund, the CWP Fund, the Uninsured Employers' Fund, the Self-Insured Employers' Funds, and the Private Carrier Guaranty Funds are combined to comprise the Workers' Compensation Fund. For financial statement purposes, only the Workers' Compensation Fund is considered a reporting fund, and the statutorily created "funds" that comprise it are considered components of the fund. The Workers' Compensation Fund and Access WV combine to comprise the proprietary funds reported in the financial statements. The Commission also maintains an operating fund that is reported as the general fund for financial statements purposes.

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**1. Financial Reporting Entity (Continued)**

The financial statements of the Commission are intended to present the financial position and the changes in financial position and cash flows of only that portion of the financial reporting entity of the State of West Virginia that is attributable to the transactions of the Commission. They do not purport to, and do not, present the financial position of the State of West Virginia as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended.

West Virginia Code §23-2C-5 established the Industrial Council (the Council) to oversee the workers' compensation system and set forth eight specific duties for the Council to perform. Those duties include consultation with the Insurance Commissioner to establish operating guidelines and policies designed to ensure the effective administration of the workers' compensation insurance market in West Virginia. The Council is granted the authority to review and approve, reject or modify rules that are proposed by the insurance commissioner for operation and regulation of the workers' compensation insurance market before the rules are filed with the secretary of state. The rule making ability of the Council is exempt from the legislative rule making process. The Council is also charged with the duty to establish and monitor performance standards and measurements to ensure the timeliness and accuracy of the activities performed under Chapter 23 of the WV Code and applicable rules. Other duties of the council include the submission of a budget for the sufficient administrative resources and funding requirements necessary to carry out their duties under the statute and the duty to perform all record and information gathering functions necessary to carry out their duties under the Code. Every two years, the Council is to conduct an overview of the safety initiatives currently being utilized or which could be utilized in the workers' compensation insurance market and to report said findings to the joint committee on government and finance of the WV Legislature. The Council is to establish a method of indexing claims of injured workers that will make information concerning the injured workers of one insurer available to other insurers. Finally, the Council is to perform all other duties as specifically provided in Chapter 23 for the industrial council and those duties incidental thereto. Those duties include, but are not limited to: the rights to request, gather and maintain information regarding employers from employers and other state agencies and all regulatory, oversight and document gathering authority necessary to regulate self-insured employers. The Industrial Council consists of five voting members appointed by the governor with the advice and consent of the Senate who meet the prescribed requirements and qualifications.

In order to address the substantial deficit in the workers' compensation fund that constitutes an imminent threat to the immediate and long-term solvency of the fund and that also constitutes a significant deterrent to the economic development of the state and in order to resolve the financial crisis caused by the deficit in the best interest of the public, the Governor convened a special session of the West Virginia Legislature in February, 2005.

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**1. Financial Reporting Entity (Continued)**

During the special session, the West Virginia Legislature enacted “Senate Bill 1004”, effective February 16, 2005, that establishes a workers’ compensation debt reduction fund in the state treasury for the deposit of monies received after June 30, 2005, including an annual transfer from the state excess lottery revenue, certain funds to be received from the tobacco master settlement agreement, dedicated personal income tax proceeds, employer premium surcharges and for new and additional severance taxes imposed as of December 1, 2005. The net proceeds from collection of these monies are to be dedicated to paying down the unfunded liability in the workers' compensation fund, or paying debt service on bonds sold to raise funds to pay down the unfunded liability in the workers' compensation fund.

“Senate Bill 1004” also established a framework for the privatization of workers’ compensation insurance in West Virginia and establishes a timeline for the transition to an open competitive market by July 1, 2008. The legislation defines the requirements for the formation of a domestic employers' mutual insurance company (the company) by January 1, 2006 as the successor to the Workers’ Compensation Commission.

With the passage of “Senate Bill 1004”, a "workers' compensation old fund", "workers' compensation new fund", "mutualization transition fund", "workers' compensation uninsured employers' fund", "self-insured guaranty risk pool", "self-insured security risk pool", "private carrier guaranty fund" and an "assigned risk fund" were established in the state treasury. Upon termination of the Workers’ Compensation Commission the administrative oversight of those funds transitioned to the West Virginia Offices of the Insurance Commissioner.

The “workers’ compensation old fund” (old fund) consists of those funds transferred to it from the workers' compensation fund and those funds due and owing the workers' compensation fund as of June 30, 2005. The old fund remains the property of the state. Disbursements from the old fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, for any claim with a date of injury on or before June 30, 2005.

The “workers’ compensation new fund” and the “mutualization transition fund” were devices created in order to accomplish the transition of the former Workers’ Compensation Commission into a private, for profit mutual company (now BrickStreet Mutual Insurance Company).

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**1. Financial Reporting Entity (Continued)**

The "workers' compensation new fund" (new fund) was a fund operated by the former WCC, which, upon termination of the WCC, was transferred to the successor organization of the WCC, BrickStreet Mutual Insurance Company (BrickStreet). It consisted of the funds transferred to it from the workers' compensation fund and any other applicable funds. The new fund liabilities transferred to BrickStreet include claims payment obligations (indemnity and medical expenses) for all claims, actual and incurred but not reported, for any claim with a date of injury on or after July 1, 2005, reduced by any payments made on these claims before January 1, 2006.

On March 1, 2005, thirty-five million dollars was transferred from the workers' compensation fund into the mutualization transition fund as mandated by "Senate Bill 1004". Disbursements were made from the mutualization transition fund upon requisitions signed by the executive director of the WCC, and, upon termination of the WCC, by the Insurance Commissioner. The purpose of the mutualization transition fund was to provide for the expenses reasonably related to the legal, operational, consultative and human resource related expenses associated with the establishment of the company and other privatization costs.

Pursuant to Chapter 23 §23-2C-13 of the West Virginia State Code, certain retraining benefits are provided to those employees laid-off by BrickStreet during the first year of operation. The chief executive officer of the company was authorized to enter into an agreement with the West Virginia Department of Personnel for the provision of services and training to any former WCC employee of BrickStreet who is laid off during the first year of the company's operation and requires additional training to obtain other gainful employment. The fees required for those services and training will be in an amount established by the West Virginia Department of Personnel, must not exceed \$2 million, in the aggregate, and will be paid out of the mutualization transition fund.

The "uninsured employer fund" (uninsured fund) is the fund held by the West Virginia State Treasurer's Office consisting of those funds transferred to it from the workers' compensation fund and any other source, including assessments to carriers and employers. The Insurance Commissioner will assess each private carrier an amount to be deposited in the fund. To establish the amount of the assessment, the Insurance Commissioner will determine the amount of money necessary to maintain an appropriate balance in the uninsured fund for each fiscal year and will allocate a portion of that amount to be payable by private carriers, a portion to be payable by self-insured employers, and a portion to be paid by any other appropriate group.

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**1. Financial Reporting Entity (Continued)**

An injured worker may receive compensation from the uninsured fund if: he or she meets all jurisdictional and entitlement provisions of Chapter 23 of the Code; he or she files a claim with the Insurance Commissioner; and he or she irrevocably assigns all of his or her rights to the Insurance Commissioner to recover money from a collateral source for the occurrence or exposure which resulted in the claimant's injury. Upon receiving a claim, the Insurance Commissioner will immediately notify the employer of the claim. The employer has the burden of proving that it provided mandatory industrial insurance coverage for the employee or that it was not required to maintain industrial insurance for the employee.

The Insurance Commissioner has the right to recover all payments made on behalf of an employer that is found to be liable, including interest on any amounts paid. In addition, the Insurance Commissioner may impose an administrative fine of not more than ten thousand dollars against an employer if the employer fails to provide mandatory coverage. Disbursements from the uninsured fund are made based upon requisitions signed by the Insurance Commissioner beginning on or after January 1, 2006.

The "self-insured guaranty risk pool" is the fund held by the West Virginia State Treasurer's Office consisting of those funds transferred to it from the guaranty pool created pursuant to 85 CSR §19 (2004) and any future funds collected through continued administration of that exempt legislative rule as administered by the Insurance Commissioner. The fund covers claims liabilities of bankrupt or defaulted self-insured employers with dates of injury subsequent to July 1, 2004. Disbursements are made from the self-insured guaranty risk pool upon requisitions signed by the Insurance Commissioner.

The "self-insured security risk pool" is the fund held by the State's Treasurer consisting of those funds paid into it through the Insurance Commissioner's administration of 85 CSR §19 (2004). Disbursement from said fund shall be made from the self-insured security risk pool upon requisitions signed by the Insurance Commissioner. The obligations of the fund will be for the claims liabilities of bankrupt or defaulted self-insured employers with dates of injury prior to July 1, 2004; provided that the liabilities of the self-insured security risk pool will be limited to those self-insured employers who default on their claims obligations after the termination of the WCC on December 31, 2005.

The "private carrier guaranty fund" is the fund held by the West Virginia State Treasurer's Office consisting of the deposit of all unencumbered funds remaining in the mutualization transition fund upon the termination of the WCC. The fund will provide benefits to an employee whose employers' private insurance carrier is found to be insolvent by a court of competent jurisdiction in the insurer's state of domicile or has otherwise defaulted on its payment obligations and is subject to an administrative action by the Insurance Commissioner.

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**1. Financial Reporting Entity (Continued)**

The "assigned risk fund" shall be a fund held by the West Virginia State Treasurer's Office that will consist of any assessments charged to each private carrier providing workers' compensation insurance coverage in this state. The assessments shall be made as often as necessary to cover any deficiencies that may arise in the pooling arrangement for assigned risk. The assigned risk fund shall be operational after the market is open to competition on July 1, 2008. To qualify for adverse risk assignment, an employer must have been categorically declined coverage by at least two insurers that are not affiliated with each other. The employer will have the burden of establishing that at least two insurers are unwilling to provide coverage at any premium level that is reasonably related to the risk presented by the employer.

The coverage provided by the assigned risk fund will be pursuant to a pooling arrangement managed by the Insurance Commissioner. The Insurance Commissioner may contract with any third party, including any private carrier, to administer this pooling arrangement. Costs necessary to operate this pooling arrangement will be funded by premiums paid by covered employers and assessments to private carriers providing industrial insurance in this state. The assessments made on private insurance carriers may be collected by each carrier from its policy holders in the form of a surcharge. Beginning on or after July 1, 2008, disbursements will be made from the assigned risk fund upon requisitions signed by the Insurance Commissioner.

As part of the regulatory transition process, the transfer of the WCC's fraud investigation and prosecution unit to the Commission was completed on July 1, 2005.

Effective upon termination of the WCC, the office of judges and the board of review were transferred to the Insurance Commission, which has the oversight and administrative authority previously held by the executive director and the board of managers of the Workers' Compensation Commission. Upon termination of the WCC, other regulatory personnel and functions necessary for the regulation of the workers' compensation insurance industry also transferred to the West Virginia Offices of the Insurance Commissioner.

For the calendar quarter beginning October 1, 2005, and the first and second calendar quarters of 2006, all self-insured employers will remit to the Insurance Commissioner on a quarterly basis the administrative component of their fiscal year 2006 rate. For the fiscal year beginning July 1, 2006, self-insured employers will remit an administrative charge to the Insurance Commissioner in an amount determined by the Commissioner. All self-insured employer advance deposits transferred from the WCC to the Commission upon termination of the WCC.

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**1. Financial Reporting Entity (Continued)**

All employers, beginning January 1, 2006 and then continuing through June 30, 2008, are required to purchase their workers' compensation insurance exclusively from the newly established private mutual company, which has been named BrickStreet Mutual Insurance (BrickStreet), unless they are permitted to self-insure their obligations. BrickStreet will assume responsibility for all new fund obligations of the subscriber policies that novate to BrickStreet or which are issued thereafter. For the fiscal years beginning July 1, 2006 and 2007, BrickStreet will charge the actuarially determined base rates for each fiscal year. The base rates will be calculated by the National Council on Compensation Insurance (NCCI) and submitted for approval by the Insurance Commissioner.

Beginning July 1, 2008, the worker's compensation insurance market will be opened to all private carriers who have been approved by the Insurance Commissioner to do business in West Virginia.

Pursuant to §23-2c-16 of the West Virginia State Code, BrickStreet shall serve as the initial third-party administrator of the Old Fund, the Uninsured Employer Fund, the Self-insured Employer Guaranty Risk Pool, the Self-Insured Security Risk Pool and the Private Carrier Guaranty Fund from the termination of the WCC and thereafter for a term of at least six months but not more than three years pursuant to an agreement to be entered into between the Insurance Commissioner and the mutual company prior to the termination of the WCC. An affiliated company of BrickStreet Mutual Insurance Company, BrickStreet Administrative Services, has served as the administrator of the state's workers' compensation related fund, beginning January 1, 2006. BrickStreet is to be paid a reasonable fee for services provided.

**2. Significant Accounting Policies**

**Basis of Presentation**

The Commission operates enterprise funds subject to Governmental Accounting Standards Board Statement 10 (GASB 10), "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," Governmental Accounting Standards Board Statement 30 (GASB 30), "Risk Financing Omnibus - An Amendment of GASB Statement No. 10," and Financial Accounting Standards Board Statement 60 (FASB 60), "Accounting and Reporting for Insurance Enterprises." An enterprise fund is used to account for the operations of state agencies providing goods or services to the general public on a user-charge basis, or for any activity whose principal revenue sources meet any of the following criteria: debt backed solely by fees and charges; legal requirement to recover cost; or policy decision to recover cost.

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## 2. Significant Accounting Policies (Continued)

In September 1993, GASB issued Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." As permitted by the Statement, the Commission has elected not to adopt FASB pronouncements issued after November 30, 1989, unless the GASB specifically adopts such FASB pronouncements.

The Insurance Commission is also subject to GASB Statement 40, "Deposits and Investment Risk Disclosures - an amendment of GASB 3" (GASB 40), and GASB Statement 46, "Net Assets Restricted by Enabling Legislation - an amendment to GASB 34" (GASB 46).

GASB 40 modifies disclosures to limit required disclosures to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name
- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

GASB 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. GASB 46 states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, GASB 46 requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

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## 2. Significant Accounting Policies (Continued)

### **Basis of Accounting**

As an enterprise fund, the Commission uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

### **Budgetary Data**

Pursuant to § 5A-2-12 of the West Virginia Code (the Code), the West Virginia Offices of the Insurance Commissioner submits a detailed budgetary schedule of administrative expenses to the Secretary of the Department of Administration prior to the beginning of each fiscal year. The budgetary schedule is prepared on the cash basis. All financial operations of the Insurance Commission, except for benefits and direct claims costs, are subject to a nonappropriated budget review and approval process in which the Commissioner submits a financial plan for approval in a manner authorized by statute.

### **Cash and Cash Equivalents**

Cash on hand and held by the West Virginia State Treasurer for the benefit of the Insurance Commission on June 30, 2006 totaled \$58,579. Cash that is pooled with funds of other state agencies and invested on an overnight basis by the West Virginia Investment Management Board (IMB) for the benefit of the Commission totals \$907,710. For purposes of the statement of cash flows, the Insurance Commission considers its share of the pooled deposits to be cash equivalents in accordance with GASB 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

In accordance with GASB 40, "Deposits and Investment Risk Disclosures - an amendment of GASB 3", the following risk disclosure information is provided for Commission funds being held by the IMB in the following investment pools:

#### **Large Cap Domestic**

This pool holds equity securities of U. S. companies and money market funds with the highest credit rating. These types of securities are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. At June 30, 2006, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes.

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**2. Significant Accounting Policies (Continued)**

Non-Large Cap Domestic

This pool holds equity securities of U. S. companies and money market funds with the highest credit rating. These types of securities are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. At June 30, 2006, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes.

International Nonqualified

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The total value of this investment pool at June 30, 2006, was \$51,220. The pro-rated value of the Commission's investment in this pool at June 30, 2006, was \$22,595 or approximately 44% of the total pool held by the IMB. This investment, although denominated in U. S. dollars, is exposed to foreign currency risk. This pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

International Equity

This pool is not exposed to credit risk, interest rate risk, or custodial credit risk. At June 30, 2006, this pool did not hold securities of any one issuer in excess of 5% of the value of the pool in accordance with West Virginia statutes. This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. The amounts (in U. S. dollars) of the securities and cash denominated in foreign currencies held by the IMB are as follows:

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**2. Significant Accounting Policies (Continued)**

Currency	Equity Securities	Cash	Total
Australian Dollar	\$ 28,417	\$ 503	\$ 28,920
Brazil Cruzeiros Real	27,320	-	27,320
British Pound	104,895	211	105,106
Canadian Dollar	41,912	239	42,151
Danish Krone	5,385	583	5,968
Euro	158,816	2,047	160,863
Hong Kong Dollar	53,458	106	53,564
Hungarian Forint	1,119	1	1,120
Indian Rupee	4,517	-	4,517
Indonesian Rupiah	3,112	-	3,112
Israeli Shekel	14,745	-	14,745
Japanese Yen	152,318	1,081	153,399
Malaysian Ringgit	5,205	52	5,257
Mexican New Peso	2,733	15	2,748
New Taiwan Dollar	40,139	1,206	41,345
New Zealand Dollar	4,972	32	5,004
Norwegian Krone	16,073	25	16,098
Phillippine Peso	8,714	-	8,714
Singapore Dollar	23,908	80	23,988
South African Rand	4,811	1	4,812
South Korean Won	42,993	-	42,993
Swedish Krona	21,268	339	21,607
Swiss Franc	32,688	646	33,334
Thailand Baht	7,332	6	7,338
Total	<u>\$ 806,850</u>	<u>\$ 7,173</u>	<u>\$ 814,023</u>

The pro-rated amounts of the securities and cash denominated in foreign currencies of the Commission's investment in this pool at June 30, 2006 (in U. S. dollars) are \$49,221 and \$438 respectively, which represents approximately 6% of each total held in the pool by the IMB.

Short-Term Fixed Income

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

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## 2. Significant Accounting Policies (Continued)

The following table provides information on the weighted average credit ratings of the Short-Term Fixed Income pool's investments.

<u>Security Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percent of Assets</u>
Agency discount notes	P1	A-1	\$ 129,608	32.2%
Agency bonds	Aaa	AAA	98,440	24.8%
U. S. Treasury bills	Aaa	AAA	74,891	18.6%
Commercial paper	P1	A-1	63,853	15.8%
U. S. Treasury note	Aaa	AAA	33,660	8.5%
Money market fund	Aaa	AAA	<u>514</u>	<u>0.1%</u>
Total rated investments			<u>\$ 400,966</u>	<u>100.0%</u>

The pro-rated amount of these rated investments that comprise the Commission's investment in this pool at June 30, 2006 is \$81,793, which represents approximately 20% of the fair value of each security type in the pool held by the IMB.

This table includes securities received as collateral for repurchase agreements valued at \$226,026. The pro-rated amount that represents the Commission's investment in unrated securities in this pool at June 30, 2006 is \$46,107 or approximately 20% of the total. Acceptable collateral for the repurchase agreements include U. S. Treasury and government agency securities, all of which carry the highest credit rating.

Concentration of credit risk - West Virginia statutes prohibit the Short-Term Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2006, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk - At June 30, 2006, the Short-Term Fixed Income pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest rate risk - The weighted average maturity of the investments of the Short-Term Fixed Income pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Short-Term pool.

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**2. Significant Accounting Policies (Continued)**

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM (days)</u>
Repurchase agreements	\$ 223,000	3
US Treasury bills	74,891	13
Commercial paper	63,853	17
Agency discount notes	32,707	64
Agency bond	2,974	168
Money market fund	<u>515</u>	1
Total assets	<u>\$ 397,940</u>	13

The pro-rated amount of the investment amounts shown that comprise the Commission's investment in this pool at June 30, 2006 is \$81,175 and represents approximately 20% of the fair value of each security type in the pool held by the IMB

Foreign currency risk - The Short-Term Fixed Income pool has no securities that are subject to foreign currency risk.

Fixed Income

Credit risk - The IMB limits the exposure to credit risk in the Fixed Income pool by requiring all corporate bonds to be rated B or higher at the time of purchase. Convertible bonds must be rated Baa or higher by Standard & Poor's or BBB or higher by Moody's. The following table provides the weighted average credit ratings of the asset types in the Fixed Income pool.

<u>Security Type</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
Corporate bonds and notes	Baa	BBB	\$ 363,865	16.9%
U. S. Treasury bonds and notes	Aaa	AAA	324,878	15.1%
Corporate asset backed securities	Aaa	AAA	90,536	4.2%
U. S. Treasury bill	Aaa	AAA	39,717	1.9%
Agency bonds	Aaa	AAA	23,241	1.1%
Agency discount notes	P1	A-1	1,777	0.0%
Money market funds	Aaa	AAA	<u>830</u>	<u>0.0%</u>
Total rated investments			<u>\$ 844,844</u>	<u>39.2%</u>

The pro-rated amount of these rated investments that comprise the Commission's investment in this pool at June 30, 2006 is \$139,499 which represents approximately 17% of the fair value of each security type in the pool held by the IMB.

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**2. Significant Accounting Policies (Continued)**

Unrated securities include commingled investment pools of \$1,303,551 and a Canada Treasury bill valued at \$2,567. This table includes securities received as collateral for repurchase agreements valued at \$10,506. The pro-rated amounts that represent the Commission's investment in commingled investment pools and repurchase agreements at June 30, 2006 are \$215,239 and \$1,735 respectively, which is approximately 17% of each total in the pool held by the IMB. The Commission's pro-rata investment amount in the Canada Treasury Bill totals \$424 at June 30, 2006.

Concentration of credit risk - West Virginia statutes prohibit the Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2006, the Fixed Income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk - At June 30, 2006, the Fixed Income pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest rate risk - The IMB monitors interest rate risk of the Fixed Income pool by assessing the modified duration of the investments in the pool. The following table provides the weighted average modified duration for the various asset types in the Fixed Income pools.

<u>Security Type</u>	<u>Fair Value</u>	<u>Modified Duration (years)</u>
Commingled investment pools	\$ 1,303,551	5.0
Corporate notes and bonds	363,865	6.6
U. S. Treasury notes and bonds	324,878	8.3
Corporate asset backed securities	90,536	8.3
U. S. Treasury bill	39,717	0.2
Agency bonds	12,736	6.1
Repurchase Agreements	10,300	0.0
Canada Treasury bill	2,567	0.2
Agency discount notes	1,777	0.2
Money market fund	830	0.0
Total assets	\$ 2,150,757	5.8

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## 2. Significant Accounting Policies (Continued)

The Fixed Income pool invests in commercial and residential mortgage-backed and asset-backed securities. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2006, the Fixed Income pool held \$90,536 of these securities. This represents approximately 4% of the value of the fixed income pools. The Commission's pro-rata investment amount in these securities totals \$3,621 at June 30, 2006.

Foreign currency risk - The Fixed Income pool has no securities that are exposed to foreign currency risk.

### Fixed Income Nonqualified

This pool holds positions in institutional mutual funds with a combined value of \$369,891 at June 30, 2006, that invest in mortgage-backed securities and corporate bonds. The pro-rated value of the Commission's investment in this pool at June 30, 2006, was \$231,198 or approximately 63% of the total pool held by the IMB. The mutual funds are unrated. The weighted average modified duration of the underlying securities is 5.5 years. This pool is not exposed to custodial credit risk, concentration of credit risk, or foreign currency risk.

### Receivables and Allowance for Doubtful Accounts

Net Receivables at the balance sheet date represent management's best estimate of the net realizable value of taxes, fees, assessments, premiums and related revenue due as of June 30, 2006. All premiums receivable balances due to the West Virginia Offices of the Insurance Commissioner consist of past premiums due from defaulted employers for periods of coverage prior to June 30, 2005 from the former Workers' Compensation Commission. Due to the age of these remaining premium receivables, only the actual subsequent receipts are recognized in the financial statements unless the employer has entered into a bona fide repayment agreement with the State or if the employer is subject to a court ordered restitution agreement. The West Virginia Offices of the Insurance Commissioner also recognize a receivable for fines assessed against and claims reimbursements amounts billed to uninsured employers. Due to the high probability of non-collection for this category of receivables, the uninsured fines and claims reimbursement receivables are also recorded at the actual value received in subsequent receipts.

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## **2. Significant Accounting Policies (Continued)**

The net receivable also includes the current receivable due from other state agencies for the statutory transfers due and owing pursuant to the debt reduction provisions found in Senate Bill 1004.

### **Capital Assets**

Capital assets are stated at cost. Depreciation for office equipment and furniture are computed using the straight-line method over the estimated economic useful lives which typically range from 10 to 20 years.

### **Estimated Liability for Unpaid Claims and Claim Adjustment Expenses**

The liability for unpaid claims and claim adjustment expense represents management's estimate, developed in conjunction and with the assistance of the Insurance Commission's consulting actuary, of the Commission's ultimate net cost of all unpaid claims and claim adjustment expenses incurred as of the balance sheet date. Changes in estimates of such costs are recognized in results of operations in the period in which the changes in estimates are made.

Management believes the estimate of the discounted liability for unpaid claims and claim adjustment expenses is adequate. However, due to the inherent variability of the assumptions used to estimate this liability, the Commission's actual incurred losses and loss adjustment expenses may vary significantly from the estimated amount included in the Commission's financial statements.

### **Compensated Absences**

Employees fully vest in all earned but unused vacation and the Commission accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. Under the provision of §5-16-13 of the West Virginia Code, Insurance Commission employees, upon retirement, may apply their accumulated annual and/or sick leave toward extending their health care insurance coverage. Under the provisions of the same statute, employees may alternatively choose to apply their accumulated annual and/or sick leave toward additional credited service in the computation of their retirement benefits. In accordance with GASB 16, "Accounting for Compensated Absences," the Insurance Commission recognizes an obligation for unused sick leave as it is earned if it is probable that the employees will be compensated upon termination or retirement.

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**2. Significant Accounting Policies (Continued)**

**Other Operating Revenue**

Other operating revenue is comprised of monies received on bankruptcy recoveries, post audit payments, interest on premiums collected from reinstated accounts, certain penalties, and any other miscellaneous operating fees and revenue.

**Transfers and Payments related to Workers' Compensation Commission and BrickStreet Insurance**

The Commission recognized certain statutory transfers in the fiscal year 2006 financial statements including the initial transfer of assets from the former Workers' Compensation Commission as set forth in the Governor's proclamation regarding the establishment of a mutual insurance company and the transfer of assets to the Commission and to BrickStreet. The initial assets and liabilities transferred are shown in the schedule below.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Totals</u>
Transfers In from Workers' Compensation Commission:			
Cash and Cash Equivalents	\$ 1,690	\$ 1,419,894	\$ 1,421,584
Fixed Assets, Net	8,035	-	8,035
Estimated Liability for Unpaid Claims	-	(3,593,400)	(3,593,400)
Compensated Absences	(1,470)	(1,170)	(2,640)
Other Assets & Liabilities, Net	-	9,283	9,283
	<u>\$ 8,255</u>	<u>\$ (2,165,393)</u>	<u>\$ (2,157,138)</u>
BrickStreet Transactions, Net:			
Fixed Assets, Net	\$ (6,717)	\$ -	\$ (6,717)
Employers Excess Liability Net Assets	-	(26,411)	(26,411)
Cash in Excess of Estimated Liabilities assumed by BrickStreet	-	(64,665)	(64,665)
	<u>\$ (6,717)</u>	<u>\$ (91,076)</u>	<u>\$ (97,793)</u>

In addition \$200 million in cash and cash equivalents was disbursed to BrickStreet Insurance in exchange for a Surplus Note.

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## 2. Significant Accounting Policies (Continued)

### **Statutory Allocations Proceeds**

The Commission recognized annual payments and an estimated receivable of \$15 million received pursuant to §4-11A-2(d) of the West Virginia State Code from the tobacco settlement fund. The annual payments received through the tobacco settlement fund are expected to approximate \$30 million annually. In addition, the Commission recognized \$11 million dollars of West Virginia Lottery proceeds allocated to the Commission.

### **Net Assets**

As required by GASB 34, the Commission displays net assets in three components, if applicable: invested in capital assets, net of related debt; restricted, and unrestricted.

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets - Restricted net assets should be reported when constraints placed on the net assets use are either externally imposed (for instance, by creditors, laws or grantors) or imposed by law through constitutional provisions or enabling legislation. Such constraints limit the Commission's ability to use the resources to pay current liabilities. In accordance with the respective enabling legislation, net assets accumulated for Old Fund, CWPF, Uninsured Employers' Fund, Self-Insured Funds and Private Carrier Guaranty Funds are restricted for payment of related expenses.

Unrestricted net assets - Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." In the governmental environment, net assets are often *designated* to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statement of net assets.

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### **3. Cash and Cash Equivalents**

The Commission is permitted by the Code to invest any funds in excess of current disbursement needs with the IMB. Investments are reported by the IMB at fair value and are accounted for by the Commission accordingly. Such funds are available to the Commission with overnight notice, and are considered cash equivalents. Earnings for the IMB investment pools are determined monthly and distributed to pool participants at the beginning of the next month based on their pro rata participation in the pools.

Stockholdings are limited to 60% of the portfolio. Because the assets are held in the pools, no other disclosure related to credit or market risk is required. However, market risk exists as the assets of the pools may decline in value because of an increase in interest rates or a decline in stock prices. Such market risk is borne by the participants in the pools.

Based on past fluctuations in investment earnings, IMB management reevaluated its investment strategy. As a result of this review, management decided to implement an investment policy that targets a 30% allocation of equity type holdings within the Commission's portfolio.

### **4. Leases**

The Commission has lease agreements for its current central office building and various hearing and field offices throughout West Virginia. The Commission's current central office building is accounted for as an operating lease with the lease payments recorded as rent expense as they become payable.

All State agencies are required to have language in their lease agreements that allow termination by either party with 30 days notice. The Commission has entered into several such agreements. The Commission has no current plans to terminate any leases prior to their full term and, therefore, has provided the same disclosures for these "operating" leases as would be required if they were noncancelable. These leases are accounted for as operating leases with the lease payments recorded as rent expense as they become payable.

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**4. Leases (Continued)**

Future minimum scheduled rentals under operating leases at June 30, 2006, were as follows:

2007	\$	1,684
2008		1,575
2009		1,365
2010		1,280
2011		600
Thereafter		<u>77</u>
Total minimum lease payments	<u>\$</u>	<u>6,581</u>

Rental expense was \$1,054 for the year ended June 30, 2006.

**5. Estimated Liability for Unpaid Claims and Claim Adjustment Expenses**

GASB standards state “the practice of presenting claims liabilities at the discounted present value of estimated future cash payments (discounting) is neither mandated nor prohibited.” GASB standards provide that, if discounting is used, the pool should use a rate that is determined by giving consideration to such factors as the pool’s expected settlement rate for those liabilities and its expected investment yield rate. Based on the expected investment yields on the Commission’s investment portfolio, the estimated liability for unpaid claims and claim adjustment expenses (claims liability) has been discounted using a rate of 5.0% at June 30, 2006.

On July 1, 2003, West Virginia Senate Bill 2013 was enacted into law. This new law made significant changes to Chapter 23 (Workers’ Compensation) of the West Virginia State Code with the purpose of strengthening the financial position of the former Workers’ Compensation Fund. At June 30, 2005, Workers’ Compensation Commission management had recognized all of the readily quantifiable expected savings from the provisions of the legislation.

On February 16, 2005, Senate Bill 1004 was enacted into law with the purpose of ceasing the state’s participation as a provider of workers’ compensation insurance. Senate Bill 1004 also identified sources of revenue to fund the unfunded liabilities remaining from the former workers’ compensation fund. Senate Bill 1004 did not contain any type of benefit reform provisions and accordingly no impact on the actuarial estimates has been recognized. It is anticipated that the indirect effects of privatization, such as the implementation of industry standard claims management practices, will have a positive impact on the ultimate costs of the state’s workers’ compensation related liabilities. Any future anticipated savings will be recognized in the liability estimates as the downward payment trending occurs.

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**5. Estimated Liability for Unpaid Claims and Claim Adjustment Expenses (Continued)**

At June 30, 2006, the total undiscounted claims liability for the Commission approximated \$5.5 billion. Invested assets of the Old Fund are not sufficient at current investment rates to retire the claims liability and the Old Fund has a significant deficit. If discounting of the Old Fund claims liability were limited to anticipated investment income, the Commission's claims liability would have increased by approximately \$1.96 billion to a claims liability of approximately \$5.47 billion, and the Commission's total deficit would increase to approximately \$4.06 billion at June 30, 2006.

The following schedule represents the reconciliation of the unpaid claims liability for the Commission's Workers' Compensation Funds discounted at 5.0% at June 30, 2006, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the six month period. Losses include claim adjustment expenses.

	<u>2006</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ -
Transfers in from Workers' Compensation Commission	3,593,400
Estimated liabilities assumed by BrickStreet Mutual Insurance Company	<u>(139,135)</u>
	<u>3,454,265</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	580
Changes in provision for insured events of prior fiscal years	(83,846)
Amortization of discount	<u>82,724</u>
Total claims and claim adjustment expenses	<u>(542)</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	-
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(176,023)</u>
Total payments	<u>(176,023)</u>
Change in provision for DWRF receivable	<u>(18,600)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 3,259,100</u>

Cash payments shown in the Statement of Cash Flows may differ from these totals depending on the release dates of the payments.

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**5. Estimated Liability for Unpaid Claims and Claim Adjustment Expenses (Continued)**

The following schedule represents the reconciliation of the unpaid claims liability for Access WV at June 30, 2006, including an analysis of changes in aggregate liabilities for claim and claim adjustment expenses for the fiscal year. This is the first year of operation for Access WV, a high risk health insurance program.

	<u>2006</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>          -</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	734
Changes in provision for insured events of prior fiscal years	<u>          -</u>
Total claims and claim adjustment expenses	<u>          734</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(314)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>          -</u>
Total payments	<u>          (314)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>          \$ 420</u>

**6. Deficit Funding Plan**

Due to a history of recurring losses and a significant accumulated deficit, significant legislative reforms for collection of premiums and awarding of claims have been enacted. The West Virginia Legislature enacted "Senate Bill 2013," which made major changes to the Workers' Compensation laws that became effective in fiscal year 2004. The passage and implementation of "Senate Bill 2013" has resulted in a significant reduction in the net cash outflows from the Old Fund.

In order to reduce the substantial deficit that continues to exist in the workers' compensation fund and to identify sources of revenue to address the immediate and long-term solvency of the fund and to resolve the financial crisis caused by the deficit, the legislature passed "Senate Bill 1004" on February 16, 2005.

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**6. Deficit Funding Plan (Continued)**

With the passage of “Senate Bill 1004” a framework for the privatization of workers’ compensation insurance in West Virginia was established. The legislation defines the requirements for the formation of a domestic employers’ mutual insurance company (BrickStreet Mutual Insurance Company) by January 1, 2006 and provides for the regulation and phasing in of a competitive workers’ compensation insurance market beginning July 1, 2008.

As a result of “Senate Bill 1004”, the WCC terminated effective December 31, 2005 and upon the termination of the WCC, the WCC’s powers transferred to the West Virginia Offices of the Insurance Commissioner and the Industrial Council established by “Senate Bill 1004” to assist the Insurance Commissioner in the regulation of state workers’ compensation system.

With the passage of “Senate Bill 1004” a “workers’ compensation old fund” (old fund) was established. It consists of those funds transferred to it from the workers’ compensation fund after December 31, 2005, as determined by the governor’s proclamation and those funds due and owing the workers’ compensation fund as of June 30, 2005. The old fund remains the property of the state and does not novate or otherwise transfer to the private sector. Disbursements from the old fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, for any claim with a date of injury on or before June 30, 2005.

“Senate Bill 1004” further establishes a workers’ compensation debt reduction fund in the state treasury for the deposit of monies received after June 30, 2005, including certain funds designated in Code §4-11a-2(d): \$30 million to be received annually until 2025 from the tobacco master settlement agreement, and Code §29-22A-10,10b: an estimated \$11 million to be received annually from the video lottery income, and Code §11-13V-4: new and additional severance taxes imposed estimated to yield an approximate \$90.2 million annually, Code §11-21-96: personal income tax proceeds of approximately \$45 million annually, and Code §23-2C-3(f)(3): monthly premium surcharges to be collected for all WV employers expected to yield \$54 million annually. The net proceeds from collection of these monies are to be dedicated to paying the unfunded liability in the workers’ compensation fund until fully paid or paying debt service on bonds sold to raise funds to pay the unfunded liability in the workers’ compensation fund.

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## 7. Pension Plan

**Plan Description.** - The Commission contributes to the West Virginia Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 5, Article 10 of the West Virginia Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. CPRB issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report can be obtained by writing to CPRB, Capitol Complex, Building 5 Room 1000, Charleston WV 25305.

**Funding Policy.** - Plan members are required to contribute 4.5% of their annual covered salary and the Commission was required to contribute 10.5% for the current fiscal year. The contribution requirements of plan members and the Commission are established and may be amended by the PERS Board of Trustees, subject to limitations set by the West Virginia Legislature. The Commission's contributions to PERS for the year ended June 30, 2006 was \$927 equal to the required contributions for the year.

## 8. Commitments and Contingencies

### Contingent Liability for Self-Insured Employers

An employer who has been granted self-insured status for workers' compensation insurance coverage must post security with the WCC for an actuarially determined amount of their liabilities incurred with dates of injury prior to July 1, 2004. Payments made for claims of employees of defaulted self-insured employers for injuries prior to July 1, 2004 will be made from the Self-insured Security Pool established by Legislative Rule 19. The assets of the Security Pool consist of the proceeds received from the security held by the WCC and any necessary assessments made to active self-insured employers for the default of a self-insured employer. To date, no assessments have been made for the Security Pool since its establishment in 2004.

Payments for the injuries of defaulted self-insured employers incurred after July 1, 2004 will be made by the Self-insured Guaranty Pool; however, any self-insured employer who fails the

An analytical financial review will also be required to post security to the Guaranty Pool on any workers' compensation liabilities incurred after July 1, 2004. The Self-insured Guaranty Pool is funded through quarterly assessments to self-insured employers and the proceeds received from the security held.

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**8. Commitments and Contingencies (Continued)**

To the extent a self-insured employer cannot meet its obligations under the Law, the two self-insured pools discussed above remain contingently liable for all policy benefits. The only sources of revenue permitted under the Law to fund the Security Pool and the Guaranty Pool must be obtained from self-insured employers. Self-insured employers are considered joint and severally liable for the obligations of a defaulted self-insured employer. The estimated liabilities of self-insurers who have not defaulted at \$293 million as of June 30, 2006, discounted at 5.0%. This estimate has been derived excluding any contingency margin that is included in the liability estimate used for security requirement purposes. At June 30, 2006 the security held from self-insured employers was \$373 million, including \$21.9 million in security received from six self-insured employers who were required to post prospective security. The amount has not been included in the estimated liabilities for unpaid claims and claim adjustment expenses because the likelihood of future self-insurer defaults has not been estimated.

**Risk Management**

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

The Commission has obtained health coverage for its employees through its participation in the Public Employees Insurance Agency (PEIA). In exchange for the payment of premiums to PEIA, the Commission has transferred its risk related to health coverage for employees. Additionally, the Commission has obtained coverage for job-related injuries through the purchase of workers' compensation insurance from BrickStreet Mutual Insurance Company, the sole provider of compensation insurance coverage in the state.

The Commission participates in the West Virginia State Board of Risk and Insurance Management (WVBRIM), a public entity risk pool, to obtain coverage for general liability and property damage. WVBRIM is a State agency established by the Legislature in 1957 to provide property and liability insurance coverage for state and local governmental entities including the Commission. This coverage is offered in exchange for an annual premium. There have been no claim settlements exceeding the Commission's general liability insurance coverage for the past three fiscal years.

During the normal course of operations, the Commission incurs certain routine claims. The legal counsel for the Commission has evaluated the potential loss for these claims and has determined that the insurance coverage provided by WVBRIM is adequate to cover any potential losses from these claims.

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## **8. Commitments and Contingencies (Continued)**

### Premium Advance Deposits

Unclaimed property on deposit with or held by state agencies comes under the purview of the West Virginia State Treasurer's Office who sees that proceeds from such property are deposited in the state's general revenue fund. In March 1999, the West Virginia State Legislature adopted legislation that states that advance deposits by employers with no activity for a period of five years are presumed abandoned and are subject to the custody of the state as unclaimed property. However, these funds are to be held by the West Virginia State Treasurer's Office in an account separate from other unclaimed property funds. They become the property of and owned exclusively by the West Virginia Offices of the Insurance Commissioner ninety days after the West Virginia State Treasurer's Office has advertised the property and they remain unclaimed.

## **9. Surplus Note Agreement**

In accordance with the provisions set forth in §23-2C-24 (a) of the West Virginia State Code, a surplus note agreement between the State of West Virginia and the newly formed employers' mutual insurance company, BrickStreet, has been established as of January 1, 2006. For value received, BrickStreet will repay the State of West Virginia the principle sum of \$200 million dollars, plus interest and reasonable costs of collection of any overdue payment by the maturity date of the note, which is June 30, 2016. The purpose of the surplus note is to provide initial surplus to the issuer until such time as adequate retained surplus is earned or alternative non-governmental sources of capital are available to allow the issuer to operate as a commercially sound, independent provider of workers' compensation insurance in the State of West Virginia, within a competitive environment. BrickStreet may repay all or any part of the principal, subject to the approval of the Insurance Commissioner, at any time without penalty or premium.

From the effective date of the note until the earlier of (1) the date on which the note is repaid in full; or (2) January 1, 2009, the note shall bear interest at one and one-half percent (1.5%). If the note has not been repaid by January 1, 2009, then from January 1, 2009 until the date on which the note is repaid in full, unpaid amounts under the note shall bear interest at a fluctuating rate per annum that is equal to the Prime Rate of interest for the period in question.

The repayment of the principal of the surplus note shall be subject to the prior approval of the Insurance Commissioner. Beginning June 30, 2007 and on the thirtieth day of June each year thereafter, payments will be made to the State of West Virginia in accordance with the schedule set forth in the surplus note agreement until the note is paid in full.

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Supplemental Revenue and Reserve Development Information  
(Unaudited)

GASB standards require the presentation of ten years supplemental revenue and reserve development information, if available. The table on the following page illustrates how the Commission's earned revenues and investment income compare to related costs of loss and other expenses assumed (on a discounted basis) as of the end of each of the last 10 years, as available.

The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's premium and investment income.
- (2) This line shows each fiscal year's other operating costs.
- (3) This line shows incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section of 10 rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, emergence of new claims not previously known, as well as amortization of discount.
- (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

The supplemental revenue and reserve development information has been prepared by the Commission's consulting actuary using assumptions and other data furnished by the Commission. Such information has not been audited and is presented on the basis discussed above, which may differ from the form of presentation used in the financial statements.

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Supplemental Revenue and Reserve Development Information  
Workers' Compensation Fund  
(Unaudited)  
As of June 30, 2006  
(Dollars in Millions)

Fiscal and Policy Year

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Premium	\$ 509.8	\$ 519.2	\$ 556.9	\$ 582.3	\$ 597.2	\$ 600.2	\$ 568.7	\$ 678.8	\$ 736.0	-
Investment income (loss)	<u>98.0</u>	<u>139.1</u>	<u>97.3</u>	<u>106.7</u>	<u>32.1</u>	<u>(23.7)</u>	<u>47.3</u>	<u>23.8</u>	<u>74.1</u>	-
Total income (1)	607.8	658.3	654.2	689.0	629.3	576.5	616.0	702.6	810.1	-
Other expenses (2)	44.8	40.2	47.2	51.7	51.4	59.5	61.2	66.0	73.8	-
Original incurred loss (3)	240.8	329.7	339.2	233.9	261.9	428.9	411.0	353.4	307.6	-
Cumulative payments (4):										
Year 1	66.5	70.5	80.5	78.8	82.0	88.8	87.1	71.0	72.6	-
Year 2	146.6	175.7	186.7	197.2	207.6	220.5	194.2	152.1	141.5	
Year 3	196.7	229.2	249.2	273.3	283.8	291.3	244.1	181.4		
Year 4	226.4	266.2	297.6	325.2	327.6	327.1	265.1			
Year 5	248.0	298.1	332.7	355.9	352.8	343.4				
Year 6	268.5	322.7	354.9	374.6	365.3					
Year 7	286.1	339.7	369.0	385.8						
Year 8	298.6	351.8	378.5							
Year 9	306.9	359.6								
Year 10	314.4									
Re-estimated incurred claims and expenses (5):										
Year 1	240.8	329.7	339.2	233.9	261.9	428.9	411.0	353.4	307.6	-
Year 2	322.8	351.0	399.2	409.6	421.6	488.8	470.7	316.6	300.3	
Year 3	328.2	380.2	398.7	440.1	488.6	512.8	385.9	305.9		
Year 4	345.1	386.5	425.9	498.2	497.1	429.5	379.0			
Year 5	336.8	406.1	476.8	512.0	454.8	439.1				
Year 6	354.2	438.9	473.4	471.1	445.6					
Year 7	381.3	436.0	457.3	470.6						
Year 8	380.6	428.9	454.9							
Year 9	377.9	427.8								
Year 10	366.4									
Increase (decrease) in estimated incurred claims and expense from end of policy year (6)	125.6	98.1	115.7	236.7	183.7	10.2	(32.0)	(47.5)	(7.3)	-

*See accompanying independent auditors' report*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information  
(Unaudited)  
(In Thousands)

The table below presents Old Fund (Self-insured fund amounts prior to July 1, 2004 are included with the Old Fund), CWPF, Uninsured Employers Fund, and Employers Excess Liability Fund changes in claims liabilities discounted at 5.0% as of June 30, 2006. Losses include claim adjustment expenses.

	June 30, 2006				
	<u>WCF</u>	<u>CWPF</u>	<u>EELF</u>	<u>UEF</u>	<u>Total</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in from Workers' Compensation Commission	3,400,400	189,200	3,800	-	3,593,400
Estimated Liabilities assumed by BrickStreet	<u>(135,335)</u>	<u>-</u>	<u>(3,800)</u>	<u>-</u>	<u>(139,135)</u>
	<u>3,265,065</u>	<u>189,200</u>	<u>-</u>	<u>-</u>	<u>3,454,265</u>
Claims and claim adjustment expenses:					
Provision for insured events of the current fiscal year	-	-	-	580	580
Changes in provision for insured events of prior fiscal years	(30,510)	(53,336)	-	-	(83,846)
Amortization of discount	<u>78,205</u>	<u>4,519</u>	<u>-</u>	<u>-</u>	<u>82,724</u>
Total claims and claim adjustment expenses	<u>47,695</u>	<u>(48,817)</u>	<u>-</u>	<u>580</u>	<u>(542)</u>
Payments:					
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	-	-	-	-	-
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(170,640)</u>	<u>(5,383)</u>	<u>-</u>	<u>-</u>	<u>(176,023)</u>
Total payments	<u>(170,640)</u>	<u>(5,383)</u>	<u>-</u>	<u>-</u>	<u>(176,023)</u>
Change in provision for DWRF receivable	<u>(18,600)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,600)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 3,123,520</u>	<u>\$ 135,000</u>	<u>\$ -</u>	<u>\$ 580</u>	<u>\$ 3,259,100</u>

*See accompanying independent auditors' report.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Supplemental Revenue and Reserve Development Information  
Access WV  
(Unaudited)  
As of June 30, 2006  
(Dollars in Thousands)

	Fiscal and Policy Year
	<u>2006</u>
Premium	\$ 739
Investment Income	136
Total income (1)	875
Other expenses (2)	389
Original incurred loss (3)	734
Cumulative payments (4):	
Year 1	314
Re-estimated incurred claims and expenses (5):	
Year 1	734
Increase (decrease) in estimated incurred claims and expense from end of policy year (6)	\$ -

*See accompanying independent auditors' report.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information  
Access WV  
(Unaudited)  
(In Thousands)

The table below presents Access WV changes in claims liabilities as of June 30, 2006. Losses include claim adjustment expenses.

	June 30, 2006
	Access WV
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>          </u> -
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	734
Changes in provision for insured events of prior fiscal years	-
Amortization of discount	<u>          </u> -
Total claims and claim adjustment expenses	<u>          </u> 734
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(314)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>          </u> -
Total payments	<u>          </u> (314)
Total unpaid claims and claim adjustment expenses at end of the year	<u>          </u> \$ <u>          </u> 420

*See accompanying independent auditors' report.*

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Required Supplementary Information  
Budgetary Comparison Schedule  
Operating Fund  
Year Ended June 30, 2006  
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budgetary</u> <u>Basis</u>	
<b>Budgetary Fund Balance, July 1</b>				
Resources (inflows):				
Beginning Balance 07/01/05	\$ -	\$ -	\$ 14,389	\$ 14,389
2006 FY Gross Revenue	-	-	26,387	26,387
Revenue Refunds	-	-	(68)	(68)
13 <sup>th</sup> Month Expenditures - Last PFY	-	-	(45)	(45)
Other Transactions	-	-	(3,137)	(3,137)
Estimated Revenue FY 2006	<u>32,150</u>	<u>32,429</u>	<u>-</u>	<u>(32,429)</u>
<b>Amounts available for appropriation</b>	<b><u>32,150</u></b>	<b><u>32,429</u></b>	<b><u>37,526</u></b>	<b><u>5,097</u></b>
Charges to appropriations (outflows)				
Personal Services	15,540	15,654	8,787	6,867
Employee Benefits	5,622	5,643	2,904	2,739
Contractual and Professional	1,871	1,871	626	1,245
Claims	2,000	2,000	389	1,611
Other Current Expenses	<u>4,139</u>	<u>4,139</u>	<u>4,081</u>	<u>58</u>
<b>Total Charges to Appropriations</b>	<b><u>29,172</u></b>	<b><u>29,307</u></b>	<b><u>16,787</u></b>	<b><u>12,520</u></b>
<b>Budgetary Fund Balance, June 30, 2006</b>	<b><u>\$ 2,978</u></b>	<b><u>\$ 3,122</u></b>	<b><u>\$ 20,739</u></b>	<b><u>\$ 17,617</u></b>

*See accompanying independent auditors' report.*

OTHER FINANCIAL INFORMATION



INDEPENDENT AUDITORS' REPORT ON  
OTHER FINANCIAL INFORMATION

The Industrial Council  
West Virginia Offices of the Insurance Commissioner:

We have audited and reported separately herein on the basic financial statements and required supplementary information of the West Virginia Offices of the Insurance Commissioner as of and for the year ended June 30, 2006. Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the West Virginia Offices of the Insurance Commissioner. The information on pages 55 through 63 is presented for purposes of additional analysis of the financial statements. The Workers' Compensation information on pages 55 through 57 has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The budgetary comparison schedules on pages 58 through 63 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

*Suttle & Stalnaker, PLLC*

Charleston, West Virginia  
January 26, 2007

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WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
SCHEDULE OF NET ASSETS  
WORKERS' COMPENSATION INFORMATION  
June 30, 2006  
(In Thousands)

	<u>WC Old Fund Debt Reduction</u>	<u>Coal Workers' Pneumoconiosis</u>	<u>Uninsured Fund</u>	<u>Self-Insured Funds</u>	<u>Private Carrier Fund</u>	<u>Total</u>
<b>Assets:</b>						
<b>Current Assets</b>						
Cash and Cash Equivalents	\$ 678,258	\$ 250,959	\$ 5,401	\$ 1,907	\$ 2,000	\$ 938,525
Receivables, Net:						
Statutory Allocations	15,000	-	-	-	-	15,000
Taxes and Fees	11,722	-	-	-	-	11,722
Assessments	342	-	264	70	-	676
Premiums	26,645	-	-	-	-	26,645
Other	16	-	13	-	-	29
Total Current Assets	<u>731,983</u>	<u>250,959</u>	<u>5,678</u>	<u>1,977</u>	<u>2,000</u>	<u>992,597</u>
<b>Noncurrent Assets:</b>						
Surplus Note	<u>200,000</u>	-	-	-	-	<u>200,000</u>
Total Noncurrent Assets	<u>200,000</u>	-	-	-	-	<u>200,000</u>
Total Assets	<u>931,983</u>	<u>250,959</u>	<u>5,678</u>	<u>1,977</u>	<u>2,000</u>	<u>1,192,597</u>
<b>Liabilities:</b>						
<b>Current Liabilities:</b>						
Estimated Liability for Unpaid Claims and						
Claim Adjustment Expense	353,200	11,500	167	138	-	365,005
Excess Deposits	33,300	-	-	-	-	33,300
Compensated Absences	325	25	87	102	-	539
Accrued Expenses and Other Liabilities	<u>279</u>	<u>18</u>	<u>64</u>	<u>76</u>	-	<u>437</u>
Total Current Liabilities	<u>387,104</u>	<u>11,543</u>	<u>318</u>	<u>316</u>	-	<u>399,281</u>
<b>Noncurrent Liabilities:</b>						
Estimated Liability for Unpaid Claims and						
Claim Adjustment Expense	2,769,600	123,500	413	582	-	2,894,095
Compensated Absences	<u>589</u>	<u>45</u>	<u>158</u>	<u>186</u>	-	<u>978</u>
Total Noncurrent Liabilities	<u>2,770,189</u>	<u>123,545</u>	<u>571</u>	<u>768</u>	-	<u>2,895,073</u>
Total Liabilities	<u>3,157,293</u>	<u>135,088</u>	<u>889</u>	<u>1,084</u>	-	<u>3,294,354</u>
<b>Net Assets:</b>						
<b>Restricted for:</b>						
Coal Workers' Pneumoconiosis	-	115,871	-	-	-	115,871
Uninsured Fund	-	-	4,789	-	-	4,789
Self-Insured Fund	-	-	-	893	-	893
Private Carrier Guaranty Fund	-	-	-	-	2,000	2,000
Unrestricted	<u>(2,225,310)</u>	-	-	-	-	<u>(2,225,310)</u>
Total Net Assets	<u>\$ (2,225,310)</u>	<u>\$ 115,871</u>	<u>\$ 4,789</u>	<u>\$ 893</u>	<u>\$ 2,000</u>	<u>\$ (2,101,757)</u>

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS  
WORKERS' COMPENSATION INFORMATION  
Year Ended June 30, 2006  
(In Thousands)

	<u>WC Old Fund Debt Reduction</u>	<u>Coal Workers' Pneumoconiosis</u>	<u>Uninsured Fund</u>	<u>Self-Insured Funds</u>	<u>Private Carrier Fund</u>	<u>Total</u>
Operating Revenues:						
Statutory Allocations	\$ 56,976	\$ -	\$ -	\$ -	\$ -	\$ 56,976
Fees	82,083	-	-	-	-	82,083
Assessments	35,014	-	550	70	-	35,634
Net Premium Revenue	16,054	1,249	-	675	-	17,978
Other Operating Revenue	<u>1,317</u>	<u>-</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>1,330</u>
Total Operating Revenue	191,444	1,249	563	745	-	194,001
Operating Expenses:						
Claims and Claim Adjustment Expenses (See Note 5)	46,928	(48,817)	580	767	-	(542)
General and Administration	<u>48,166</u>	<u>358</u>	<u>1,262</u>	<u>1,487</u>	<u>-</u>	<u>51,273</u>
Total Operating Expenses	95,094	(48,459)	1,842	2,254	-	50,731
Operating Income (Loss)	<u>96,350</u>	<u>49,708</u>	<u>(1,279)</u>	<u>(1,509)</u>	<u>-</u>	<u>143,270</u>
Nonoperating Revenues (Expenses):						
Investment Earnings	7,087	2,509	114	29	-	9,739
Net Decrease in Fair Value of Investments	<u>(4,703)</u>	<u>(656)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,359)</u>
Total Nonoperating Revenues(Expenses)	<u>2,384</u>	<u>1,853</u>	<u>114</u>	<u>29</u>	<u>-</u>	<u>4,380</u>
Change in Net Assets Before BrickStreet Transactions and Transfers	98,734	51,561	(1,165)	(1,480)	-	147,650
BrickStreet Transactions, Net	<u>(91,076)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(91,076)</u>
Change in Net Assets Before Transfers	7,658	51,561	(1,165)	(1,480)	-	56,574
Transfers In from Workers' Compensation	(2,237,228)	63,987	4,815	1,033	2,000	(2,165,393)
Other Transfers In (Out)	<u>4,260</u>	<u>323</u>	<u>1,139</u>	<u>1,340</u>	<u>-</u>	<u>7,062</u>
Change in Net Assets (Deficit)	(2,225,310)	115,871	4,789	893	2,000	(2,101,757)
Total Net Assets - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Assets (Deficit) - End of Year	<u>\$ (2,225,310)</u>	<u>\$ 115,871</u>	<u>\$ 4,789</u>	<u>\$ 893</u>	<u>\$ 2,000</u>	<u>\$ (2,101,757)</u>

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
SCHEDULE OF CASH FLOWS  
WORKERS' COMPENSATION INFORMATION  
Year Ended June 30, 2006  
(In Thousands)

	WC Old Fund Debt <u>Reduction</u>	Coal Workers' <u>Pneumoconiosis</u>	Uninsured <u>Fund</u>	Self-Insured <u>Funds</u>	Private Carrier <u>Fund</u>	<u>Total</u>
Cash Flows from Operating Activities:						
Receipts from Statutory Allocations, Fees and Assessments	\$ 136,007	\$ -	\$ -	\$ -	\$ -	\$ 136,007
Receipts from Policyholders	16,805	211	286	676	-	17,978
Payments to Claimants and Providers	(194,561)	(5,389)	129	(73)	-	(199,894)
Payments to Employees	(5,147)	(185)	(694)	(784)	-	(6,810)
Payments to Suppliers	<u>(10,584)</u>	<u>(79)</u>	<u>(388)</u>	<u>(313)</u>	<u>-</u>	<u>(11,364)</u>
Net Cash Provided (Used) by Operating Activities	<u>(57,480)</u>	<u>(5,442)</u>	<u>(667)</u>	<u>(494)</u>	<u>-</u>	<u>(64,083)</u>
Cash Flows from Non Capital Financing Activities						
Cash Transfers In from Workers' Compensation Commission	1,155,020	254,548	5,954	2,372	2,000	1,419,894
Cash Payments to BrickStreet	(230,211)	-	-	-	-	(230,211)
Other Transfers	<u>8,545</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,545</u>
Net Cash Provided (Used) by Non Capital Financing Activities	<u>933,354</u>	<u>254,548</u>	<u>5,954</u>	<u>2,372</u>	<u>2,000</u>	<u>1,198,228</u>
Cash Flows from Investing Activities:						
Cash paid for surplus note receivable	(200,000)	-	-	-	-	(200,000)
Investment Earnings	7,087	2,509	114	29	-	9,739
Net Increase (Decrease) in the Fair value of Investments	<u>(4,703)</u>	<u>(656)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,359)</u>
Net Cash Provided (Used) by Investing Activities	<u>(197,616)</u>	<u>1,853</u>	<u>114</u>	<u>29</u>	<u>-</u>	<u>(195,620)</u>
Net Increase in Cash and Cash Equivalents	678,258	250,959	5,401	1,907	2,000	938,525
Cash and Cash Equivalents - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and Cash Equivalents - End of Year	<u>\$ 678,258</u>	<u>\$ 250,959</u>	<u>\$ 5,401</u>	<u>\$ 1,907</u>	<u>\$ 2,000</u>	<u>\$ 938,525</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating Income (Loss)	\$ 96,350	\$ 49,708	\$ (1,279)	\$ (1,509)	\$ -	\$ 143,270
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Net change in assets and liabilities:						
Receivables, net	(36,962)	-	(277)	(69)	-	(37,308)
Premium excess deposits	-	(1,037)	-	-	-	(1,037)
Estimated liability for claims and claim adjustment expenses	(115,384)	(54,200)	731	720	-	(168,133)
Accrued expenses and other liabilities	150	11	-	47	-	208
Compensated absences	<u>(1,634)</u>	<u>76</u>	<u>158</u>	<u>317</u>	<u>-</u>	<u>(1,083)</u>
Net cash provided (used) by operating activities	<u>\$ (57,480)</u>	<u>\$ (5,442)</u>	<u>\$ (667)</u>	<u>\$ (494)</u>	<u>\$ -</u>	<u>\$ (64,083)</u>

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Other Financial Information  
Budgetary Comparison Schedule  
Old Fund/Debt Reduction  
Year Ended June 30, 2006  
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budgetary</u> <u>Basis</u>	
<b>Budgetary Fund Balance, July 1</b>				
Resources (inflows):				
Beginning Balance 07/01/05	\$ -	\$ -	\$ -	\$ -
2006 FY Gross Revenue	-	-	992,490	992,490
Revenue Refunds	-	-	(409)	(409)
Other Transactions	-	-	(643,279)	(643,279)
Estimated Revenue FY 2006	<u>1,800,000</u>	<u>1,800,000</u>	<u>-</u>	<u>(1,800,000)</u>
<b>Amounts available for appropriation</b>	<b><u>1,800,000</u></b>	<b><u>1,800,000</u></b>	<b><u>348,802</u></b>	<b><u>(1,451,198)</u></b>
Charges to appropriations (outflows)				
Personal Services	-	-	-	-
Employee Benefits	-	-	102	(102)
Contractual and Professional	25,000	25,000	10,935	14,065
Claims	475,000	475,000	187,609	287,391
Fund Transfers	-	-	115,296	(115,296)
Other Current Expenses	<u>-</u>	<u>-</u>	<u>212</u>	<u>(212)</u>
<b>Total Charges to Appropriations</b>	<b><u>500,000</u></b>	<b><u>500,000</u></b>	<b><u>314,154</u></b>	<b><u>185,846</u></b>
<b>Budgetary Fund Balance, June 30, 2006</b>	<b><u>\$ 1,300,000</u></b>	<b><u>\$ 1,300,000</u></b>	<b><u>\$ 34,648</u></b>	<b><u>\$ (1,265,352)</u></b>

WEST VIRGINIA  
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Other Financial Information  
Budgetary Comparison Schedule  
Coal Workers' Pneumoconiosis  
Year Ended June 30, 2006  
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budgetary</u> <u>Basis</u>	
<b>Budgetary Fund Balance, July 1</b>				
Resources (inflows):				
Beginning Balance 07/01/05	\$ -	\$ -	\$ -	\$ -
2006 FY Gross Revenue	-	-	256,072	256,072
Revenue Refunds	-	-	(35)	(35)
Other Transactions	-	-	(250,632)	(250,632)
Estimated Revenue FY 2006	<u>260,586</u>	<u>260,586</u>	<u>-</u>	<u>(260,586)</u>
<b>Amounts available for appropriation</b>	<b><u>260,586</u></b>	<b><u>260,586</u></b>	<b><u>5,405</u></b>	<b><u>(255,181)</u></b>
Charges to appropriations (outflows)				
Personal Services	-	-	-	-
Employee Benefits	-	-	-	-
Claims	<u>6,836</u>	<u>6,836</u>	<u>5,383</u>	<u>1,453</u>
<b>Total Charges to Appropriations</b>	<b><u>6,836</u></b>	<b><u>6,836</u></b>	<b><u>5,383</u></b>	<b><u>(1,453)</u></b>
<b>Budgetary Fund Balance, June 30, 2006</b>	<b><u>\$ 253,750</u></b>	<b><u>\$ 253,750</u></b>	<b><u>\$ 22</u></b>	<b><u>\$ (253,728)</u></b>

WEST VIRGINIA  
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Budgetary Comparison Schedule  
Workers Compensation Uninsured Employers Fund  
Year Ended June 30, 2006  
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budgetary</u> <u>Basis</u>	
<b>Budgetary Fund Balance, July 1</b>				
Resources (inflows):				
Beginning Balance 07/01/05	\$ -	\$ -	\$ -	\$ -
2006 FY Gross Revenue	-	-	5,380	5,380
Other Transactions	-	-	(5,094)	(5,094)
Estimated Revenue FY 2006	<u>32,000</u>	<u>32,000</u>	<u>-</u>	<u>(32,000)</u>
<b>Amounts available for appropriation</b>	<b><u>32,000</u></b>	<b><u>32,000</u></b>	<b><u>286</u></b>	<b><u>(31,714)</u></b>
Charges to appropriations (outflows)				
Personal Services	-	-	-	-
Employee Benefits	-	-	-	-
Contractual and Professional	1,350	1,350	-	1,350
Claims	<u>25,650</u>	<u>25,650</u>	<u>-</u>	<u>25,650</u>
<b>Total Charges to Appropriations</b>	<b><u>27,000</u></b>	<b><u>27,000</u></b>	<b><u>-</u></b>	<b><u>(27,000)</u></b>
<b>Budgetary Fund Balance, June 30, 2006</b>	<b><u>\$ 5,000</u></b>	<b><u>\$ 5,000</u></b>	<b><u>\$ 286</u></b>	<b><u>\$ (4,714)</u></b>

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Other Financial Information  
Budgetary Comparison Schedule  
Self Insureds  
Year Ended June 30, 2006  
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budgetary</u> <u>Basis</u>	
<b>Budgetary Fund Balance, July 1</b>				
Resources (inflows):				
Beginning Balance 07/01/05	\$ -	\$ -	\$ -	\$ -
2006 FY Gross Revenue	-	-	1,949	1,949
Other Transactions	-	-	(1,273)	(1,273)
Estimated Revenue FY 2006	<u>35,750</u>	<u>35,750</u>	<u>-</u>	<u>(35,750)</u>
<b>Amounts available for appropriation</b>	<b><u>35,750</u></b>	<b><u>35,750</u></b>	<b><u>676</u></b>	<b><u>(35,074)</u></b>
Charges to appropriations (outflows)				
Personal Services	-	-	-	-
Employee Benefits	-	-	-	-
Contractual and Professional	750	750	-	750
Claims	<u>14,250</u>	<u>14,250</u>	<u>47</u>	<u>14,203</u>
<b>Total Charges to Appropriations</b>	<b><u>15,000</u></b>	<b><u>15,000</u></b>	<b><u>47</u></b>	<b><u>(14,953)</u></b>
<b>Budgetary Fund Balance, June 30, 2006</b>	<b><u>\$ 20,750</u></b>	<b><u>\$ 20,750</u></b>	<b><u>\$ 629</u></b>	<b><u>\$ (20,121)</u></b>

WEST VIRGINIA  
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Budgetary Comparison Schedule  
Private Carrier Guaranty Fund  
Year Ended June 30, 2006  
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budgetary</u> <u>Basis</u>	
<b>Budgetary Fund Balance, July 1</b>				
Resources (inflows):				
Beginning Balance 07/01/05	\$ -	\$ -	\$ -	\$ -
2006 FY Gross Revenue	-	-	2,000	2,000
Estimated Revenue FY 2006	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
<b>Amounts available for appropriation</b>	<u><b>1,000</b></u>	<u><b>1,000</b></u>	<u><b>2,000</b></u>	<u><b>1,000</b></u>
Charges to appropriations (outflows)				
Personal Services	-	-	-	-
Employee Benefits	-	-	-	-
Claims	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
<b>Total Charges to Appropriations</b>	<u><b>1,000</b></u>	<u><b>1,000</b></u>	<u><b>-</b></u>	<u><b>(1,000)</b></u>
<b>Budgetary Fund Balance, June 30, 2006</b>	<u><u><b>\$ -</b></u></u>	<u><u><b>\$ -</b></u></u>	<u><u><b>\$ 2,000</b></u></u>	<u><u><b>\$ 2,000</b></u></u>

WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
Other Financial Information  
Budgetary Comparison Schedule  
Access WV  
Year Ended June 30, 2006  
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budgetary</u> <u>Basis</u>	
<b>Budgetary Fund Balance, July 1</b>				
Resources (inflows):				
Beginning Balance 07/01/05	\$ -	\$ -	\$ -	\$ -
2006 FY Gross Revenue	-	-	3,042	3,042
Revenue Refunds	-	-	(9)	(9)
Other Transactions	-	-	(2,099)	(2,099)
Estimated Revenue FY 2006	<u>5,086</u>	<u>5,086</u>	<u>-</u>	<u>(5,086)</u>
<b>Amounts available for appropriation</b>	<b><u>5,086</u></b>	<b><u>5,086</u></b>	<b><u>934</u></b>	<b><u>(4,152)</u></b>
Charges to appropriations (outflows)				
Personal Services	210	210	86	124
Employee Benefits	69	69	21	48
Other Current Expenses	<u>3,126</u>	<u>3,126</u>	<u>575</u>	<u>2,551</u>
<b>Total Charges to Appropriations</b>	<b><u>3,405</u></b>	<b><u>3,405</u></b>	<b><u>682</u></b>	<b><u>(2,723)</u></b>
<b>Budgetary Fund Balance, June 30, 2006</b>	<b><u>\$ 1,681</u></b>	<b><u>\$ 1,681</u></b>	<b><u>\$ 252</u></b>	<b><u>\$ (1,429)</u></b>