

**WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER**

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

**Year ended June 30, 2008
and
Independent Auditors' Report**

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
Financial Statements, Required Supplementary Information
and Other Financial Information
June 30, 2008
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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, 2008, 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 audit provides a reasonable basis for our opinions.

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, 2008, 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, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, during the year ended June 30, 2008, the West Virginia Offices of the Insurance Commissioner adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*.

The management's discussion and analysis on pages 5 through 11, the unaudited supplemental claims information on pages 50 through 55 and the budgetary comparison schedule on page 56 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.



Charleston, West Virginia
October 31, 2008

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 years which ended June 30, 2008 and June 30, 2007. Please read it in conjunction with the financial statements, which follow this section.

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 (AccessWV). AccessWV is a high risk health insurance pool that provides health insurance for medically uninsurable individuals and their dependents.

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.

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

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 Offices of the 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 AccessWV.
- 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.

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

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 AccessWV.

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 years 2008 and 2007.

STATEMENT OF NET ASSETS
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current Assets	\$ 63,907	\$ 41,555	\$ 1,018,065	\$ 996,155	\$ 1,081,972	\$ 1,037,710
Capital Assets	1,797	2,046	-	-	1,797	2,046
Other Long-Term Assets	-	-	162,759	185,000	162,759	185,000
Total Assets	<u>65,704</u>	<u>43,601</u>	<u>1,180,824</u>	<u>1,181,155</u>	<u>1,246,528</u>	<u>1,224,756</u>
Current Liabilities	1,494	2,305	282,942	276,227	284,436	278,532
Long-Term Liabilities	<u>802</u>	<u>2,217</u>	<u>2,255,700</u>	<u>2,709,000</u>	<u>2,256,502</u>	<u>2,711,217</u>
Total Liabilities	<u>2,296</u>	<u>4,522</u>	<u>2,538,642</u>	<u>2,985,227</u>	<u>2,540,938</u>	<u>2,989,749</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,797	2,046	-	-	1,797	2,046
Restricted	-	-	149,781	153,177	149,781	153,177
Unrestricted (Deficit)	<u>61,611</u>	<u>37,033</u>	<u>(1,507,599)</u>	<u>(1,957,249)</u>	<u>(1,445,988)</u>	<u>(1,920,216)</u>
Total Net Assets	<u>\$ 63,408</u>	<u>\$ 39,079</u>	<u>\$ (1,357,818)</u>	<u>\$ (1,804,072)</u>	<u>\$ (1,294,410)</u>	<u>\$ (1,764,993)</u>

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

CHANGES IN NET ASSETS
(Expressed in Thousands)

	Governmental		Business - Type		Total Primary	
	Activities		Activities		Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 49,900	\$ 45,020	\$ 287,781	\$ 266,291	\$ 337,681	\$ 311,311
General Revenues:						
Investment Earnings	138	168	49,308	20,713	49,446	20,881
Net Increase (Decrease) in the Fair Value of Investments	<u>-</u>	<u>-</u>	<u>(54,188)</u>	<u>88,604</u>	<u>(54,188)</u>	<u>88,604</u>
Total Revenues	<u>50,038</u>	<u>45,188</u>	<u>282,901</u>	<u>375,608</u>	<u>332,939</u>	<u>420,796</u>
Expenses						
Program Expenses:						
Workers' Compensation	-	-	(148,766)	74,066	(148,766)	74,066
AccessWV	-	-	3,172	1,741	3,172	1,741
General Government	<u>28,084</u>	<u>27,667</u>	<u>-</u>	<u>-</u>	<u>28,084</u>	<u>27,667</u>
Total Expenses	<u>28,084</u>	<u>27,667</u>	<u>(145,594)</u>	<u>75,807</u>	<u>(117,510)</u>	<u>103,474</u>
Change in Net Assets Before BrickStreet Transactions and Transfers	21,954	17,521	428,495	299,801	450,449	317,322
BrickStreet Transactions, Net	<u>-</u>	<u>-</u>	<u>17,759</u>	<u>(7,484)</u>	<u>17,759</u>	<u>(7,484)</u>
Change in Net Assets Before Transfers	21,954	17,521	446,254	292,317	468,208	309,838
Other Transfers In (Out)	<u>-</u>	<u>(1,784)</u>	<u>-</u>	<u>1,784</u>	<u>-</u>	<u>-</u>
Change in Net Assets (Deficit)	21,954	15,737	446,254	294,101	468,208	309,838
Net Assets (Deficit), Beginning of Year	39,079	23,342	(1,804,072)	(2,098,173)	(1,764,993)	(2,074,831)
Cumulative Effect of Adoption of Accounting Principle	<u>2,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,375</u>	<u>-</u>
Net Assets (Deficit), End of Year	<u>\$ 63,408</u>	<u>\$ 39,079</u>	<u>\$ (1,357,818)</u>	<u>\$ (1,804,072)</u>	<u>\$ (1,294,410)</u>	<u>\$ (1,764,993)</u>

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

FINANCIAL HIGHLIGHTS

- During fiscal year 2008, the Worker's Compensation Old Fund deficit decreased by four hundred forty nine million six hundred fifty thousand dollars (\$449,650). The deficit reduction was anticipated because the revenue stream provided by Senate Bill 1004 remained stable while the payment stream declined as claim obligations were satisfied.
- On January 29, 2005, the West Virginia Legislature enacted "Senate Bill 1004", which established a framework for the privatization of the formerly state run monopolistic workers' compensation insurance system into an open, competitive insurance market. On January 1, 2006, by proclamation of Governor Joe Manchin III, two hundred million dollars (\$200,000) was transferred to BrickStreet Mutual Insurance Company 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. June 30, 2008 was the final date that all WV employers were required to purchase their workers' compensation insurance from BrickStreet Mutual Insurance Company. A significant milestone in the State's transition of its workers' compensation system was reached as the insurance markets opened to all licensed carriers on July 1, 2008.
- In June of 2008, BrickStreet Mutual Insurance Company made a payment of forty million dollars (\$40,000) in principal repayment to the State. This payment toward the surplus note obligation, when combined with the adjustment provisions as set forth in the surplus note agreement have reduced the balance of the note receivable to one hundred sixty two million seven hundred fifty nine thousand dollars (\$162,759) as of June 30, 2008. Further discussion of the surplus note agreement is contained in Note 9 of these financial statements.
- Senate Bill 1004 identified revenue sources which will be dedicated to the elimination of the deficit of the former Workers' Compensation Fund (now named the Old Fund). During fiscal year 2008, the West Virginia Offices of the Insurance Commissioner received additional severance taxes of approximately twenty eight million dollars (\$28,000) over and above the anticipated annual severance tax revenue. Further discussion of the revenues dedicated to fund the workers' compensation deficit can be found in Note 6 of these financial statements.
- The West Virginia Offices of the Insurance Commissioner experienced a decline in the fair market value of its investments held during fiscal year 2008, recording a decrease of fifty four million one hundred eighty eight thousand dollars (\$54,188). This decrease in fair market value completely eradicated the yearly investment earnings of forty nine million four hundred forty six thousand dollars (\$49,446), to yield a net investment loss of four million seven hundred forty two thousand dollars (\$4,742) for fiscal year 2008.

FINANCIAL STATEMENTS

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF NET ASSETS
JUNE 30, 2008
(In Thousands)

Assets	Primary Government		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets:			
Cash and Cash Equivalents	\$ 55,420	\$ 993,759	\$ 1,049,179
Receivables, Net:			
Taxes and Fees	-	10,878	10,878
Assessments	1,323	49	1,372
Employer Surcharge	7,161	10,171	17,332
Premiums	-	3,174	3,174
Other	<u>3</u>	<u>34</u>	<u>37</u>
Total Current Assets	<u>63,907</u>	<u>1,018,065</u>	<u>1,081,972</u>
Noncurrent Assets:			
Surplus Note	-	162,759	162,759
Capital Assets, Net	<u>1,797</u>	<u>-</u>	<u>1,797</u>
Total Noncurrent Assets	<u>1,797</u>	<u>162,759</u>	<u>164,556</u>
Total Assets	<u>65,704</u>	<u>1,180,824</u>	<u>1,246,528</u>
Liabilities			
Current Liabilities:			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	282,200	282,200
Excess Deposits	-	4	4
Compensated Absences	729	-	729
Accrued Expenses and Other Liabilities	<u>765</u>	<u>738</u>	<u>1,503</u>
Total Current Liabilities	<u>1,494</u>	<u>282,942</u>	<u>284,436</u>
Noncurrent Liabilities:			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	2,255,700	2,255,700
Compensated Absences	237	-	237
OPEB Liability	<u>565</u>	<u>-</u>	<u>565</u>
Total Noncurrent Liabilities	<u>802</u>	<u>2,255,700</u>	<u>2,256,502</u>
Total Liabilities	<u>2,296</u>	<u>2,538,642</u>	<u>2,540,938</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,797	-	1,797
Restricted for:			
Coal Workers' Pneumoconiosis	-	128,358	128,358
Uninsured Fund	-	6,329	6,329
Self-Insured Funds	-	4,656	4,656
Private Carrier Guaranty Fund	-	1,945	1,945
AccessWV	-	8,493	8,493
Unrestricted (Deficit)	<u>61,611</u>	<u>(1,507,599)</u>	<u>(1,445,988)</u>
Total Net Assets (Deficit)	<u>\$ 63,408</u>	<u>\$ (1,357,818)</u>	<u>\$ (1,294,410)</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
(In Thousands)

Functions/Programs	Expenses and Claims Provisions	Program	Net (Expense) Revenue and Changes in Net Assets		
		Revenues Charges for Services	Governmental Activities	Business-Type Activities	Totals
Primary Government:					
Governmental Activities					
General Government	\$ 27,790	\$ 49,900	\$ 22,110	\$ -	\$ 22,110
Depreciation	294	-	(294)	-	(294)
Total Governmental Activities	<u>28,084</u>	<u>49,900</u>	<u>21,816</u>	<u>-</u>	<u>21,816</u>
Business-type Activities:					
Workers' Compensation	(148,766)	282,708	-	431,474	431,474
AccessWV	3,172	5,073	-	1,901	1,901
Total Business-Type Activities	<u>(145,594)</u>	<u>287,781</u>	<u>-</u>	<u>433,375</u>	<u>433,375</u>
Total Primary Government	<u>\$ (117,510)</u>	<u>\$ 337,681</u>	<u>21,816</u>	<u>433,375</u>	<u>455,191</u>
General Revenues:					
Investment Earnings			138	49,308	49,446
Net Increase (Decrease) in Fair Value of Investments			-	(54,188)	(54,188)
Change in Net Assets Before BrickStreet Transactions and Transfers			21,954	428,495	450,449
BrickStreet Transactions, Net			-	17,759	17,759
Change in Net Assets (Deficit)			21,954	446,254	468,208
Net Assets (Deficit)-Beginning of Year			39,079	(1,804,072)	(1,764,993)
Cumulative Effect of Adoption of Accounting Principle			2,375	-	2,375
Net Assets (Deficit)-End of Year			<u>\$ 63,408</u>	<u>\$ (1,357,818)</u>	<u>\$ (1,294,410)</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2008
(In Thousands)

	<u>Operating Fund</u>
ASSETS:	
Cash and Cash Equivalents	\$ 55,420
Accounts Receivable - Assessments	1,323
Accounts Receivable - Employer Surcharge	7,161
Accounts Receivable - Other	<u>3</u>
Total assets	<u>\$ 63,907</u>
LIABILITIES:	
Accounts Payable	\$ 281
Accrued Expenditures and Other Liabilities	<u>1,213</u>
Total liabilities	<u>1,494</u>
FUND BALANCE:	
Unreserved	<u>62,413</u>
Total Fund Balance	<u>62,413</u>
Total Liabilities and Fund Balances	<u>\$ 63,907</u>
Total Fund Balance	\$ 62,413
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	1,797
Long term liabilities (compensated absences and OPEB liability) are not due and payable in the current period and therefore are not reported in the funds.	<u>(802)</u>
Net assets of Governmental Activities	<u>\$ 63,408</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, 2008
(In Thousands)

	<u>Operating Fund</u>
Revenues:	
Fees and Assessments	\$ 49,900
Investment Earnings	<u>138</u>
Total Revenues	50,038
Expenditures:	
General and Administrative	<u>29,250</u>
Total Expenditures	29,250
Excess (Deficiency) of Revenues over Expenditures	20,788
Fund Balance - Beginning of Year	39,250
Cumulative Effect of Adoption of Accounting Principle	<u>2,375</u>
Fund Balance - End of Year	<u>\$ 62,413</u>
Net Change in Fund Balance - Total Governmental Funds	\$ 20,788
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.	(249)
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>1,415</u>
Change in Net Assets of Governmental Activities	<u>\$ 21,954</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008
(In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>AccessWV</u>	<u>Total</u>
Assets:			
Current Assets:			
Cash and Cash Equivalents	\$ 984,745	\$ 9,014	\$ 993,759
Receivables, Net:			
Taxes and Fees	10,878	-	10,878
Assessments	49	-	49
Employer Surcharge	10,171	-	10,171
Premiums	3,174	-	3,174
Other	34	-	34
Total Current Assets	<u>1,009,051</u>	<u>9,014</u>	<u>1,018,065</u>
Noncurrent Assets:			
Surplus Note	<u>162,759</u>	-	<u>162,759</u>
Total Noncurrent Assets	<u>162,759</u>	-	<u>162,759</u>
Total Assets	<u>1,171,810</u>	<u>9,014</u>	<u>1,180,824</u>
Liabilities:			
Current Liabilities:			
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	281,900	300	282,200
Excess Deposits	4	-	4
Accrued Expenses and Other Liabilities	<u>517</u>	<u>221</u>	<u>738</u>
Total Current Liabilities	<u>282,421</u>	<u>521</u>	<u>282,942</u>
Noncurrent Liabilities:			
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	<u>2,255,700</u>	-	<u>2,255,700</u>
Total Noncurrent Liabilities	<u>2,255,700</u>	-	<u>2,255,700</u>
Total Liabilities	<u>2,538,121</u>	<u>521</u>	<u>2,538,642</u>
Net Assets:			
Restricted for:			
Coal Workers' Pneumoconiosis	128,358	-	128,358
Uninsured Fund	6,329	-	6,329
Self-Insured Funds	4,656	-	4,656
Private Carrier Guaranty Fund	1,945	-	1,945
AccessWV	-	8,493	8,493
Unrestricted (Deficit)	<u>(1,507,599)</u>	-	<u>(1,507,599)</u>
Total Net Assets (Deficit)	<u>\$ (1,366,311)</u>	<u>\$ 8,493</u>	<u>\$ (1,357,818)</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, 2008
(In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>AccessWV</u>	<u>Total</u>
Operating Revenues:			
Statutory Allocations	\$ 11,000	\$ 1,899	\$ 12,899
Fees	221,226	-	221,226
Assessments	40,014	-	40,014
Net Premium Revenue	2,528	3,121	5,649
Other Operating Revenue	<u>7,940</u>	<u>53</u>	<u>7,993</u>
Total Operating Revenue	<u>282,708</u>	<u>5,073</u>	<u>287,781</u>
Operating Expenses and Claims Provisions			
Claims and Claim Adjustment Provisions (See Note 5)	(173,360)	2,696	(170,664)
General and Administration	<u>24,594</u>	<u>476</u>	<u>25,070</u>
Total Operating Expenses and Claims Provisions	<u>(148,766)</u>	<u>3,172</u>	<u>(145,594)</u>
Operating Income	<u>431,474</u>	<u>1,901</u>	<u>433,375</u>
Nonoperating Revenues (Expenses):			
Investment Earnings	48,962	346	49,308
Net Increase (Decrease) in Fair Value of Investments	<u>(54,188)</u>	-	<u>(54,188)</u>
Total Nonoperating Revenues (Expenses)	<u>(5,226)</u>	<u>346</u>	<u>(4,880)</u>
Change in Net Assets Before BrickStreet Transactions	426,248	2,247	428,495
BrickStreet Transactions, Net	<u>17,759</u>	-	<u>17,759</u>
Change in Net Assets (Deficit)	444,007	2,247	446,254
Total Net Assets (Deficit) - Beginning of Year	<u>(1,810,318)</u>	<u>6,246</u>	<u>(1,804,072)</u>
Total Net Assets (Deficit) - End of Year	<u>\$ (1,366,311)</u>	<u>\$ 8,493</u>	<u>\$ (1,357,818)</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENTS OF CASH FLOWS-PROPRIETARY FUNDS
Year Ended June 30, 2008
(In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>AccessWV</u>	<u>Totals</u>
Cash Flows from Operating Activities:			
Receipts from Statutory Allocations, Fees and Assessments	\$ 261,557	\$ 1,952	\$ 263,509
Receipts from Employers and Policyholders	11,220	3,121	14,341
Payments to Claimants and Providers	(269,662)	(1)	(269,663)
Payments to Employees	(124)	(39)	(163)
Payments to Suppliers	<u>(28,142)</u>	<u>(2,983)</u>	<u>(31,125)</u>
Net Cash Provided (Used) by Operating Activities	<u>(25,151)</u>	<u>2,050</u>	<u>(23,101)</u>
Cash flows from Investing Activities:			
BrickStreet Note Receivable Principal and Interest payments	42,783	-	42,783
Investment Earnings	16,318	376	16,694
Net Increase (Decrease) in the Fair Value of Investments	<u>(24,328)</u>	<u>-</u>	<u>(24,328)</u>
Net Cash Provided (Used) by Investing Activities	<u>34,773</u>	<u>376</u>	<u>35,149</u>
Net increase in Cash and Cash Equivalents	9,622	2,426	12,048
Cash and Cash Equivalents - Beginning of Year	<u>975,123</u>	<u>6,588</u>	<u>981,711</u>
Cash and Cash Equivalents - End of Year	<u>\$ 984,745</u>	<u>\$ 9,014</u>	<u>\$ 993,759</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 431,474	\$ 1,901	\$ 433,375
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Net change in assets and liabilities:			
Receivables, net	12,349	-	12,349
Premium Advanced Deposits	(90)	-	(90)
Note Receivable	(22,241)	-	(22,241)
Estimated liability for claims and claim adjustment expenses	(443,800)	20	(443,780)
Compensated Absences	-	129	129
Accrued expenses and other liabilities	<u>(2,843)</u>	<u>-</u>	<u>(2,843)</u>
Net cash provided (used) by operating activities	<u>\$ (25,151)</u>	<u>\$ 2,050</u>	<u>\$ (23,101)</u>
Non Cash Financing and Investing Activities			
Adjustment of Surplus Note	<u>\$ 17,759</u>	<u>\$ -</u>	<u>\$ 17,759</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008
(In Thousands, Unless Otherwise Noted)

1. Financial Reporting Entity

The West Virginia Offices of the Insurance Commissioner (the Insurance Commissioner) 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 Insurance Commissioner 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 Insurance Commissioner also administers the West Virginia Health Insurance Plan known as AccessWV, which is a high risk health insurance pool. AccessWV 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 Fund 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 AccessWV combine to comprise the proprietary funds reported in the financial statements. The Insurance Commissioner also maintains an operating fund that is reported as the general fund for financial statements purposes.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008
(In Thousands, Unless Otherwise Noted)

1. Financial Reporting Entity (Continued)

The financial statements of the Insurance Commissioner 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 Insurance Commissioner. They do not purport to, and do not, present the financial position of the State of West Virginia as of June 30, 2008, 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, the Governor convened a special session of the West Virginia Legislature in January 2005.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
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1. Financial Reporting Entity (Continued)

During the special session, the West Virginia Legislature enacted “Senate Bill 1004”, effective January 29, 2005, that established a framework for the privatization of workers’ compensation insurance in West Virginia and established a timeline for the transition to an open competitive market by July 1, 2008. “Senate Bill 1004” also established 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 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.

The legislation defined 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. As a result, BrickStreet Mutual Insurance Company was formed.

With the passage of “Senate Bill 1004”, several funds 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 “uninsured employer fund” (UEF) 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. The Insurance Commissioner may also assess self-insured employers, if necessary, in order to maintain fund solvency. 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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008
(In Thousands, Unless Otherwise Noted)

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 West Virginia State Treasurer's Office 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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
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(In Thousands, Unless Otherwise Noted)

1. Financial Reporting Entity (Continued)

The "private carrier guaranty fund" was established as a 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 was designed to 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. As of June 30, 2008, House Bill 4381, which was passed on March 7, 2008, and was effective from passage, eliminated the section in Chapter 23 of the state code that established a state fund to pay claims of persons covered by insolvent insurers. Instead, the bill places responsibility for such claims with the existing WV Guaranty Association, which currently covers claims related to auto and other property and casualty insurer insolvencies. Unlike claims in other lines, workers' compensation claimants will not be subject to any cap on statutory benefits. All assets held in the private carrier guaranty fund were to be transferred to the Old Fund after the June 30, 2008 termination of the Private Carrier Guaranty Fund.

The "assigned risk fund" was established as a fund held by the West Virginia State Treasurer's Office that would consist of any assessments charged to each private carrier providing workers' compensation insurance coverage in this state. With the passage of House Bill 4381, §23-2C-10 was modified to allow the Insurance Commissioner to designate a third party to develop and administer any adverse risk pooling arrangement. HB 4381 changes the mechanism to provide coverage for employers unable to obtain workers' compensation coverage in the voluntary market from being a state held custodial fund to a system where a third party will administer the program, including the development of premium levels designed to make the system self-sustaining. The appointed administrator has the authority to assess carriers to cover any deficits that may arise in the pooling arrangement. The adverse risk pool shall be operational on January 1, 2009, six months after the market is open to competition. Until January 1, 2009, BrickStreet will be required to provide insurance coverage for any West Virginia employer seeking coverage for their worker's compensation claims. Employers may voluntarily obtain coverage from their choice of private carriers as of July 1, 2008, but BrickStreet may not selectively underwrite risk until January 1, 2009. 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.

For the fiscal year beginning July 1, 2006, and all fiscal years thereafter, self-insured employers will remit an administrative charge to the Insurance Commissioner in an amount determined by the Insurance Commissioner.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
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(In Thousands, Unless Otherwise Noted)

1. Financial Reporting Entity (Continued)

All employers, beginning January 1, 2006, and then continuing through June 30, 2008, were required to purchase their workers' compensation insurance exclusively from BrickStreet Mutual Insurance (BrickStreet), unless they were permitted to self-insure their obligations. Beginning July 1, 2008, the worker's compensation insurance market was opened to all private carriers who have been approved by the Insurance Commissioner to do business in West Virginia. All governmental entities within the state will continue to be required to purchase their insurance through BrickStreet until 2012.

Pursuant to §23-2c-16 of the West Virginia State Code, BrickStreet served 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 on December 31, 2005 until December 31, 2007. Beginning January 1, 2008, third-party administrator responsibilities were divided between American Mining Claims Services Inc., Sedgwick CMS, and Wells Fargo Disability Management.

2. Significant Accounting Policies

Basis of Presentation

The Insurance Commissioner 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.

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 Insurance Commissioner has elected not to adopt FASB pronouncements issued after November 30, 1989, unless the GASB specifically adopts such FASB pronouncements.

The Insurance Commissioner 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) and GASB Statement 45 "Other Post Employment Benefits" (GASB 45).

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008
(In Thousands, Unless Otherwise Noted)

2. Significant Accounting Policies (Continued)

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.

Basis of Accounting

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

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008
(In Thousands, Unless Otherwise Noted)

2. Significant Accounting Policies (Continued)

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 Commissioner, except for benefits and direct claims costs, are subject to a nonappropriated budget review and approval process in which the Insurance 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 Commissioner on June 30, 2008, totaled \$133,196. Cash that is pooled with funds of other state agencies and invested by the West Virginia Investment Management Board (IMB) for the benefit of the Insurance Commissioner totals \$903,567, and cash pooled with funds of other state agencies and invested by the Board of Treasury Investments (BTI) was \$12,416. For purposes of the statement of cash flows, the Insurance Commissioner 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 Insurance Commissioner funds being held by the IMB in the following investment pools:

West Virginia Investment Management Board (IMB) Investments

(In U.S. Dollars)

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, 2008, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5% of the value of the pool and is not exposed to concentration of credit risk.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
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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, 2008, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5% of the value of the pool and is not exposed to concentration of credit risk.

International Qualified

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2008, was \$450,336,000. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the IMB. At June 30, 2008 the IMB was in compliance with this limitation. This pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

International Nonqualified

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2008, was \$57,888,000. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the IMB. At June 30, 2008 the IMB was in compliance with this limitation. 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, 2008, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5% of the value of the pool. This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. West Virginia statute limits the amount of international securities to no more than thirty percent of the total assets managed by the IMB. At June 30, 2008, the IMB was in compliance with this limitation. The amounts at fair value (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30, 2008 are as follows:

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
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(In Thousands, Unless Otherwise Noted)

2. Significant Accounting Policies (Continued)

Currency	Equity Securities	Cash	Total
Australian Dollar	\$ 56,458,401	\$ 1,147,727	\$ 57,606,128
Brazil Cruzeiros Real	78,980,550	377,270	79,357,820
British Pound	169,390,722	2,625,082	172,015,804
Canadian Dollar	87,262,255	1,994,596	89,256,851
Czech Koruna	1,519,907	-	1,519,907
Danish Krone	5,533,777	99,697	5,633,474
Euro	338,300,401	1,682,586	339,982,987
Hong Kong Dollar	91,548,567	2,012,170	93,560,737
Hungarian Forint	18,046,560	182,258	18,228,818
Indian Rupee	4,653,903	-	4,653,903
Indonesian Rupiah	10,703,375	-	10,703,375
Israeli Shekel	11,519,751	54,371	11,574,122
Japanese Yen	190,163,595	4,773,663	194,937,258
Malaysian Ringgit	10,536,586	1,212,918	11,749,504
Mexican New Peso	23,344,620	406,186	23,750,806
New Taiwan Dollar	73,448,408	363,885	73,812,293
New Zealand Dollar	2,281,221	35,031	2,316,252
Norwegian Krone	27,781,461	(707,346)	27,074,115
Pakistani Rupee	2,159,612	-	2,159,612
Philippine Peso	2,637,913	-	2,637,913
Polish Zloty	3,909,848	230,158	4,140,006
Singapore Dollar	40,965,990	288,581	41,254,571
South African Rand	39,201,393	43,223	39,244,616
South Korean Won	120,845,929	11,380	120,857,309
Swedish Krona	26,805,371	406,838	27,212,209
Swiss Franc	67,886,106	1,186,931	69,073,037
Thailand Baht	11,858,415	2,244	11,860,659
Turkish Lira	23,039,547	-	23,039,547
Total	<u>\$ 1,540,784,184</u>	<u>\$ 18,429,449</u>	<u>\$ 1,559,213,633</u>

This table excludes cash and securities held by the pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated cash and securities is \$131,020,647.

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.

WEST VIRGINIA
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NOTES TO FINANCIAL STATEMENTS
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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 as of June 30, 2008.

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u>	<u>Percent</u>
Agency bonds	Aaa	AAA	\$ 74,229,589	31.5%
Commercial Paper	P1	A-1	69,169,330	29.4%
U.S. Treasury bills	Aaa	AAA	37,994,460	16.2%
Agency discount notes	P1	A-1	27,640,155	11.8%
U.S. Treasury note	Aaa	AAA	26,096,607	11.1%
Money market fund	Aaa	AAA	<u>852</u>	<u>0.0%</u>
Total rated investments			<u>\$ 235,130,993</u>	<u>100.0%</u>

This table includes securities received as collateral for repurchase agreements with a fair value of \$76,827,545 as compared to the amortized cost of the repurchase agreements of \$75,621,000.

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, 2008, 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, 2008, 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. All remaining securities are held by the IMB's custodian in the name of the IMB. Securities lending collateral that is reported in the Statements 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 is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Short-Term pool as of June 30, 2008.

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2. Significant Accounting Policies (Continued)

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM (days)</u>
Repurchase agreements	\$ 75,621,000	1
Commercial paper	69,169,330	27
US Treasury bills	37,994,460	5
Agency discount notes	27,640,155	51
Agency bonds	23,498,651	35
Money market fund	852	1
Total assets	<u>\$ 233,924,448</u>	19

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 maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted average credit ratings of the rated assets in the Fixed Income pool as of June 30, 2008.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	Baa	BBB	\$ 609,696,835	22.0%
Agency mortgage backed securities	Aaa	AAA	234,846,187	8.5%
Corporate asset backed securities	Aaa	AAA	137,308,217	5.0%
Money market funds	Aaa	AAA	135,041,247	4.9%
U. S. Treasury bonds and notes	Aaa	AAA	76,318,725	2.7%
Agency discount notes	P1	A-1	17,537,793	0.6%
Agency bonds	Aaa	AAA	5,282,195	0.2%
Total rated investments			<u>\$ 1,216,031,199</u>	<u>43.9%</u>

Unrated securities include commingled investment pools valued at \$1,549,051,012, swaps, options, and swaptions valued at \$(4,248,293), and cash of \$11,984,018 pledged to brokers as collateral. These unrated securities represent 56.1% of the fair value of the pool's investments.

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, 2008, the Fixed Income pool did not have investments in any one private corporation or association that represented more than five percent of assets.

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2. Significant Accounting Policies (Continued)

Custodial Credit Risk - At June 30, 2008, the Fixed Income pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102% and the collateral is held in the name of the IMB. Investments in commingled funds are held in an account in the name of the IMB. All remaining securities are held by the IMB's custodian 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 evaluating the modified duration of the investments in the pool. The following table provides the weighted average modified duration for the various asset types in the Fixed Income pool as of June 30, 2008.

<u>Security Type</u>	<u>Fair Value</u>	<u>Modified Duration (years)</u>
Commingled investment pools	\$ 1,549,051,012	3.3
Corporate notes and bonds	609,696,835	6.2
U. S. Treasury notes and bonds	76,318,725	7.9
Corporate asset backed securities	137,308,217	7.0
Agency mortgage backed securities	234,846,187	10.8
Agency bonds	5,282,195	8.5
Money market fund	135,041,247	0.0
Agency discount notes	17,537,793	0.5
Total assets	<u>\$ 2,765,082,211</u>	5.4

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, 2008, the Fixed Income pool held \$372,154,404 of these securities. This represents approximately 13% of the value of the fixed income pools.

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2. Significant Accounting Policies (Continued)

Foreign Currency Risk - None of the notes, bonds, asset backed securities, mortgage backed securities, or money market fund held by the Fixed Income pool are exposed to foreign currency risk. However, the pool does have futures, options, swaps, and foreign exchange futures that are denominated in foreign currencies. Additionally, the pool has indirect exposure to foreign currency risk through its ownership interests in certain of the commingled investment pools. Approximately \$148,326,000, or 10%, of the commingled investment pools hold substantially all of their investments in foreign currencies. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the IMB. At June 30, 2008 the IMB was in compliance with this limitation.

Fixed Income Qualified

This pool holds positions in institutional mutual funds with a combined value of \$749,333,959 at June 30, 2008, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted average modified duration of the underlying securities is 5.6 years. This pool is not exposed to custodial credit risk, concentration of credit risk, or foreign currency risk.

Fixed Income Nonqualified

This pool holds positions in institutional mutual funds with a combined value of \$474,561,035 at June 30, 2008, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted average modified duration of the underlying securities is 5.6 years. This pool is not exposed to custodial credit risk, concentration of credit risk, or foreign currency risk.

Private Equity

This pool holds limited partnerships, shares of an institutional commingled fund and a money market fund with the highest credit rating. These securities of this pool are not exposed to credit risk, interest rate risk, or custodial credit risk. There may be indirect exposure to foreign currency risk through one or more partnerships and the commingled fund. This risk cannot be reasonably quantified. At June 30, 2008, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5% of the value of the pool and is not exposed to concentration of credit risk.

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2. Significant Accounting Policies (Continued)

Private Real Estate

This pool holds shares of an institutional commingled fund and a money market fund with the highest credit rating. These securities of this pool are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. At June 30, 2008, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5% of the value of the pool and is not exposed to concentration of credit risk.

Hedge Fund

This pool holds shares of a money market fund with the highest credit rating. This security is not exposed to credit risk, interest rate risk, custodial credit risk, foreign currency risk, or concentration of credit risk.

Board of Treasury (BTI) Investments

The West Virginia Board of Treasury Investments (the "BTI") is charged with managing the individual investment pools and accounts of the Consolidated Fund under authority of West Virginia State Code Chapter 12, Article 6C, West Virginia Treasury Investments Act. The 2005 West Virginia Legislature established the BTI, effective July 8, 2005, to make short-term operating funds of the State more accessible to state government and to allow the West Virginia Investment Management Board (IMB), which had managed the Consolidated Fund, to focus on the State's long-term trust investments. The BTI is charged with managing the individual investment pools and accounts of the Consolidated Fund under authority of West Virginia State Code §12-6C, West Virginia Treasury Investments Act. The Consolidated Fund provides for the investment of moneys not currently needed to fund State governmental operations, as well as providing the opportunity for local governments to participate in large investment pools, and for those funds statutorily required to be invested in the Consolidated Fund. The State Treasurer's Office determines which funds to transfer to the IMB and BTI for investment in accordance with West Virginia Code, policies set by the IMB and BTI, and by provisions of bond indentures and trust agreements, when applicable.

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2. Significant Accounting Policies (Continued)

The BTI is authorized by West Virginia Code §12-6C-9, to invest in United States government and agency obligations, commercial paper, corporate bonds, repurchase agreements, asset-backed securities, and investments in accordance with the Linked Deposit Program, which is a program using financial institutions in the state to reduce loan costs to small businesses by offsetting interest reductions on the loans with certificates of deposit, loans approved by the Legislature, and any other programs authorized by the Legislature. In addition to the restrictions in investment types, at no time shall more than 75% of the Consolidated Fund be invested in any bond, note, debenture, commercial paper or other evidence of indebtedness of any private corporation or association, and at no time shall more than 5% be invested in securities issued by a single private corporation or association. Further, no less than 15% of the Consolidated Fund shall be invested in any direct obligation of or obligation guaranteed by the United States government.

The BTI has adopted an investment policy in accordance with the “Uniform Prudent Investor Act.” The “prudent investor rule” guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI’s investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of the Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the Consolidated Fund.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor any of the Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the Consolidated Fund pools and accounts, six are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool, WV Short Term Bond Pool, Loan Pool, School Fund Account, and Department of Highways Account.

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2. Significant Accounting Policies (Continued)

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the WV Money Market Pool's investments (in thousands):

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value</u>	<u>Percent of Pool Assets</u>
	<u>Moody's</u>	<u>S&P</u>		
Investments:				
Commercial Paper	P1	A-1	\$ 658,879	27.94%
Corporate bonds and notes	Aaa	AAA	40,000	1.70
	Aa1	AA	71,000	3.01
	Aa2	A	27,000	1.14
	Aa3	AA	20,000	.85
Total corporate bonds and notes			158,000	6.70
U.S. agency bonds	Aaa	AAA	254,019	10.77
U.S. Treasury bills	Aaa	AAA	406,426	17.23
Negotiable certificates of deposit	P1	A-1	147,001	6.23
U.S. agency discount notes	P1	A-1	212,924	9.03
Money market funds	Aaa	AAA	150,058	6.36
Repurchase agreements (underlying securities:				
U.S. Treasury notes *	Aaa	AAA	62,265	2.64
U.S. agency notes	Aaa	AAA	308,898	13.10
Total repurchase agreements			371,163	15.74
			<u>\$ 2,358,470</u>	<u>100.00%</u>

* U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk

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2. Significant Accounting Policies (Continued)

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds, investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on credit ratings of the WV Government Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
U.S. agency bonds	Aaa	AAA	\$ 60,420	32.30%
U.S. Treasury bills*	Aaa	AAA	29,929	16.00
U.S. agency discount notes	P1	A-1	43,248	23.12
Money market funds	Aaa	AAA	67	0.04
Repurchase agreements (underlying securities):				
U.S. agency notes	Aaa	AAA	53,400	28.54
			<u>\$ 187,064</u>	<u>100.00%</u>

* U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit 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, 2008. All premiums receivable balances due to the West Virginia Offices of the Insurance Commissioner consists 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 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.

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

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2. Significant Accounting Policies (Continued)

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 Commissioner's consulting actuary, of the Insurance Commissioner'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 Insurance Commissioner's actual incurred losses and loss adjustment expenses may vary significantly from the estimated amount included in the Insurance Commissioner's financial statements.

Compensated Absences and Other Post Employment Benefits

Employees fully vest in all earned but unused vacation, and the Insurance Commissioner 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 Commissioner 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. The Insurance Commissioner accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

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2. Significant Accounting Policies (Continued)

Effective July 1, 2007, Insurance Commissioner adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement provided standards for the measurement, recognition, and display of other postemployment benefit (“OPEB”) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia (the “State”). Effective July 1, 2007, the Insurance Commissioner was required to participate in this multiple employer cost-sharing plan sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency (“PEIA”), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or <http://www.wvpeia.com>.

The Insurance Commissioner’s full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. The liability is now provided for under the multiple employer cost-sharing plan sponsored by the State.

For the year ended June 30, 2008, with the adoption of GASB Statement No. 45, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2008, the noncurrent liability related to OPEB costs was \$565. For the year ended June 30, 2008, the Insurance Commissioner recorded a cumulative effect of the adoption of this accounting principle of a \$2,375 increase in net assets, an amount equal to the June 30, 2007, liability for the extended health or life insurance benefit previously recorded in accordance with GASB Statement No. 16.

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.

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2. Significant Accounting Policies (Continued)

Transfers related to Workers' Compensation Debt Reduction Fund and BrickStreet Insurance

During fiscal year 2008, the Surplus Note from BrickStreet Mutual Insurance Company was reduced by a total of twenty two million two hundred forty one thousand dollars (\$22,241). This reduced the carrying value of the Surplus Note to one hundred sixty two million seven hundred fifty nine thousand dollars (\$162,759). The reduction of the note consisted of: a principal payment of forty million dollars (\$40,000) and an increase in the valuation of the surplus note based on the carrying value of the claims liabilities assumed by BrickStreet Mutual Insurance Company of seventeen million seven hundred fifty nine thousand dollars (\$17,759). During fiscal year 2008, BrickStreet paid two million seven hundred eighty two thousand dollars (\$2,783) in interest on its Surplus Note arrangement with the State of West Virginia.

Statutory Allocations Proceeds

The Insurance Commissioner recognized eleven million dollars (\$11,000) of West Virginia Lottery proceeds allocated to the Insurance Commissioner.

Net Assets

As required by GASB 34, the Insurance Commissioner 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 Insurance Commissioner's ability to use the resources to pay current liabilities. In accordance with the respective enabling legislation, net assets accumulated for Old Fund, CWP Fund, Uninsured Employers' Fund, Self-Insured Funds and Private Carrier Guaranty Fund are restricted for payment of related expenses.

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2. Significant Accounting Policies (Continued)

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.

3. Cash and Cash Equivalents

The Insurance Commissioner is permitted by the Code to invest certain 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 Insurance Commissioner accordingly. Such funds are available to the Insurance Commissioner 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 Insurance Commissioner’s portfolio.

4. Leases

The Insurance Commissioner has lease agreements for its current central office building and various hearing and field offices throughout West Virginia. The Insurance Commissioner’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 Insurance Commissioner has entered into several such agreements for the use of property and equipment. The Insurance Commissioner 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, 2008, were as follows:

2009	\$	1,700
2010		1,632
2011		789
2012		110
2013		29
Thereafter		<u>13</u>
Total minimum lease payments	\$	<u>4,273</u>

Rental expense was \$1,541 for the year ended June 30, 2008.

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 Insurance Commissioner’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, 2008.

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 January 29, 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, 2008, the total undiscounted claims liability for the Insurance Commissioner approximated \$4.1 billion, and the undiscounted claims liability for the Old Fund approximated \$3.8 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 Old Fund's discounted claims liability would have increased by approximately \$1.38 billion to a claims liability of approximately \$3.79 billion, and the Insurance Commissioner's total discounted claims liability would have increased to approximately \$3.92 billion. The Old Funds' deficit would increase to approximately \$2.89 billion, and the Insurance Commissioner's total deficit would increase to approximately \$2.76 billion at June 30, 2008.

The following schedule represents the reconciliation of the unpaid claims liability for the Insurance Commissioner's Workers' Compensation Funds discounted at 5.0% at June 30, 2008, 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>2008</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>2,981,400</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	730
Changes in provision for insured events of prior fiscal years	(316,485)
Amortization of discount	<u>142,395</u>
Total claims and claim adjustment expenses	<u>(173,360)</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(124)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(270,316)</u>
Total payments	<u>(270,440)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 2,537,600</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 and Unpaid Claims and Claim Adjustment Expenses (Continued)

The following schedule represents the reconciliation of the unpaid claims liability for AccessWV at June 30, 2008, including an analysis of changes in aggregate liabilities for claim and claim adjustment expenses for the fiscal year. This is the third year of operation for AccessWV, a high risk health insurance program.

	<u>2008</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 280
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	2,696
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>(2,676)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 300</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 January 29, 2005.

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 phasing in of a competitive workers' compensation insurance market beginning July 1, 2008.

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6. Deficit Funding Plan (Continued)

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” established 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. On March 10, 2008, Senate Bill 185 ceased the tobacco settlement payments to the debt reduction fund and replaced those revenues with \$50.4 million dollars in annual personal income tax proceeds. These personal income tax proceeds dedicated in §4-11A-18 are in addition to the income tax proceeds already dedicated to the debt reduction fund. Other Senate Bill 1004 revenue sources currently include: 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 \$94.2 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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008
(In Thousands, Unless Otherwise Noted)

7. Pension Plan

Plan Description. - The Insurance Commissioner 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 Insurance Commissioner was required to contribute 10.5% for the current fiscal year. The contribution requirements of plan members and the Insurance Commissioner are established and may be amended by the PERS Board of Trustees, subject to limitations set by the West Virginia Legislature. The Insurance Commissioner's contributions to PERS for the year ended June 30, 2008, was \$1,399 and 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.

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 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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008
(In Thousands, Unless Otherwise Noted)

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 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 Insurance Commissioner 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 Insurance Commissioner 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 Insurance Commissioner has transferred its risk related to health coverage for employees. Additionally, the Insurance Commissioner 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 until July 1, 2008. All state agencies will continue to be required to purchase their workers' compensation insurance from BrickStreet Mutual Insurance Company until 2012.

The Insurance Commissioner 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 Insurance Commissioner. This coverage is offered in exchange for an annual premium. There have been no claim settlements exceeding the Insurance Commissioner's general liability insurance coverage for the past three fiscal years.

During the normal course of operations, the Insurance Commissioner incurs certain routine claims. The legal counsel for the Insurance Commissioner 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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008
(In Thousands, Unless Otherwise Noted)

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 House Bill 501, enacted by the West Virginia Legislature on November 14, 2005 which revised §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, was established as of January 1, 2006. For value received, BrickStreet will repay the State of West Virginia the principal 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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008
(In Thousands, Unless Otherwise Noted)

9. Surplus Note Agreement (Continued)

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. On June 30, 2008, BrickStreet paid forty million dollars (\$40,000) in principal toward satisfaction and discharge of its surplus note obligation to the State of West Virginia. BrickStreet also adjusted the carrying value of the claims liabilities they assumed for dates of injury occurring between July 1, 2005, and December 31, 2005, as the actual claims development trends become known. An increase of seventeen million seven hundred fifty nine thousand dollars (\$17,759) for positive claims development was made to the carrying value of the surplus note agreement in fiscal year 2008.

Fiscal year 2008 surplus note interest payments received from BrickStreet totaled two million seven hundred sixty seven thousand dollars (\$2,767). A significant event occurred subsequently to the June 30, 2008, balance sheet date, when BrickStreet made an additional principle payment on the surplus note agreement of sixty million dollars (\$60,000) on July 31, 2008.

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 Insurance Commissioner'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 total 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 Insurance Commissioner's consulting actuary using assumptions and other data furnished by the Insurance Commissioner. 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, Coal Workers' Pneumoconiosis Fund,
Uninsured Employer Fund, Self Insured Funds
(Unaudited)
As of June 30, 2008
(Dollars in Millions)

Fiscal and Policy Year

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Operating Revenues	\$ 556.9	\$ 582.3	\$ 597.2	\$ 600.2	\$ 568.7	\$ 678.8	\$ 736.0	\$ 194.0	\$262.2	\$282.7
Investment income (loss)	<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>	<u>4.4</u>	<u>109.0</u>	<u>(5.2)</u>
Total income (1)	654.2	689.0	629.3	576.5	616.0	702.6	810.1	198.4	371.2	277.5
Other expenses (2)	47.2	51.7	51.4	59.5	61.2	66.0	73.8	51.3	23.5	24.6
Original incurred loss (3)	338.8	233.7	261.5	428.7	410.4	352.4	305.8	0.6	2.7	0.7
Cumulative payments (4):										
Year 1	80.5	78.8	82.0	88.7	87.1	70.9	72.6	0.0	0.2	0.1
Year 2	186.7	197.2	207.6	220.5	194.1	152.0	141.7	0.4	0.7	
Year 3	249.2	273.3	283.8	291.2	244.1	181.4	169.5	0.6		
Year 4	297.5	325.2	327.6	327.0	265.1	196.6	180.1			
Year 5	332.7	355.8	352.7	343.3	278.1	203.7				
Year 6	354.8	374.5	365.3	353.9	286.1					
Year 7	369.0	385.7	374.7	361.2						
Year 8	378.4	397.2	381.3							
Year 9	386.9	404.3								
Year 10	394.3									
Re-estimated incurred claims and expenses (5):										
Year 1	338.8	233.7	261.5	428.7	410.4	352.4	305.8	0.6	2.7	0.7
Year 2	399.1	409.4	421.4	488.5	470.3	315.6	301.3	3.1	1.9	
Year 3	397.9	440.0	488.4	512.5	385.4	305.9	277.4	3.2		
Year 4	425.7	498.0	496.8	429.2	378.9	301.9	243.7			
Year 5	476.7	511.9	454.6	439.0	370.9	261.7				
Year 6	473.2	471.0	445.6	423.1	337.7					
Year 7	457.1	470.5	437.3	412.6						
Year 8	454.7	458.4	431.6							
Year 9	445.3	453.3								
Year 10	445.4									
Increase (decrease) in estimated incurred claims and expense from end of policy year (6)	106.6	219.6	170.1	(16.1)	(72.7)	(90.7)	(62.1)	2.6	(0.8)	-

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, CWPF, Uninsured Employers Fund, and Self Insured Funds changes in claims liabilities discounted at 5.0% as of June 30, 2008. Losses include claim adjustment expenses.

	June 30, 2008				
	<u>WCF</u>	<u>CWPF</u>	<u>UEF</u>	<u>Self Insured Funds</u>	<u>Total</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 2,848,700	\$ 129,000	\$ 3,000	\$ 700	\$ 2,981,400
Claims and claim adjustment expenses:					
Provision for insured events of the current fiscal year	-	-	730	-	730
Changes in provision for insured events of prior fiscal years	(318,586)	3,388	(1,146)	(141)	(316,485)
Amortization of discount	<u>136,052</u>	<u>6,177</u>	<u>133</u>	<u>33</u>	<u>142,395</u>
Total claims and claim adjustment expenses	<u>(182,534)</u>	<u>9,565</u>	<u>(283)</u>	<u>(108)</u>	<u>(173,360)</u>
Payments:					
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	-	-	(124)	-	(124)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(258,466)</u>	<u>(11,065)</u>	<u>(693)</u>	<u>(92)</u>	<u>(270,316)</u>
Total payments	<u>(258,466)</u>	<u>(11,065)</u>	<u>(817)</u>	<u>(92)</u>	<u>(270,440)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 2,407,700</u>	<u>\$ 127,500</u>	<u>\$ 1,900</u>	<u>\$ 500</u>	<u>\$ 2,537,600</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, 2008
(Dollars in Thousands)

	Fiscal and Policy Year		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Premium	\$ 739	\$ 2,094	\$ 3,121
Investment Income	<u>136</u>	<u>265</u>	<u>358</u>
Total income (1)	875	2,359	3,479
Other expenses (2)	389	227	328
Original incurred loss (3)	734	1,469	2,696
Fiscal Year payments (4):	314	1,609	2,676

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 AccessWV changes in claims liabilities as of June 30, 2008. Losses include claim adjustment expenses.

	June 30, 2008
	AccessWV
Unpaid claims and claim adjustment expenses at beginning of year	\$ 280
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	2,696
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(2,676)
Total unpaid claims and claim adjustment expenses at end of the year	\$ 300

See accompanying independent auditors' report.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
Required Supplementary Information
Budgetary Comparison Schedule
Operating Fund
Year Ended June 30, 2008
(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>	
Budgetary Fund Balance, July 1				
Resources (inflows):				
Beginning Balance 07/01/07	\$ 15,711	\$ 15,711	\$ 37,632	\$ 21,921
2008 FY Gross Revenue	-	-	42,155	42,155
Revenue Refunds	-	-	(47)	(47)
13 th Month Expenditures - Last PFY	-	-	(59)	(59)
Other Transactions	-	-	(147)	(147)
Estimated Revenue FY 2008	<u>39,027</u>	<u>39,027</u>	<u>-</u>	<u>(39,027)</u>
Amounts available for appropriation	<u>54,738</u>	<u>54,738</u>	<u>79,534</u>	<u>24,796</u>
Charges to appropriations (outflows)				
Personal Services	18,880	19,244	13,525	5,719
Employee Benefits	7,113	7,185	4,355	2,830
Contractual and Professional	3,280	3,280	2,599	681
Claims	50	50	8	42
Fund Transfers	-	-	300	(300)
Other Current Expenses	<u>9,029</u>	<u>9,029</u>	<u>6,784</u>	<u>2,245</u>
Total Charges to Appropriations	<u>38,352</u>	<u>38,788</u>	<u>27,571</u>	<u>11,217</u>
Budgetary Fund Balance, June 30, 2008	<u>\$ 16,386</u>	<u>\$ 15,950</u>	<u>\$ 51,963</u>	<u>\$ 36,013</u>

See accompanying independent auditors' report.

OTHER FINANCIAL INFORMATION



INDEPENDENT AUDITORS' REPORT ON
OTHER FINANCIAL INFORMATION

West Virginia Offices of the Insurance Commissioner
Charleston, West Virginia

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, 2008. 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 59 through 67 is presented for purposes of additional analysis of the financial statements. The Workers' Compensation information on pages 59 through 61 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 62 through 67 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.

A handwritten signature in cursive script that reads 'Suttle & Stalnaker, PLLC'.

Charleston, West Virginia
October 31, 2008

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SCHEDULE OF NET ASSETS
WORKERS' COMPENSATION INFORMATION
June 30, 2008
(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>
Assets:						
Current Assets						
Cash and Cash Equivalents	\$ 713,576	\$ 255,857	\$ 8,180	\$ 5,187	\$ 1,945	\$ 984,745
Receivables, Net:						
Taxes and Fees	10,878	-	-	-	-	10,878
Assessments	-	-	49	-	-	49
Employer Surcharge	10,171	-	-	-	-	10,171
Premiums	3,174	-	-	-	-	3,174
Other	<u>33</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34</u>
Total Current Assets	<u>737,832</u>	<u>255,858</u>	<u>8,229</u>	<u>5,187</u>	<u>1,945</u>	<u>1,009,051</u>
Noncurrent Assets:						
Surplus Note	<u>162,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,759</u>
Total Noncurrent Assets	<u>162,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,759</u>
Total Assets	<u>900,591</u>	<u>255,858</u>	<u>8,229</u>	<u>5,187</u>	<u>1,945</u>	<u>1,171,810</u>
Liabilities:						
Current Liabilities:						
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	268,500	13,300	100	-	-	281,900
Excess Deposits	4	-	-	-	-	4
Accrued Expenses and Other Liabilities	<u>486</u>	<u>-</u>	<u>-</u>	<u>31</u>	<u>-</u>	<u>517</u>
Total Current Liabilities	<u>268,990</u>	<u>13,300</u>	<u>100</u>	<u>31</u>	<u>-</u>	<u>282,421</u>
Noncurrent Liabilities:						
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	<u>2,139,200</u>	<u>114,200</u>	<u>1,800</u>	<u>500</u>	<u>-</u>	<u>2,255,700</u>
Total Noncurrent Liabilities	<u>2,139,200</u>	<u>114,200</u>	<u>1,800</u>	<u>500</u>	<u>-</u>	<u>2,255,700</u>
Total Liabilities	<u>2,408,190</u>	<u>127,500</u>	<u>1,900</u>	<u>531</u>	<u>-</u>	<u>2,538,121</u>
Net Assets:						
Restricted for:						
Coal Workers' Pneumoconiosis	-	128,358	-	-	-	128,358
Uninsured Fund	-	-	6,329	-	-	6,329
Self-Insured Fund	-	-	-	4,656	-	4,656
Private Carrier Guaranty Fund	-	-	-	-	1,945	1,945
Unrestricted (Deficit)	<u>(1,507,599)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,507,599)</u>
Total Net Assets (Deficit)	<u>\$ (1,507,599)</u>	<u>\$ 128,358</u>	<u>\$ 6,329</u>	<u>\$ 4,656</u>	<u>\$ 1,945</u>	<u>\$ (1,366,311)</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, 2008
(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	\$ 11,000	\$ -	\$ -	\$ -	\$ -	\$ 11,000
Fees	221,226	-	-	-	-	221,226
Assessments	-	-	1,105	-	-	1,105
Employer Surcharge	38,909	-	-	-	-	38,909
Net Premium Revenue	917	(80)	-	1,691	-	2,528
Other Operating Revenue	7,926	-	14	-	-	7,940
Total Operating Revenue	<u>279,978</u>	<u>(80)</u>	<u>1,119</u>	<u>1,691</u>	<u>-</u>	<u>282,708</u>
Operating Expenses and Claims Provision:						
Claims and Claim Adjustment Provision (See Note 5)	(182,534)	9,565	(283)	(108)	-	(173,360)
General and Administration	<u>24,546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48</u>	<u>24,594</u>
Total Operating Expenses and Claims Provision	<u>(157,988)</u>	<u>9,565</u>	<u>(283)</u>	<u>(108)</u>	<u>48</u>	<u>(148,766)</u>
Operating Income (Loss)	<u>437,966</u>	<u>(9,645)</u>	<u>1,402</u>	<u>1,799</u>	<u>(48)</u>	<u>431,474</u>
Nonoperating Revenues (Expenses):						
Investment Earnings	37,665	10,824	320	153	-	48,962
Net Decrease in Fair Value of Investments	<u>(43,740)</u>	<u>(10,448)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54,188)</u>
Total Nonoperating Revenues(Expenses)	<u>(6,075)</u>	<u>376</u>	<u>320</u>	<u>153</u>	<u>-</u>	<u>(5,226)</u>
Change in Net Assets Before BrickStreet Transactions	431,891	(9,269)	1,722	1,952	(48)	426,248
BrickStreet Transactions, Net	<u>17,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,759</u>
Change in Net Assets (Deficit)	449,650	(9,269)	1,722	1,952	(48)	444,007
Total Net Assets (Deficit) - Beginning of Year	<u>(1,957,249)</u>	<u>137,627</u>	<u>4,607</u>	<u>2,704</u>	<u>1,993</u>	<u>(1,810,318)</u>
Total Net Assets (Deficit) - End of Year	<u>\$ (1,507,599)</u>	<u>\$ 128,358</u>	<u>\$ 6,329</u>	<u>\$ 4,656</u>	<u>\$ 1,945</u>	<u>\$ (1,366,311)</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SCHEDULE OF CASH FLOWS
WORKERS' COMPENSATION INFORMATION
Year Ended June 30, 2008
(In Thousands)

	WC Old Fund Debt <u>Reduction</u>	Coal Workers' Pneumoconiosis	Uninsured Fund	Self-Insured Funds	Private Carrier Fund	<u>Total</u>
Cash Flows from Operating Activities:						
Receipts from Statutory Allocations, Fees and Assessments	\$ 260,357	\$ -	\$ 1,200	\$ -	\$ -	\$ 261,557
Receipts from Employers	9,609	(80)	-	1,691	-	11,220
Payments to Claimants and Providers	(257,718)	(11,066)	(817)	(61)	-	(269,662)
Payments to Employees	(124)	-	-	-	-	(124)
Payments to Suppliers	<u>(27,956)</u>	<u>(71)</u>	<u>(56)</u>	<u>(4)</u>	<u>(55)</u>	<u>(28,142)</u>
Net Cash Provided (Used) by Operating Activities	<u>(15,832)</u>	<u>(11,217)</u>	<u>327</u>	<u>1,626</u>	<u>(55)</u>	<u>(25,151)</u>
Cash Flows from Investing Activities:						
BrickStreet Note Receivable Principal and Interest Payments	42,783	-	-	-	-	42,783
Investment Earnings	7,630	11,237	(598)	(1,951)	-	16,318
Net Increase (Decrease) in the Fair value of Investments	<u>(16,488)</u>	<u>(10,862)</u>	<u>918</u>	<u>2,104</u>	<u>-</u>	<u>(24,328)</u>
Net Cash Provided (Used) by Investing Activities	<u>33,925</u>	<u>375</u>	<u>320</u>	<u>153</u>	<u>-</u>	<u>34,773</u>
Net Increase in Cash and Cash Equivalents	18,093	(10,842)	647	1,779	(55)	9,622
Cash and Cash Equivalents - Beginning of Year	<u>695,483</u>	<u>266,699</u>	<u>7,533</u>	<u>3,408</u>	<u>2,000</u>	<u>975,123</u>
Cash and Cash Equivalents - End of Year	<u>\$ 713,576</u>	<u>\$ 255,857</u>	<u>\$ 8,180</u>	<u>\$ 5,187</u>	<u>\$ 1,945</u>	<u>\$ 984,745</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating Income (Loss)	\$ 437,966	\$ (9,645)	\$ 1,402	\$ 1,799	\$ (48)	\$ 431,474
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Net change in assets and liabilities:						
Receivables, net	12,270	(1)	80	-	-	12,349
Premium excess deposits	(90)	-	-	-	-	(90)
Notes Receivable	(22,241)	-	-	-	-	(22,241)
Estimated liability for claims and claim adjustment expenses	(441,000)	(1,500)	(1,100)	(200)	-	(443,800)
Accrued expenses and other liabilities	<u>(2,737)</u>	<u>(71)</u>	<u>(55)</u>	<u>27</u>	<u>(7)</u>	<u>(2,843)</u>
Net cash provided (used) by operating activities	<u>\$ (15,832)</u>	<u>\$ (11,217)</u>	<u>\$ 327</u>	<u>\$ 1,626</u>	<u>\$ (55)</u>	<u>\$ (25,151)</u>
Non Cash Financing and Investing Activities						
BrickStreet Transactions, Net	<u>\$ 17,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,759</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
Other Financial Information
Budgetary Comparison Schedule
Old Fund/Debt Reduction
Year Ended June 30, 2008
(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>	
Budgetary Fund Balance, July 1				
Resources (inflows):				
Beginning Balance 07/01/07	\$ 635,083	\$ 635,083	\$ 46,581	\$ (588,502)
2008 FY Gross Revenue	-	-	486,808	486,808
Revenue Refunds	-	-	(1,281)	(1,281)
13 th Month Expenditures - Last PFY	-	-	(2,184)	(2,184)
Other Transactions	-	-	3,014	3,014
Estimated Revenue FY 2008	<u>842,788</u>	<u>842,788</u>	<u>-</u>	<u>(842,788)</u>
Amounts available for appropriation	<u>1,477,871</u>	<u>1,477,871</u>	<u>532,938</u>	<u>(944,933)</u>
Charges to appropriations (outflows)				
Employee Benefits Expenses	-	-	139	(139)
Contractual and Professional	24,807	24,807	25,542	(735)
Claims	524,948	524,948	260,571	264,377
Fund Transfers	288,088	288,088	167,558	120,530
Other Current Expenses	<u>245</u>	<u>245</u>	<u>122</u>	<u>123</u>
Total Charges to Appropriations	<u>838,088</u>	<u>838,088</u>	<u>453,932</u>	<u>384,156</u>
Budgetary Fund Balance, June 30, 2008	<u>\$ 639,783</u>	<u>\$ 639,783</u>	<u>\$ 79,006</u>	<u>\$ (560,777)</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
Other Financial Information
Budgetary Comparison Schedule
Coal Workers' Pneumoconiosis
Year Ended June 30, 2008
(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>	
Budgetary Fund Balance, July 1				
Resources (inflows):				
Beginning Balance 07/01/07	\$ 250,654	\$ 250,654	\$ 32	\$ (250,622)
2008 FY Gross Revenue	-	-	4,050	4,050
Revenue Refunds	-	-	(79)	(79)
Other Transactions	-	-	7,186	7,186
Estimated Revenue FY 2008	<u>25,275</u>	<u>25,275</u>	<u>-</u>	<u>(25,275)</u>
Amounts available for appropriation	<u>275,929</u>	<u>275,929</u>	<u>11,189</u>	<u>(264,740)</u>
Charges to appropriations (outflows)				
Claims	<u>12,000</u>	<u>12,000</u>	<u>11,137</u>	<u>863</u>
Total Charges to Appropriations	<u>12,000</u>	<u>12,000</u>	<u>11,137</u>	<u>863</u>
Budgetary Fund Balance, June 30, 2008	<u>\$ 263,929</u>	<u>\$ 263,929</u>	<u>\$ 52</u>	<u>\$ (263,877)</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
Other Financial Information
Budgetary Comparison Schedule
Workers Compensation Uninsured Employers Fund
Year Ended June 30, 2008
(In Thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u> <u>Basis</u>	
Budgetary Fund Balance, July 1				
Resources (inflows):				
Beginning Balance 07/01/07	\$ 5,380	\$ 5,380	\$ 317	\$ (5,063)
2008 FY Gross Revenue	-	-	1,603	1,603
Revenue Refunds	-	-	(67)	(67)
Other Transactions	-	-	(903)	(903)
Estimated Revenue FY 2008	<u>27,000</u>	<u>27,000</u>	<u>-</u>	<u>(27,000)</u>
Amounts available for appropriation	<u>32,380</u>	<u>32,380</u>	<u>950</u>	<u>(31,430)</u>
Charges to appropriations (outflows)				
Contractual and Professional	1,350	1,350	-	1,350
Claims	<u>25,650</u>	<u>25,650</u>	<u>873</u>	<u>24,777</u>
Total Charges to Appropriations	<u>27,000</u>	<u>27,000</u>	<u>873</u>	<u>26,127</u>
Budgetary Fund Balance, June 30, 2008	<u><u>\$ 5,380</u></u>	<u><u>\$ 5,380</u></u>	<u><u>\$ 77</u></u>	<u><u>\$ (5,303)</u></u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
Other Financial Information
Budgetary Comparison Schedule
Self Insureds
Year Ended June 30, 2008
(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>	
Budgetary Fund Balance, July 1				
Resources (inflows):				
Beginning Balance 07/01/07	\$ 1,902	\$ 1,902	\$ 410	\$ (1,492)
2008 FY Gross Revenue	-	-	1,852	1,852
Revenue Refunds	-	-	(5)	(5)
Other Transactions	-	-	(2,094)	(2,094)
Estimated Revenue FY 2008	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>(15,000)</u>
Amounts available for appropriation	<u>16,902</u>	<u>16,902</u>	<u>163</u>	<u>(16,739)</u>
Charges to appropriations (outflows)				
Contractual and Professional	750	750	-	750
Claims	<u>14,250</u>	<u>14,250</u>	<u>65</u>	<u>14,185</u>
Total Charges to Appropriations	<u>15,000</u>	<u>15,000</u>	<u>65</u>	<u>14,935</u>
Budgetary Fund Balance, June 30, 2008	<u>\$ 1,902</u>	<u>\$ 1,902</u>	<u>\$ 98</u>	<u>\$ (1,804)</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
Other Financial Information
Budgetary Comparison Schedule
Private Carrier Guaranty Fund
Year Ended June 30, 2008
(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>	
Budgetary Fund Balance, July 1				
Resources (inflows):				
Beginning Balance 07/01/07	\$ 2,000	\$ 2,000	\$ 1,976	\$ (24)
13 th Month Expenditures	-	-	24	24
Estimated Revenue FY 2008	<u>2,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Amounts available for appropriation	<u>4,000</u>	<u>3,000</u>	<u>2,000</u>	<u>(1,000)</u>
Charges to appropriations (outflows)				
Claims	2,000	1,000	-	1,000
Other Current Expenses	<u>-</u>	<u>-</u>	<u>55</u>	<u>(55)</u>
Total Charges to Appropriations	<u>2,000</u>	<u>1,000</u>	<u>55</u>	<u>945</u>
Budgetary Fund Balance, June 30, 2008	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 1,945</u>	<u>\$ (55)</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
Other Financial Information
Budgetary Comparison Schedule
Access WV
Year Ended June 30, 2008
(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>	
Budgetary Fund Balance, July 1				
Resources (inflows):				
Beginning Balance 07/01/07	\$ 4,411	\$ 4,411	\$ 80	\$ (4,331)
2008 FY Gross Revenue	-	-	5,446	5,446
Revenue Refunds	-	-	(15)	(15)
Other Transactions	-	-	(2,432)	(2,432)
Estimated Revenue FY 2008	<u>5,039</u>	<u>4,389</u>	<u>-</u>	<u>(4,389)</u>
Amounts available for appropriation	<u>9,450</u>	<u>8,800</u>	<u>3,079</u>	<u>(5,721)</u>
Charges to appropriations (outflows)				
Personal Services	103	103	27	76
Employee Benefits	36	36	13	23
Contractual and Professional	453	256	276	(20)
Claims	8,820	8,391	2,697	5,694
Other Current Expenses	<u>38</u>	<u>14</u>	<u>10</u>	<u>4</u>
Total Charges to Appropriations	<u>9,450</u>	<u>8,800</u>	<u>3,023</u>	<u>5,777</u>
Budgetary Fund Balance, June 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ 56</u>