

**WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER**

Financial Statements, Required Supplementary Information
and Other Financial Information

Year ended June 30, 2012
and
Independent Auditors' Report

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
Financial Statements, Required Supplementary Information
and Other Financial Information
June 30, 2012

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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, 2012, 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 opinions 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, 2012, 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.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the unaudited supplemental information on pages 51 through 57, and budgetary comparison information on pages 58 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Virginia Offices of the Insurance Commissioner financial statements as a whole. The Workers' Compensation information on pages 61 through 63 is presented for purposes of additional analysis of the financial statements and is not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dixon Hughes Goodman LLP

Charleston, West Virginia
October 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012
(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 ended June 30, 2012 and June 30, 2011. 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 privatized workers' compensation insurance market, the West Virginia Offices of 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 West Virginia Offices of the Insurance Commissioner: the Old Fund, which consists of the assets and liabilities transferred from the former Workers' 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 Guaranty Fund, the Self-Insured Security Fund (all established by Senate Bill 1004), the State Entities Workers' Compensation Program Fund (SEWC) and 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

June 30, 2012
(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:

- 1) Governmental activities - These are the activities that are necessary for the government to function and meet its intended purpose. In the financial statements of the West Virginia Offices of the Insurance Commissioner, the governmental funds include the main operating fund of the entity, which is primarily funded through fees and assessments.
- 2) 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 Workers' Compensation related funds and AccessWV.
- 3) 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

June 30, 2012
(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 governments 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:

- 1) 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 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.
- 2) 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 charge customers a fee or receive special revenues are generally reported in proprietary funds. For the West Virginia Offices of the Insurance Commissioner, this consists of Workers' Compensation, SEWC, and AccessWV.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012
(In Thousands)

The following tables summarize the financial position as of June 30 and results of operations of the West Virginia Offices of the Insurance Commissioner for the years ended June 30, 2012 and 2011.

STATEMENT OF NET ASSETS
June 30

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current Assets	\$ 62,745	\$ 64,775	\$ 1,292,939	\$ 1,251,698	\$ 1,355,684	\$ 1,316,473
Capital Assets, Net	1,311	1,628	-	-	1,311	1,628
Other Long-Term Assets	-	51	-	-	-	51
Total Assets	<u>64,056</u>	<u>66,454</u>	<u>1,292,939</u>	<u>1,251,698</u>	<u>1,356,995</u>	<u>1,318,152</u>
Current Liabilities	10,356	7,491	206,801	226,392	217,157	233,883
Long-Term Liabilities	247	277	1,730,326	1,837,800	1,730,573	1,838,077
Total Liabilities	<u>10,603</u>	<u>7,768</u>	<u>1,937,127</u>	<u>2,064,192</u>	<u>1,947,730</u>	<u>2,071,960</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,311	1,628	-	-	1,311	1,628
Restricted	-	-	181,281	152,094	181,281	152,094
Unrestricted (Deficit)	<u>52,142</u>	<u>57,058</u>	<u>(825,469)</u>	<u>(964,588)</u>	<u>(773,327)</u>	<u>(907,530)</u>
Total Net Assets	<u>\$ 53,453</u>	<u>\$ 58,686</u>	<u>\$ (644,188)</u>	<u>\$ (812,494)</u>	<u>\$ (590,735)</u>	<u>\$ (753,808)</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012
(In Thousands)

CHANGES IN NET ASSETS
Year Ended June 30

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues						
Program Revenues						
Charges for Services	\$ 47,109	\$ 42,104	\$ 70,924	\$ 58,751	\$ 118,033	\$ 100,855
Total Operating Revenues	<u>47,109</u>	<u>42,104</u>	<u>70,924</u>	<u>58,751</u>	<u>118,033</u>	<u>100,855</u>
Expenses						
Program Expenses						
Workers' Compensation	-	-	147,147	180,063	147,147	180,063
AccessWV	-	-	6,848	6,714	6,848	6,714
State Entities Workers' Compensation Program Fund	-	-	8,984	-	8,984	-
General Government	<u>30,781</u>	<u>29,727</u>	<u>-</u>	<u>-</u>	<u>30,781</u>	<u>29,727</u>
Total Operating Expenses	<u>30,781</u>	<u>29,727</u>	<u>162,979</u>	<u>186,777</u>	<u>193,760</u>	<u>216,504</u>
Operating Income	<u>16,328</u>	<u>12,377</u>	<u>(92,055)</u>	<u>(128,026)</u>	<u>(75,727)</u>	<u>(115,649)</u>
Nonoperating Revenues						
Investment Earnings	4	6	39,671	109,377	39,675	109,383
Lottery Revenue	-	-	11,000	11,000	11,000	11,000
Personal Income Tax	-	-	95,400	95,400	95,400	95,400
Severance Tax	<u>-</u>	<u>-</u>	<u>92,635</u>	<u>94,363</u>	<u>92,635</u>	<u>94,363</u>
Total Nonoperating Revenues	4	6	238,706	310,140	238,710	310,146
Change in Net Assets Before Transfers	16,332	12,383	146,651	182,114	162,983	194,497
Other Transfers In (Out)	<u>(21,655)</u>	<u>-</u>	<u>21,655</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets (Deficit)	(5,323)	12,383	168,306	182,114	162,983	194,497
Net Assets (Deficit), Beginning of Year	<u>58,776</u>	<u>46,303</u>	<u>(812,494)</u>	<u>(994,608)</u>	<u>(753,718)</u>	<u>(948,305)</u>
Net Assets (Deficit), End of Year	<u>\$ 53,453</u>	<u>\$ 58,686</u>	<u>\$ (644,188)</u>	<u>\$ (812,494)</u>	<u>\$ (590,735)</u>	<u>\$ (753,808)</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012
(In Thousands)

FINANCIAL HIGHLIGHTS

- The overall financial position of the West Virginia Offices of the Insurance Commissioner improved during FY 2012, with the total net deficit decreasing \$163,073 on an agency wide basis, primarily as a result of the decrease in the Workers' Compensation Old Fund deficit. During fiscal year 2012, the Workers' Compensation Old Fund deficit decreased by \$139,119. 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. This marks the seventh consecutive year of deficit reduction progress for the Old Fund. As of June 30, 2012, the Old Fund's deficit was \$825,469, and the West Virginia Offices of the Insurance Commissioner's total net deficit was \$590,735.
- The West Virginia Offices of the Insurance Commissioner's total assets increased by \$38,843 during the year, while the agency's total liabilities decreased by \$124,230. The primary factor contributing to the increase in assets is the agency's investment earnings, while the primary factor contributing to the decrease in liabilities is the \$124,900 reduction of the Workers' Compensation Old Fund estimated liability for unpaid claims and claims adjustment expense. The West Virginia Offices of the Insurance Commissioner experienced an increase of \$14,148 in the fair market value of its investments held during fiscal year 2012. This change in fair market value, when combined with the yearly investment earnings of \$25,527, yield a net investment income of \$39,675 for fiscal year 2012.
- Fiscal Year 2012 marked the inaugural year of the West Virginia Offices of the Insurance Commissioner's administration of the SEWC, a program established to provide workers' compensation coverage for state government entities and their employees. During the 2011 legislative session, §33-2-21a of the Code of West Virginia was amended by adding a new section to provide a means of managing workers' compensation coverage for persons directly employed by the State of West Virginia. The SEWC is a public entity risk pool functioning as an insurance purchasing pool. During fiscal year 2012, the SEWC purchased insurance to cover its loss exposure. From July 1, 2011 through September 30, 2011, the SEWC purchased commercial insurance on a guaranteed cost basis, thereby transferring all of the insurance risk. On October 1, 2011, the SEWC entered into a high deductible insurance program with Zurich American Insurance Company (Zurich), and established a Loss Reserve Fund to provide for the payment of losses up to the deductible amount. Any losses exceeding the deductible amount are the responsibility of Zurich.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012
(In Thousands)

- Pursuant to the provisions of HB 3163, the enabling legislation for the SEWC, the West Virginia Offices of the Insurance Commissioner's Operating Fund transferred \$21,655 to the SEWC. The transfer was a one-time, non-interest bearing loan made in order to provide the initial funding for the program. It is anticipated that the loan will be repaid over time. However, no schedule for repayment has been established at this time.
- AccessWV, the State's high-risk health insurance pool, experienced a decline in net assets of \$1,396. This decline was anticipated, given the FY 2012 premium structure established by the AccessWV Board. Due to certain provisions of federal health care reform law, commonly known as the Affordable Care Act (ACA), it is anticipated that AccessWV will cease to exist by January 2014.

FINANCIAL STATEMENTS

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF NET ASSETS

June 30, 2012
(In Thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 55,348	\$ 1,262,407	\$ 1,317,755
Receivables, Net:			
Statutory Allocations	-	9,008	9,008
Assessments	1,500	94	1,594
Employer Surcharge	5,886	11,430	17,316
Premiums	-	51	51
Prepaid Assets	-	2,039	2,039
Loss Reserve Fund	-	7,910	7,910
Other	11	-	11
Total Current Assets	<u>62,745</u>	<u>1,292,939</u>	<u>1,355,684</u>
Noncurrent Assets			
Capital Assets, Net	<u>1,311</u>	<u>-</u>	<u>1,311</u>
Total Noncurrent Assets	<u>1,311</u>	<u>-</u>	<u>1,311</u>
Total Assets	<u>64,056</u>	<u>1,292,939</u>	<u>1,356,995</u>
Liabilities			
Current Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	206,080	206,080
Compensated Absences	765	-	765
Accrued Expenses and Other Liabilities	671	689	1,360
OPEB Liability	<u>8,920</u>	<u>32</u>	<u>8,952</u>
Total Current Liabilities	<u>10,356</u>	<u>206,801</u>	<u>217,157</u>
Noncurrent Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	1,730,326	1,730,326
Compensated Absences	<u>247</u>	<u>-</u>	<u>247</u>
Total Noncurrent Liabilities	<u>247</u>	<u>1,730,326</u>	<u>1,730,573</u>
Total Liabilities	<u>10,603</u>	<u>1,937,127</u>	<u>1,947,730</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,311	-	1,311
Restricted for:			
Coal Workers' Pneumoconiosis	-	138,872	138,872
Uninsured Fund	-	6,870	6,870
Self-Insured Funds	-	543	543
AccessWV	-	11,124	11,124
State Entities Workers' Compensation Program Fund	-	23,872	23,872
Unrestricted (Deficit)	<u>52,142</u>	<u>(825,469)</u>	<u>(773,327)</u>
Total Net Assets (Deficit)	<u>\$ 53,453</u>	<u>\$ (644,188)</u>	<u>\$ (590,735)</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF ACTIVITIES

June 30, 2012
(In Thousands)

Functions/Programs	Expenses and Claims Provisions	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Governmental Activities	Business-Type Activities	Totals
Primary Government					
Governmental Activities					
General Government	\$ 30,355	\$ 47,109	\$ 16,754	\$ -	\$ 16,754
Depreciation, Unallocated	<u>426</u>	<u>-</u>	<u>(426)</u>	<u>-</u>	<u>(426)</u>
Total Governmental Activities	<u>30,781</u>	<u>47,109</u>	<u>16,328</u>	<u>-</u>	<u>16,328</u>
Business-type Activities					
Workers' Compensation	147,147	54,472	-	(92,675)	(92,675)
AccessWV	6,848	5,251	-	(1,597)	(1,597)
State Entities Workers' Compensation Program Fund	<u>8,984</u>	<u>11,201</u>	<u>-</u>	<u>2,217</u>	<u>2,217</u>
Total Business-Type Activities	<u>162,979</u>	<u>70,924</u>	<u>-</u>	<u>(92,055)</u>	<u>(92,055)</u>
Total Primary Government	<u>\$ 193,760</u>	<u>\$ 118,033</u>	<u>16,328</u>	<u>(92,055)</u>	<u>(75,727)</u>
General Revenues:					
Investment Earnings			4	39,671	39,675
Lottery Revenue			-	11,000	11,000
Personal Income Tax			-	95,400	95,400
Severance Tax			<u>-</u>	<u>92,635</u>	<u>92,635</u>
Total General Revenues			4	238,706	238,710
Change in Net Assets Before Transfers			16,332	146,651	162,983
Transfers			<u>(21,655)</u>	<u>21,655</u>	<u>-</u>
Change in Net Assets (Deficit)			(5,323)	168,306	162,983
Net Assets (Deficit)-Beginning of Year			<u>58,776</u>	<u>(812,494)</u>	<u>(753,718)</u>
Net Assets (Deficit)-End of Year			<u>\$ 53,453</u>	<u>\$ (644,188)</u>	<u>\$ (590,735)</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2012
(In Thousands)

	<u>Operating Fund</u>
Assets	
Cash and Cash Equivalents	\$ 55,348
Accounts Receivable – Assessments	1,500
Accounts Receivable – Employer Surcharge	5,886
Other	11
Total assets	<u>\$ 62,745</u>
Liabilities	
Compensated Absences	765
Accrued Expenses and Other Liabilities	671
OPEB Liability	<u>8,920</u>
Total Liabilities	10,356
Fund Balance	
Committed	<u>52,389</u>
Total Fund Balance	<u>52,389</u>
Total Liabilities and Fund Balances	<u>\$ 62,745</u>
Total Fund Balance	\$ 52,389
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	1,311
Long term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.	<u>(247)</u>
Net assets of Governmental Activities	<u>\$ 53,453</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

June 30, 2012
(In Thousands)

	<u>Operating Fund</u>
Revenues	
Fees and Assessments	\$ 47,109
Investment Earnings	<u>4</u>
Total Revenues	47,113
Expenditures	
General and Administrative	<u>30,363</u>
Total Expenditures	<u>30,363</u>
Excess of Revenues over Expenditures	16,750
Transfers	<u>(21,655)</u>
Excess (Deficiency) of Revenues over Expenditures net of Transfers	(4,905)
Fund Balance - Beginning of Year	<u>57,295</u>
Fund Balance - End of Year	<u>\$ 52,390</u>
Net Change in Fund Balance – Total Governmental Funds	\$ (4,905)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Prepaid Assets do not convert to cash and therefore are expenditures in governmental funds. This is the net decrease in prepaid assets in the current period.	(130)
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.	(317)
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>29</u>
Change in Net Assets of Governmental Activities	<u>\$ (5,323)</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF NET ASSETS (DEFICIT)
PROPRIETARY FUNDS

June 30, 2012
(In Thousands)

	Workers' Compensation	AccessWV	State Entities Workers' Compensation	Total
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 1,229,526	\$ 12,072	\$ 20,809	\$ 1,262,407
Receivables, Net:				
Statutory Allocations	9,008	-	-	9,008
Assessments	94	-	-	94
Employer Surcharge	11,430	-	-	11,430
Premiums	51	-	-	51
Prepaid Assets	-	-	2,039	2,039
Loss Reserve Fund	-	-	7,910	7,910
Total Current Assets	<u>1,250,109</u>	<u>12,072</u>	<u>30,758</u>	<u>1,292,939</u>
 Total Assets	 <u>1,250,109</u>	 <u>12,072</u>	 <u>30,758</u>	 <u>1,292,939</u>
Liabilities				
Current Liabilities				
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	202,468	870	2,742	206,080
OPEB Liability	-	32	-	32
Accrued Expenses and Other Liabilities	<u>593</u>	<u>46</u>	<u>50</u>	<u>689</u>
Total Current Liabilities	<u>203,061</u>	<u>948</u>	<u>2,792</u>	<u>206,801</u>
Noncurrent Liabilities				
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	<u>1,726,232</u>	<u>-</u>	<u>4,094</u>	<u>1,730,326</u>
Total Noncurrent Liabilities	<u>1,726,232</u>	<u>-</u>	<u>4,094</u>	<u>1,730,326</u>
Total Liabilities	<u>1,929,293</u>	<u>948</u>	<u>6,886</u>	<u>1,937,127</u>
Net Assets				
Restricted for				
Coal Workers' Pneumoconiosis	138,872	-	-	138,872
Uninsured Fund	6,870	-	-	6,870
Self-Insured Funds	543	-	-	543
AccessWV	-	11,124	-	11,124
State Entities Workers' Compensation Program Fund	-	-	23,872	23,872
Unrestricted (Deficit)	<u>(825,469)</u>	<u>-</u>	<u>-</u>	<u>(825,469)</u>
Total Net Assets (Deficit)	<u>\$ (679,184)</u>	<u>\$ 11,124</u>	<u>\$ 23,872</u>	<u>\$ (644,188)</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
(DEFICIT)

June 30, 2012
(In Thousands)

	Workers' Compensation	AccessWV	State Entities Workers' Compensation	Total
Operating Revenues				
Assessments	\$ 53,126	\$ -	\$ -	\$ 53,126
Premium Revenue, Net	1,235	5,096	11,201	17,532
Other Operating Revenue	<u>111</u>	<u>155</u>	<u>-</u>	<u>266</u>
Total Operating Revenue	<u>54,472</u>	<u>5,251</u>	<u>11,201</u>	<u>70,924</u>
Operating Expenses and Claims Provisions				
Claims and Claim Adjustment Provisions (See Note 5)	128,922	6,480	8,894	144,296
General and Administration	<u>18,225</u>	<u>368</u>	<u>90</u>	<u>18,683</u>
Total Operating Expenses and Claims Provisions	<u>147,147</u>	<u>6,848</u>	<u>8,984</u>	<u>162,979</u>
Operating Income (Loss)	(92,675)	(1,597)	2,217	(92,055)
Nonoperating Revenues				
Investment Earnings	39,470	201	-	39,671
Lottery Revenue	11,000	-	-	11,000
Personal Income Tax	95,400	-	-	95,400
Severance Tax	<u>92,635</u>	<u>-</u>	<u>-</u>	<u>92,635</u>
Total Nonoperating Revenues	<u>238,505</u>	<u>201</u>	<u>-</u>	<u>238,706</u>
Change in Net Assets (Deficit) Before Transfers	145,830	(1,396)	2,217	146,651
Transfers	-	-	21,655	21,655
Change in Net Assets (Deficit)	145,830	(1,396)	23,872	168,306
Total Net Assets (Deficit) - Beginning of Year	<u>(825,014)</u>	<u>12,520</u>	<u>-</u>	<u>(812,494)</u>
Total Net Assets (Deficit) - End of Year	<u>\$ (679,184)</u>	<u>\$ 11,124</u>	<u>\$ 23,872</u>	<u>\$ (644,188)</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS

June 30, 2012
(In Thousands)

	Workers' Compensation	AccessWV	State Entities Workers' Compensation	Total
Cash Flows from Operating Activities				
Receipts from Fees and Assessments	\$ 50,884	\$ -	\$ 21,645	\$ 72,529
Receipts from Employers and Policyholders	1,205	5,096	-	6,301
Receipts from Other	111	155	-	266
Payments to Claimants and Providers	(263,122)	(6,330)	(2,058)	(271,511)
Payments for Premiums	-	-	(12,483)	(12,483)
Deposits into Loss Reserve Fund	-	-	(9,968)	(9,968)
Withdrawals from Loss Reserve Fund	-	-	2,058	2,058
Payments to Employees	(518)	(40)	-	(558)
Payments to Suppliers	(17,602)	(333)	(40)	(17,974)
Net Cash Used in Operating Activities	<u>(229,042)</u>	<u>(1,452)</u>	<u>(846)</u>	<u>(231,340)</u>
Cash flows from Noncapital Financing Activities				
Statutory Allocations	200,347	-	-	200,347
Transfer in from other fund	-	-	21,655	21,655
Net Cash Provided by Noncapital Financing Activities	<u>200,347</u>	<u>-</u>	<u>21,655</u>	<u>222,002</u>
Cash flows from Investing Activities				
Investment Earnings	39,470	201	-	39,671
Net Cash Provided by Investing Activities	<u>39,470</u>	<u>201</u>	<u>-</u>	<u>39,671</u>
Net Increase (Decrease) in Cash and Cash Equivalents	10,775	(1,251)	20,809	30,333
Cash and Cash Equivalents - Beginning of Year	<u>1,218,751</u>	<u>13,323</u>	<u>-</u>	<u>1,232,074</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,229,526</u>	<u>\$ 12,072</u>	<u>\$ 20,809</u>	<u>\$ 1,262,407</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ (92,675)	\$ (1,597)	\$ 2,217	\$ (92,055)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Net Change in Assets and Liabilities:				
Receivables, Net	(2,272)	-	-	(2,272)
Loss Reserve Fund	-	-	(7,910)	(7,910)
Prepaid Premiums	-	-	(2,039)	(2,039)
Estimated Liability for Claims and Claim Adjustment Expenses	(134,200)	150	6,836	(127,214)
OPEB Liability	-	10	-	10
Accrued Expenses and Other Liabilities	105	(15)	50	140
Net Cash Used in Operating Activities	<u>\$ (229,042)</u>	<u>\$ (1,452)</u>	<u>\$ (846)</u>	<u>\$ (231,340)</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(In Thousands)

1. Financial Reporting Entity

The West Virginia Offices of 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 West Virginia Offices 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.

The West Virginia Offices of the Insurance Commissioner is responsible for the regulation and oversight of all insurance transactions conducted in the State. The West Virginia Offices of 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 residual assets and liabilities of the former WCC are now reported in a fund known as the Workers' Compensation Old Fund (Old Fund).

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 West Virginia Offices of the Insurance Commissioner.

The West Virginia Offices of the Insurance Commissioner is responsible for certain proprietary funds established for the purpose of maintaining an effective workers' compensation system. Those funds consist of the Uninsured Employers' Fund and the Self-Insured Funds.

On March 12, 2011, the WV Legislature passed HB 3163, added a new section, §33-2-21a, to the Code of West Virginia in order to provide a means of managing workers' compensation coverage for persons directly employed by the State of West Virginia. The West Virginia Offices of the Insurance Commissioner was given the responsibility of administering the SEWC, a program established to provide workers' compensation coverage for state government entities and their employees. The SEWC functions as an insurance purchasing risk pool.

The West Virginia Offices of 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. Due to the federal government's March 23, 2010, enactment of the Patient

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Protection and Affordable Care Act (PPACA), insurance carriers will no longer be able to deny coverage to individuals with pre-existing health conditions beginning 2014. Accordingly, it is anticipated that AccessWV will cease to exist in 2014.

The Old Fund, the CWP Fund, the Uninsured Employers' Fund, and the Self-Insured Employers' Funds are combined to comprise the Workers' Compensation Fund. For financial statement purposes, only the Workers' Compensation Fund is considered a reporting fund, and the statutorily created "funds" that comprise it are considered components of the fund. The Workers' Compensation Fund, SEWC, and AccessWV combine to comprise the proprietary funds reported in the financial statements. The West Virginia Offices of the Insurance Commissioner also maintains an operating fund that is reported as the general fund for financial statements purposes. Certain general and administrative expenses of the other funds are paid from the operating fund.

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 of only that portion of the financial reporting entity 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 the financial position of the State of West Virginia as of June 30, 2012, 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 West Virginia Offices of 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 West Virginia Offices of 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

WEST VIRGINIA
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23 for the 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 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, a special session of the West Virginia Legislature was convened in January 2005. 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 revenue stream dedicated to paying down the unfunded liability in the workers' compensation fund.

With the passage of Senate Bill 1004, several funds were established in the State treasury. Upon termination of the WCC, the administrative oversight of those funds transitioned to the West Virginia Offices of the Insurance Commissioner.

The Old Fund consists of those funds transferred to it from the Workers' Compensation Fund. 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. An injured worker may receive compensation from the UEF if: he or she meets all jurisdictional and entitlement provisions of Chapter 23 of the Code; he or she files a claim with the West Virginia Offices of the Insurance Commissioner; and he or she irrevocably assigns all of his or her rights to the West Virginia Offices of the Insurance Commissioner to recover money from a collateral source for the occurrence or exposure which resulted in the claimant's injury. The West Virginia Offices of 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 West Virginia Offices of the Insurance Commissioner may impose an administrative fine of not more than \$10 against an employer if the employer fails to provide mandatory coverage.

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 West Virginia Offices of the Insurance

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Commissioner. The fund covers claims liabilities of bankrupt or defaulted self-insured employers with dates of injury subsequent to July 1, 2004.

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 West Virginia Offices of the Insurance Commissioner's administration of 85 CSR §19 (2004). 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.

With the passage of House Bill 4381, §23-2C-10 was modified to allow the West Virginia Offices of the Insurance Commissioner to designate a third party to develop and administer an adverse risk pooling arrangement. The West Virginia Offices of the Insurance Commissioner has appointed NCCI as the administrator of the State's workers' compensation adverse risk pooling arrangement. NCCI has the authority to develop premium levels designed to make the system self-sustaining and to assess carriers to cover any deficits that may arise in the pooling arrangement. The adverse risk pool became operational on January 1, 2009, six months after the market opened to competition. 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.

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 Guaranty Risk Pool, and the Self-Insured Security Risk Pool from the termination of the WCC on December 31, 2005, until December 31, 2007. Beginning January 1, 2008, third-party administrator responsibilities are divided between American Mining Claims Services Inc., Sedgwick CMS, and Wells Fargo Disability Management.

2. Significant Accounting Policies

Basis of Presentation

The West Virginia Offices of 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*, Governmental Accounting Standards Board Statement 54 (GASB 54) *Fund Balance Reporting and Governmental Fund Type Definitions*, and Financial Accounting Standards Codification 944 (ASC 944), *Accounting and Reporting for Insurance Enterprises*. An enterprise fund is used to account for the operations of state

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(In Thousands)

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

The West Virginia Offices of 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).

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.

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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

The West Virginia Offices of the Insurance Commissioner uses the accrual basis of accounting for the government-wide financial statements and the enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available to pay liabilities of the current period. For this purpose, revenues are generally considered available if received in the first 45 days after year end. Expenditures are generally recorded when the related liability is incurred, as under accrual accounting.

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 West Virginia Offices of the Insurance Commissioner, except for benefits and direct claims costs, are subject to a nonappropriated budget review and approval process in which the West Virginia Offices of 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 West Virginia Offices of the Insurance Commissioner on June 30, 2012, totaled \$78,267. 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 West Virginia Offices of the Insurance Commissioner totals \$1,226,451, and cash pooled with funds of other state agencies and invested by the Board of Treasury Investments (BTI) was \$13,037. For purposes of the statement of cash flows, the West Virginia Offices of 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*.

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(In Thousands)

Loss Reserve Fund

The Loss Reserve Fund consists of money on deposit with Zurich that is utilized to pay claims and claims adjustment expenses of the SEWC.

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, 2012. All premiums receivable balances due to the West Virginia Offices of the Insurance Commissioner consist of past premiums due from defaulted employers for periods of coverage prior to June 30, 2005, from the former Workers' Compensation Commission. Due to the age of these remaining premium receivables, only the actual subsequent receipts are recognized in the financial statements unless the employer has entered into a bona fide repayment agreement with the State or if the employer is subject to a court ordered restitution agreement. The West Virginia Offices of the Insurance Commissioner also recognizes a receivable for fines assessed against and claims reimbursements amounts billed to uninsured employers.

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.

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. At June 30, 2012, cost of capital assets was \$3,906 with \$426 current depreciation expense and \$2,595 accumulated depreciation.

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 West Virginia Offices of the Insurance Commissioner's consulting actuary, of the West Virginia Offices 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 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 West Virginia Offices of the Insurance Commissioner's actual incurred losses and loss adjustment expenses may vary significantly from the estimated

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
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(In Thousands)

amount included in the West Virginia Offices of the Insurance Commissioner's financial statements.

Compensated Absences and Other Post Employment Benefits

Employees fully vest in all earned but unused vacation, and the West Virginia Offices of 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, West Virginia Offices of the 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 West Virginia Offices of 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.

Effective July 1, 2007, the West Virginia Offices of the 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. Effective July 1, 2007, the West Virginia Offices of the Insurance Commissioner was required to participate in this multiple employer cost-sharing plan sponsored by the State. 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 West Virginia Offices of 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. For employees hired prior to July 1, 1988, 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 percent of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit

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toward insurance premiums when they retire. The liability is now provided for under the multiple employer cost-sharing plan sponsored by the State.

In accordance with GASB Statement No. 45, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial required contribution amounts. At June 30, 2012, the estimated current liability related to OPEB costs was \$8,952.

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.

Statutory Allocations Proceeds

The West Virginia Offices of the Insurance Commissioner recognized \$199,035 of revenues allocated to Old Fund Debt Reduction during fiscal year 2012. The allocations are comprised of \$92,635 in severance tax proceeds, \$95,400 in personal income tax proceeds and \$11,000 from West Virginia Lottery proceeds.

Net Assets

As required by GASB 34, the West Virginia Offices of 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 West Virginia Offices of 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 the SEWC are restricted for payment of related expenses.
- Unrestricted net assets (deficit) - Unrestricted net assets (deficit) consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of

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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.

Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes the standards of accounting and financial reporting that are intended to improve the clarity and consistency of the fund balance information provided to financial report users. The fund balance classifications are based primarily on the extent to which the West Virginia Offices of the Insurance Commissioner is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. Fund balances may be categorized as follows:

- Nonspendable fund balances –These include amounts that cannot be spent because they are in a nonspendable form, such as inventory, or prepaid expense amounts, or they are legally or contractually required to be maintained intact, such as the corpus of a permanent fund.
- Restricted fund balances - These are restricted due to legal restrictions from creditors, grantors, or laws and regulations of other governments or by legally enforceable enabling legislation or constitutional provisions. When an expenditure occurs for which both unrestricted and restricted funds are available, management utilizes restricted funds first.
- Committed fund balances - These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority, which for the West Virginia Offices of the Insurance Commissioner is the Commissioner. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- Assigned fund balances - These are constrained by the intent to use funds for specific purposes, but are neither restricted nor committed.
- Unassigned fund balance - This is the residual classification for the general operating fund. This classification represents a fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In other funds, any negative fund balances would be unassigned.

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Future Adoption of Accounting Pronouncements

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, which modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This statement is effective for fiscal year 2013, and management has not yet determined the financial statement impact of the pronouncement.

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and the AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for fiscal year 2013, and management has not yet determined the financial statement impact of the pronouncement.

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement is effective for fiscal year 2013, and management has not yet determined the financial statement impact of the pronouncement.

The GASB has recently issued Statement No. 65, *Items Previously Recognized as Assets and Liabilities*, which will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB No. 65 provides financial reporting guidance on matters such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. This statement is effective for fiscal year 2014, and management has not yet determined the financial statement impact of the pronouncement.

The GASB has recently issued Statement No. 66, *Technical Corrections -2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement is effective for fiscal year 2014, and management has not yet determined the financial impact of the pronouncement.

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Subsequent Events

In preparing these financial statements, the West Virginia Offices of the Insurance Commissioner has evaluated events and transactions for potential recognition or disclosure through October 15, 2012, the date the financial statements were available for issuance.

3. Cash and Cash Equivalents

The West Virginia Offices of 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 West Virginia Offices of the Insurance Commissioner accordingly. Such funds are available to the West Virginia Offices of 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.

During fiscal year 2012, stock holdings were limited to 20 percent of the Old Fund portfolio. The equity allocation was also limited to 20 percent of the Coal Worker's Pneumoconiosis Fund. 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.

Invested assets of both the Worker's Compensation Uninsured Fund and the Self-Insured Guaranty Risk Pool were invested 20 percent in equity securities and 80 percent in fixed income securities during fiscal year 2012. During fiscal year 2012, the investments of the AccessWV Health Plan with the IMB were allocated 100 percent to fixed income in anticipation of the plans closure in 2014.

In accordance with GASB 40, the following risk disclosure and other information is provided for the West Virginia Offices of the Insurance Commissioner funds being held by the IMB and the BTI in the following investment pools (amounts in thousands, except share data):

West Virginia Investment Management Board (IMB) Investments

The West Virginia Offices of the Insurance Commissioner is a participant in several IMB investment pools. The footnotes following this schedule represent the investment pools as a whole.

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The following schedule provides the value of the West Virginia Offices of the Insurance Commissioner's balances in the various pools at June 30, 2012.

Investment Pool	WC Old Fund	CWP	Uninsured	Self-Insured	AccessWV
Large Cap Domestic	\$ 68,084	\$ 18,692	\$ 661	\$ 781	\$ -
Non-Large Cap Domestic	23,050	6,327	223	265	-
International Nonqualified	29,749	8,199	291	332	-
International Equity	63,582	17,334	614	739	-
Short-Term Fixed Income	93,715	12,017	926	534	-
Total Return Fixed Income	371,370	75,785	2,386	3,213	871
Core Fixed Income	200,7701	40,965	1,292	1,737	472
TIPS	96,532	26,524	937	1,110	1,108
Hedge Fund	-	51,278	1,818	2,167	-
Total by Pool	<u>\$ 946,853</u>	<u>\$ 257,121</u>	<u>\$ 9,148</u>	<u>\$ 10,878</u>	<u>\$ 2,451</u>

Large Cap Domestic

This pool holds equity securities of U.S. companies, exchange traded stock index futures, and money market funds with the highest credit rating. These types of securities are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's collateral reinvestment fund. At June 30, 2012, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of this pool and is not exposed to concentration of credit risk.

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. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's collateral reinvestment fund. At June 30, 2012, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of this pool and is not exposed to concentration of credit risk.

International Nonqualified

This pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2012, was \$87,453. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. West Virginia statute limits the amount of international securities to

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no more than 30 percent of the total assets managed by the IMB. At June 30, 2012, 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. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's collateral reinvestment fund. At June 30, 2012, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of this 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 30 percent of the total assets managed by the IMB. At June 30, 2012, 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, 2012 are as follows:

Currency	Equity Securities	Cash	Total
Australian Dollar	\$ 63,284	\$ 143	\$ 63,427
Brazil Real	77,642	3,441	81,083
British Pound	217,785	404	218,189
Canadian Dollar	83,701	75	83,776
Czech Crown	6,230	-	6,230
Danish Krone	6,858	24	6,882
Emirati Dirham	8,048	-	8,048
Euro Currency Unit	289,347	1,256	290,603
Hong Kong Dollar	152,281	697	152,978
Hungarian Forint	7,620	1	7,621
Indian Rupee	35,768	380	36,148
Indonesian Rupiah	8,313	145	8,458
Israeli Shekel	13,413	103	13,516
Japanese Yen	215,250	9,319	224,569
Malaysian Ringgit	5,067	126	5,193
Mexican Peso	22,072	24	22,096
New Taiwan Dollar	47,733	2,300	50,033
New Zealand Dollar	7,513	58	7,571
Norwegian Krone	21,877	28	21,905
Pakistan Rupee	922	-	922
Philippine Peso	7,751	75	7,826
Polish Zloty	6,708	9	6,717
Singapore Dollar	20,786	46	20,832
South African Rand	51,153	57	51,210
South Korean Won	128,548	2,374	130,922
Swedish Krona	16,126	71	16,197

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Currency	Equity Securities	Cash	Total
Swiss Franc	62,607	6	62,613
Thailand Baht	17,882	-	17,882
Turkish Lira	42,295	48	42,343
Total	\$ 1,644,580	\$ 21,210	\$ 1,665,790

This table excludes cash and securities held by this pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated cash and securities is \$257,253.

Short-Term Fixed Income

Credit Risk - The IMB limits the exposure to credit risk in this 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, this pool must have at least 15 percent of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of this pool's investments as of June 30, 2012.

Security Type	Moody's	S&P	Carrying Value	Percent
Agency discount notes	Aaa	AA+	\$ 169,173	46.2%
Agency notes	Aaa	AA+	20,096	5.5
Commercial paper	P-1	A-1	18,279	5.0
U.S. Treasury bills	Aaa	AA+	71,808	19.6
U.S. Treasury notes	Aaa	AA+	86,995	23.7
Total rated investments			\$ 366,351	100.0%

This table includes securities received as collateral for repurchase agreements with a fair value of \$81,966 as compared to the amortized cost of the repurchase agreements of \$80,588.

Concentration of Credit Risk - West Virginia statutes prohibit investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2012, this pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk - At June 30, 2012, this pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102 percent 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.

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Interest Rate Risk - The weighted average maturity of the investments is not to exceed sixty 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, 2012:

Security Type	Carrying Value	WAM (days)
Agency discount notes	\$ 169,173	48
Agency notes	20,096	95
Commercial paper	18,279	8
Repurchase agreements	80,588	1
U.S. Treasury bills	71,808	29
U.S. Treasury notes	5,029	153
Total assets	<u>\$ 364,973</u>	<u>36</u>

Foreign Currency Risk - This pool has no securities that are subject to foreign currency risk.

Total Return Fixed Income

Credit Risk - The IMB limits the exposure to credit risk in this 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 this pool as of June 30, 2012.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Agency collateralized mortgage obligations	Aaa	AA+	\$ 32,536	1.5%
Agency mortgage backed securities	Aaa	AA+	340,717	15.3
Corporate asset backed securities	Aa2	AA-	38,005	1.7
Corporate bonds and notes	Baa2	BBB	754,176	33.7
Corporate collateralized mortgage obligations	B	B	21,589	1.0
Corporate preferred securities	Ba2	BB	8,572	0.4
Foreign government bonds	Baa1	A-	6,293	0.3
Municipal bonds	A1	A	93,246	4.2
Regulated investment companies	Aaa	AAA	184,079	8.2
U. S. Treasury bonds and notes	Aaa	AA+	<u>309,610</u>	<u>13.9</u>
Total rated investments			<u>\$ 1,788,823</u>	<u>80.2%</u>

Unrated securities include commingled investment pools valued at \$441,868 and option contracts purchased valued at \$728. These unrated securities represent 19.8 percent of the fair value of this pool's investments.

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Concentration of Credit Risk - West Virginia statutes prohibit investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2012, this pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk - At June 30, 2012, this pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102 percent 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 collateral reinvestment fund.

Interest Rate Risk - The IMB monitors interest rate risk by evaluating the modified duration of the investments.

The following table provides the weighted average modified duration for the various asset types in this pool as of June 30, 2012.

<u>Security Type</u>	<u>Fair Value</u>	<u>Modified Duration (years)</u>
Agency collateralized mortgage obligations	\$ 32,536	3.4
Agency mortgage backed securities	340,717	8.5
Commingled investment pools	441,868	2.7
Corporate asset backed securities	38,005	8.0
Corporate bonds and notes	754,176	6.4
Corporate collateralized mortgage obligations	21,589	4.8
Foreign government bonds	6,293	7.5
Municipal bonds	93,246	13.1
Regulated investment companies	184,079	0.0
U. S. Treasury bonds and notes	<u>309,610</u>	<u>6.7</u>
Total assets	<u>\$ 2,222,119</u>	<u>5.8</u>

This pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2012, this pool held \$432,847 of these securities. This represents approximately 20 percent of the value of this pool's securities.

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Foreign Currency Risk - Of the notes, bonds, asset backed securities, mortgage backed securities, collateralized mortgage obligations and money market fund, only the foreign government bond denominated in Mexican Peso is exposed to foreign currency risk. The market value of this bond is \$6,293, which represents less than 1 percent of the value of this pool's securities. This pool also has foreign exchange forward contracts. Additionally, this pool has indirect exposure to foreign currency risk through its ownership interests in certain of the commingled investment pools. Approximately \$138,355, or 31 percent, of the commingled investment pools hold substantially all of their investments in foreign currencies. This represents approximately 6 percent of the value of this pool's securities. West Virginia statute limits the amount of international securities to no more than 30 percent of the total assets managed by the IMB. At June 30, 2012, the IMB was in compliance with this limitation.

Core Fixed Income

Credit Risk - The IMB limits the exposure to credit risk 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 this pool as of June 30, 2012:

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
Agency bonds and notes	Aaa	AA+	\$ 16,801	1.4%
Agency collateralized mortgage obligations	Aaa	AA+	268,484	22.3
Agency mortgage backed securities	Aaa	AA+	173,034	14.4
Corporate asset backed securities	Aa2	AA+	30,397	2.5
Corporate bonds and notes	A3	A	271,566	22.7
Corporate collateralized mortgage obligations	A1	AA+	145,724	12.1
Municipal bonds	Aa3	AA-	4,781	0.4
Regulated investment companies	Aaa	AAA	11,728	1.0
U. S. Treasury bonds and notes	Aaa	AA+	<u>278,786</u>	<u>23.2</u>
Total rated investments			<u>\$ 1,201,301</u>	<u>100.0%</u>

Concentration of Credit Risk - West Virginia statutes prohibit this pool from investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2012, this pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk - At June 30, 2012, this pool held no securities that were subject to custodial credit risk. All 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 collateral reinvestment fund.

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Interest Rate Risk - The IMB monitors interest rate risk by evaluating the modified duration of the investments.

The following table provides the weighted average modified duration for the various asset types in this pool as of June 30, 2012:

<u>Security Type</u>	<u>Fair Value</u>	<u>Modified Duration (years)</u>
Agency bonds and notes	\$ 16,801	5.0
Agency collateralized mortgage obligations	268,484	3.6
Agency mortgage backed securities	173,034	6.9
Corporate asset backed securities	30,397	1.9
Corporate bonds and notes	271,566	5.7
Corporate collateralized mortgage obligations	145,724	3.1
Municipal bonds	4,781	12.6
Regulated investment companies	11,728	0.0
U. S. Treasury bonds and notes	<u>278,786</u>	<u>6.8</u>
Total assets	<u>\$ 1,201,301</u>	<u>5.0</u>

This pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2012, this pool held \$617,639 of these securities. This represents approximately 51 percent of the value of this pool's securities.

Foreign Currency Risk - None of the securities held by this pool are exposed to foreign currency risk.

TIPS

Credit Risk – The IMB limits the exposure to credit risk by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations.

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The following table provides the weighted average credit ratings of the rated assets in this pool as of June 30, 2012:

Security Type	Moody's	S&P	Fair Value	Percent of Assets
U. S. Treasury issues	Aaa	AA+	\$ 738,767	99.90%
Money market funds	Aaa	AAA	406	0.10
Total rated investments			<u>\$ 739,173</u>	<u>100.00%</u>

Concentration of Credit Risk – West Virginia statutes prohibit from investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2012, this pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk – At June 30, 2012, this pool held no securities that were subject to custodial credit risk. All 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 collateral investment fund.

Interest Rate Risk – The IMB monitors interest rate risk by evaluating the modified duration of the investments. The following table provides the weighted average modified duration for the various asset types in this pool as of June 30, 2012:

Security Type	Fair Value	Modified Duration (years)
U. S. Treasury issues	\$ 738,767	8.1
Money market funds	406	0.0
Total assets	<u>\$ 739,173</u>	<u>8.1</u>

Foreign Currency Risk – None of the securities held by this pool are exposed to foreign currency risk.

Hedge Fund

This pool holds shares in various commingled institutional funds and shares of a money market fund with the highest credit rating. The commingled institutional funds are not rated by any of the nationally recognized statistical rating agencies and thus any credit risk cannot be accurately reported. This pool is not exposed to interest rate risk, custodial credit risk, or concentration of credit risk. This pool is indirectly exposed to foreign currency risk as certain of the funds have investments denominated in foreign currencies. At June 30, 2012, approximately \$428,621 or 41 percent of the market value of the funds were held in foreign currencies.

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Administrative

At June 30, 2012, all of the IMB Administrative Fund's cash equivalents were invested in an institutional Treasury Money Market fund. This investment fund is rated Aaa by Moody's and AAA by Standard & Poor's and has no significant custodial credit risk or interest rate risk. The investment fund invests in U.S. Treasuries and is not exposed to a concentration of credit risk or any foreign currency risk. Cash balances are held in a FDIC insured bank account, the balance of which is below the two hundred fifty thousand dollar insurance limit at all times.

Board of Treasury (BTI) Investments

The West Virginia Offices of the Insurance Commissioner is a participant in the BTI WV Money Market Pool. At June 30, 2012, the Operating Fund and AccessWV Fund have \$3,500 and \$9,537, respectively in this pool. The following footnote information pertains to the pool as a whole.

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, as a public corporation of the State of West Virginia, to make short-term operating funds of the State more accessible to state government and to allow the IMB, which had managed the Consolidated Fund, to focus on the State's long-term trust investments. The BTI operates on a fiscal year that begins July 1 and ends June 30. 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 West Virginia State Treasurer's Office provides direct administrative and management services to the BTI. The BTI does not employ a staff, but reimburses the Treasurer's Office for all personnel expenses of Treasury employees assigned to administer and manage the BTI.

The BTI is authorized by West Virginia Code Chapter 12, Article 6C, Section 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 percent 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 percent be invested in securities issued by a single private corporation or association. Further, no less than 15 percent of the Consolidated Fund shall be

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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 is 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.

The WV Money Market pool is one of the pools in the Consolidated Fund. It consists of the operating funds of the State, funds held by State agencies and funds from local governments who desire the opportunity to invest with the State. Its purpose is to provide for the investment of all surplus funds and to supply the daily cash needs of the State. The pool is co-managed by JP Morgan Asset Management and UBS Global Asset Management.

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

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 percent of its assets in U.S. Treasury issues.

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The following table provides information on the credit ratings of the WV Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial Paper	P-1	A-1	\$ 853,470	30.62%
Corporate Bonds and Notes	Aa2	AA-	15,000	0.54
	Aa3	AA-	13,000	0.47
	Aa3	A+	<u>8,000</u>	<u>0.29</u>
Total Corporate Bonds and Notes			36,000	1.30
U.S. Agency Bonds	Aaa	AA+	189,691	6.80
U.S. Treasury Notes *	Aaa	AA+	330,865	11.87
U.S. Treasury Bills *	Aaa	AA+	237,978	8.54
Negotiable Certificates of Deposit	P-1	A-1	110,000	3.95
U.S. Agency Discount Notes	P-1	A-1+	738,706	26.50
Money Market Funds	Aaa	AAA	200,054	7.18
Repurchase Agreements (Underlying Securities):				
U.S. Treasury Notes *	Aaa	AAA	<u>90,204</u>	<u>3.24</u>
			<u>\$ 2,786,968</u>	<u>100.00%</u>

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

4. Leases

The West Virginia Offices of the Insurance Commissioner has lease agreements for its current central office building and various hearing and field offices throughout West Virginia. The West Virginia Offices of 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 West Virginia Offices of the Insurance Commissioner has entered into several such agreements for the use of property and equipment. The West Virginia Offices of 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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(In Thousands)

Future minimum scheduled rentals under operating leases at June 30, 2012, were as follows:

2013	\$ 1,610
2014	1,469
2015	1,375
2016	552
2017	251
Thereafter	<u>203</u>
Total minimum lease payments	<u>\$ 5,460</u>

Rental expense was \$1,623 for the year ended June 30, 2012.

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. West Virginia Offices of the Insurance Commissioner management has elected to use discounting for the Workers’ Compensation Funds. Accordingly, the estimated liabilities for unpaid claims and claim adjustment expenses (claims liability) for the Old Fund and the CWP Fund have been discounted using a rate of 5 percent at June 30, 2012. The claims liabilities of the Uninsured Employer’s Fund and the Self-Insured Employer’s funds have been discounted at 3 percent at June 30, 2012. The impact of discounting on the stated value of the liabilities is significant. A single percentage (1%) change to the discount rate applied has a material impact on the presentation value of the liabilities. For example, a 1 percent decrease in the discount rate would increase the estimated value of the June 30, 2012 liabilities by approximately \$162.

Based on the composition and characteristics of the remaining proprietary funds, the SEWC and AccessWV claim liabilities are presented on an undiscounted basis.

At June 30, 2012, the total undiscounted claims liability for the West Virginia Offices of the Insurance Commissioner’s Workers’ Compensation Funds approximated \$3.07 billion, and the undiscounted claims liability for the Old Fund approximated \$2.84 billion. The total discounted claims liability for the West Virginia Offices of the Insurance Commissioner’s Workers’ Compensation Funds approximated \$1.93 billion, and the discounted claims liability for the Old Fund approximated \$1.80 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 West Virginia Offices of the Insurance Commissioner’s Workers’ Compensation Funds total discounted claims liability would have increased by approximately \$0.89 billion to a claims liability of approximately \$2.82 billion and the Old Fund’s discounted claims liability would have increased to a claims liability of approximately \$2.69

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(In Thousands)

billion. The West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds total deficit would increase to approximately \$1.57 billion and the Old Funds' deficit would increase to approximately \$1.72 billion at June 30, 2012.

The following schedule represents the reconciliation of the unpaid claims liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds, at June 30, 2012, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the year then ended. Losses include claim adjustment expenses. Discounting has been applied at 5 percent for the Old Fund and CWP Fund and 3 percent for the UEF and SI Funds.

Unpaid claims and claim adjustment expenses at beginning of year	\$ 2,062,900
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	821
Changes in provision for insured events of prior fiscal years	31,553
Amortization of discount	<u>96,548</u>
Total claims and claim adjustment expenses	<u>128,922</u>
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(52)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(263,070)</u>
Total payments	<u>(263,122)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,928,700</u>

The following schedule represents the reconciliation of the unpaid claims liability for AccessWV at June 30, 2012, including an analysis of changes in aggregate liabilities for claim and claim adjustment expenses for the year then ended (undiscounted):

Unpaid claims and claim adjustment expenses at beginning of year	\$ 720
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	6,480
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>(6,330)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 870</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
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June 30, 2012

(In Thousands)

The following schedule represents the reconciliation of the unpaid claims liability for SEWC at June 30, 2012, including an analysis of changes in aggregate liabilities for claim and claim adjustment expenses for the year then ended. This is the first year of operation for SEWC, a high deductible workers' compensation program. Liabilities are presented on an undiscounted basis.

Unpaid claims and claim adjustment expenses at beginning of year	\$ -
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	8,894
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>(2,058)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 6,836</u>

6. Deficit Funding Plan

Due to a history of recurring losses and a significant accumulated deficit, legislative reforms for collection of premiums and awarding of claims have been enacted over the past fifteen years. 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 the most significant reduction in the net cash outflows from the Old Fund.

In order to provide a permanent solution to address the substantial deficit in the State's workers' compensation fund and to identify sources of revenue to achieve long-term solvency of the fund, the legislature passed Senate Bill 1004 on January 29, 2005, which provided a plan for privatization of the State's workers' compensation system.

With the passage of Senate Bill 1004, Workers' Compensation Old Fund (Old Fund) was established. 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 also 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, 2007, 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 Old Fund revenue sources currently include:

WEST VIRGINIA
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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 approximately \$92.2 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 approximately \$46 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.

7. Pension Plan

Plan Description - The West Virginia Offices of 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, West Virginia 25305.

Funding Policy - Plan members are required to contribute 4.5 percent of their annual covered salary and the West Virginia Offices of the Insurance Commissioner was required to contribute 14.5 percent for the current fiscal year. The contribution requirements of plan members and the West Virginia Offices of 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 West Virginia Offices of the Insurance Commissioner's contributions to PERS for the year ended June 30, 2012 were \$1,676, which was 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 West Virginia Offices of the Insurance Commissioner 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 Senate Bill 1004. The assets of the Security Pool consist of the proceeds received from the security held by the West Virginia Offices of the Insurance Commissioner and any necessary assessments made to active self-insured employers for the default of a self-insured employer.

WEST VIRGINIA
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June 30, 2012

(In Thousands)

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.

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 cannot be estimated.

Risk Management

The West Virginia Offices of 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 West Virginia Offices of 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 West Virginia Offices of the Insurance Commissioner has transferred its risk related to health coverage for employees. Additionally, the West Virginia Offices of the Insurance Commissioner obtained coverage for job-related injuries through participation in the SEWC. The SEWC is a public entity risk pool formulated to facilitate the purchase of workers' compensation insurance for all state agencies. Effective October 1, 2011, workers' compensation insurance for the SEWC was purchased from Zurich. See Note 9 for additional information about the SEWC.

The West Virginia Offices of 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 West Virginia Offices of the Insurance Commissioner. This coverage is offered in exchange for an annual premium.

There have been no significant reductions in insurance coverage from the prior year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(In Thousands)

During the normal course of operations, the West Virginia Offices of the Insurance Commissioner incurs certain routine claims. The legal counsel for the West Virginia Offices of 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 potential losses from these claims.

The West Virginia Offices of the Insurance Commissioner is actively defending the Old Fund against claims from three self-insured employers who have requested refunds for overpayments made on self-insured claims. Pre Senate Bill 2013 law did permit self-insured employers to seek reimbursement from the former WCC for overpayments made on claims, and then permitted the former WCC in turn to seek reimbursement from the claimant. This section of the WV code was eliminated effective July 1, 2003 when self-insured employers were given the right to administer their own claims. It is important to note that if these employers are successful; their success could generate a number of requests from other self-insured employers with similar requests. The West Virginia Offices of the Insurance Commissioner cannot express a probability of outcome of this litigation, nor can it make a reasonable estimate of the total amount of cash that would become impaired if the self-insured employers would prevail in litigation on this matter.

The West Virginia Offices of the Insurance Commissioner is also involved in various other litigation challenging certain settlements, interpretations of provisions of the State code, and other matters. It is not possible at the present time to estimate the ultimate legal and financial liability, if any, with respect to these lawsuits. Depending on the amount and timing of such resolution, an unfavorable resolution of some or all of these matters could materially affect the future financial position, results of operations, or cash flows in a particular period.

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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(In Thousands)

9. State Entities Workers' Compensation Program Fund

On March 12, 2011 the WV legislature passed HB 3163, an amendment to the Code of West Virginia, adding a new section designated §33-2-21a, in order to establish a program to provide workers' compensation coverage of state government entities and their employees. HB 3163 established the SEWC and defined participants and exceptions thereto. It also designated the West Virginia Offices of the Insurance Commissioner to manage workers' compensation risks of state entities participating in the program. Code §33-2-21a further authorized the West Virginia Offices of the Insurance Commissioner to assess fees, surcharges and premiums.

The SEWC is a public entity risk pool and is further defined as an insurance purchasing pool, which is an arrangement by which government entities pool funds or resources to purchase commercial insurance products.

From July 1, 2011 through September 30, 2011, the SEWC purchased workers' compensation insurance from BrickStreet Mutual Insurance Company on a guaranteed cost basis. On October 1, 2011, The SEWC entered into a high deductible insurance coverage policy with Zurich. Pursuant to the policy provisions in the insurance arrangement, the SEWC retains the loss exposure up to a two hundred fifty thousand dollar per occurrence deductible limit. The SEWC has provided for these losses by establishing a Loss Reserve Fund with Zurich and advanced \$9,000 to this fund during FY 2012. Beginning eighteen months after the policy effective date and at a minimum annually thereafter, adjustments to the Loss Reserve Fund will be calculated in accordance with a formula as set forth in the policy. The SEWC has transferred the risk for losses in excess of the two hundred fifty thousand dollar deductible to Zurich. Zurich will pay statutory benefits for all losses incurred by the SEWC.

Premiums received from pool participants were \$21,645, while premiums paid for insurance coverage were \$10,444, during the year ended June 30, 2012, resulting in net premiums of \$11,201.

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 West Virginia Offices of 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. AccessWV and SEWC information is presented since inception, which is less than 10 years.

The rows of the table are defined as follows:

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

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

The supplemental revenue and reserve development information has been prepared by the West Virginia Offices of the Insurance Commissioner's consulting actuary using assumptions and other data furnished by the West Virginia Offices of 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)
(In Millions)

	Fiscal and Policy Year Ended June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating Revenues	\$ 568.7	\$ 678.8	\$ 736.0	\$ 57.0	\$ 221.2	\$ 271.7	\$ 50.0	\$ 50.7	\$ 52.1	\$ 54.5
Statutory Allocations	-	-	-	137.0	41.0	11.0	229.8	198.4	200.8	199.0
Investment Income (Loss)	<u>47.3</u>	<u>23.8</u>	<u>74.1</u>	<u>4.4</u>	<u>109.0</u>	<u>(5.2)</u>	<u>(89.2)</u>	<u>129.9</u>	<u>109.0</u>	<u>39.5</u>
Total Income (1)	616.0	702.6	810.1	198.4	371.2	277.5	190.6	379.0	361.9	293.0
Other expenses (2)	61.2	66.0	73.8	51.3	23.5	24.6	20.0	20.2	20.0	18.4
Original Incurred Loss (3)	410.4	352.4	305.8	0.6	2.7	0.7	1.0	1.5	0.4	0.8
Cumulative Payments (4):										
Year 1	87.1	70.9	72.6	0.0	0.2	0.1	0.1	0.1	0.0	0.1
Year 2	194.1	152.0	141.7	0.4	0.7	0.3	0.2	0.4	0.1	
Year 3	244.1	181.4	169.5	0.6	1.1	0.4	0.3	0.6		
Year 4	265.1	196.6	180.1	0.9	1.3	0.4	0.3			
Year 5	278.1	203.7	187.2	1.2	2.2	0.4				
Year 6	286.1	211.5	194.5	1.5	2.4					
Year 7	295.4	218.4	200.1	1.7						
Year 8	304.0	223.5	204.4							
Year 9	310.3	227.7								
Year 10	315.8									
Re-estimated Incurred Claims and Expenses (5):										
Year 1	410.4	352.4	305.8	0.6	2.7	0.7	1.0	1.5	0.4	0.8
Year 2	470.3	315.6	301.3	3.1	1.9	0.6	0.6	0.9	0.6	
Year 3	385.4	305.9	277.4	3.2	3.8	0.5	0.6	1.6		
Year 4	378.9	301.9	243.7	3.8	4.7	0.5	0.4			
Year 5	370.9	261.7	247.0	3.6	5.3	0.9				
Year 6	337.7	267.1	252.9	1.6	4.0					
Year 7	352.8	275.5	248.6	3.7						
Year 8	371.4	274.1	255.1							
Year 9	367.9	282.6								
Year 10	375.2									
Increase (Decrease) in Estimated Incurred Claims and Expense from end of Policy Year (6)	(35.2)	(69.8)	(50.7)	3.1	1.3	0.2	0.6	0.1	0.2	-

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 and CWPF changes in claims liabilities discounted at 5 percent. The Uninsured Employers Fund and the Self Insured Funds are discounted at 3 percent. Losses include claim adjustment expenses.

	Fiscal and Policy Year Ended June 30, 2012				
	WCF	CWPF	UEF	Self-Insured Funds	Total
Unpaid claims and claim adjustment expenses at beginning of year	<u>\$ 1,921,800</u>	<u>\$ 135,900</u>	<u>\$ 4,700</u>	<u>\$ 500</u>	<u>\$ 2,062,900</u>
Claims and claim adjustment expenses					
Provision for insured events of the current fiscal year	-	-	335	486	821
Changes in provision for insured events of prior fiscal years	36,626	(12,989)	(1,714)	9,630	31,553
Amortization of discount	<u>89,881</u>	<u>6,520</u>	<u>133</u>	<u>14</u>	<u>96,548</u>
Total claims and claim adjustment expenses	<u>126,507</u>	<u>(6,469)</u>	<u>(1,246)</u>	<u>10,130</u>	<u>128,922</u>
Payments					
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	-	-	(52)	-	(52)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(251,407)</u>	<u>(11,131)</u>	<u>(502)</u>	<u>(30)</u>	<u>(263,070)</u>
Total payments	<u>(251,407)</u>	<u>(11,131)</u>	<u>(554)</u>	<u>(30)</u>	<u>(263,122)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,796,900</u>	<u>\$ 118,300</u>	<u>\$ 2,900</u>	<u>\$ 10,600</u>	<u>\$ 1,928,700</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION
ACCESSWV
(Unaudited)
June 30, 2012
(In Thousands)

	Fiscal and Policy Year						
	2006	2007	2008	2009	2010	2011	2012
Premiums	\$ 739	\$ 2,094	\$ 3,121	\$ 3,893	\$ 4,619	\$ 5,366	\$ 5,096
Investment Income	<u>136</u>	<u>265</u>	<u>358</u>	<u>128</u>	<u>(18)</u>	<u>316</u>	<u>201</u>
Total Premium and Investment Income (1)	875	2,359	3,479	4,021	4,601	5,682	5,297
Other Expenses (2)	389	227	328	365	325	377	368
Original Incurred Loss (3)	734	1,469	2,696	3,165	4,238	6,337	6,480
Fiscal Year Payments (4):	314	1,609	2,676	3,155	3,998	6,167	6,330

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SUPPLEMENTAL RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF
CONTRACT INFORMATION

ACCESSWV
(Unaudited)

June 30, 2012
(In Thousands)

The table below presents AccessWV changes in claims liabilities, including claim adjustment expenses.

	Fiscal and Policy Year Ended <u>June 30, 2012</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 720
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	6,480
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>(6,330)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 870</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION
STATE ENTITIES WORKERS' COMPENSATION
(Unaudited)
(In Thousands)

	Fiscal and Policy Year Ended <u>June 30, 2012</u>
Premium Revenue Earned	\$ 21,645
Premiums Paid to Insurance Companies	<u>(10,444)</u>
Total Income/Net Premiums (1)	11,201
Other Expenses (2)	90
Original Incurred Loss (3)	8,894
Cumulative Payments (4) Year1	2,058
Re-estimated Incurred Claims and Expenses (5) Year 1	8,894
Increase (Decrease) in Estimated Incurred Claims and Expense from end of Policy Year (6)	-

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SUPPLEMENTAL RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF
CONTRACT INFORMATION
STATE ENTITIES WORKERS' COMPENSATION
(Unaudited)
(In Thousands)

The table below presents SEWC changes in claims liabilities, as of including claim adjustment expenses.

	Fiscal and Policy Year Ended <u>June 30, 2012</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ -
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	8,894
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>(2,058)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 6,836</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
OPERATING FUND
(Unaudited)

Year Ended June 30, 2012
(In Thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	
Revenues:				
2012 Revenue	\$ 59,195	\$ 59,375	\$ 45,450	\$ (13,925)
Revenue Refunds	<u>-</u>	<u>-</u>	<u>(15)</u>	<u>(15)</u>
Total Revenue Available for Appropriation	<u>59,195</u>	<u>59,375</u>	<u>45,435</u>	<u>(13,940)</u>
Expenditures:				
Personal Services	17,649	17,918	13,598	4,320
Employee Benefits	7,815	7,877	4,973	2,904
Contractual and Professional	14,420	14,420	2,843	11,577
Claims	302	302	-	302
Fund Transfers	-	-	21,905	(21,905)
Other Expenses	<u>15,392</u>	<u>15,393</u>	<u>6,095</u>	<u>9,298</u>
Total Expenditures Charged to Appropriation	<u>55,578</u>	<u>55,910</u>	<u>49,414</u>	<u>6,496</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>3,617</u>	<u>3,465</u>	<u>(3,979)</u>	<u>(7,444)</u>
Budgetary Fund Balance, Beginning of Year	<u>75,024</u>	<u>55,024</u>	<u>59,325</u>	<u>4,301</u>
Budgetary Fund Balance, June 30, 2012	<u>\$ 78,641</u>	<u>\$ 58,489</u>	<u>\$ 55,346</u>	<u>\$ (3,143)</u>

Note to Budgetary Comparison Schedule:

Budgetary Reporting and GAAP

Because the budgetary basis differs from accounting principles generally accepted in the United States, budget and actual amounts in the accompanying Budgetary Comparison Schedule are presented on the budgetary basis. A more detailed budgetary basis report is produced for internal purposes to demonstrate budgetary compliance and is available at the West Virginia Offices of the Insurance Commissioner. A reconciliation that compares the total revenues and total expenditures on a budgetary basis for the year ended June 30, 2012, to comparable amounts presented in conformity with accounting principles generally accepted in the United State is set forth in the schedule on page 59.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION
OPERATING FUND
(Unaudited)

Year Ended June 30, 2012
(In Thousands)

	Operating Funds
SOURCES/INFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total revenue available for appropriation" from the budgetary comparison Schedule	\$ 45,435
Differences-Budget to GAAP:	
Intrafund transactions not included in GAAP revenues	(250)
Reversal of prior year accruals	(5,460)
Accruals booked for current year	7,388
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	\$ 47,113
USES/OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total expenditures charged to appropriations" from the budgetary comparison schedule	\$ 49,414
Differences-Budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(21,655)
Intrafund transactions not included in GAAP expenditures	(250)
Reversal of prior year accruals	(816)
Accruals booked for current year	3,670
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	\$ 30,363

OTHER FINANCIAL INFORMATION

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SCHEDULE OF NET ASSETS
WORKERS' COMPENSATION INFORMATION

June 30, 2012
(In Thousands)

	WC Old Fund Debt Reduction	Coal Workers' Pneumoconiosis	Uninsured Fund	Self-Insured Funds	Total
Assets:					
Current Assets					
Cash and Cash Equivalents	\$ 951,534	\$ 257,172	\$ 9,676	\$ 11,144	\$ 1,229,526
Receivables, Net:					
Statutory Allocations	9,008	-	-	-	9,008
Assessments	-	-	94	-	94
Employer Surcharge	11,430	-	-	-	11,430
Premiums	51	-	-	-	51
Total Current Assets	<u>972,023</u>	<u>257,172</u>	<u>9,770</u>	<u>11,144</u>	<u>1,250,109</u>
Total Assets	<u>972,023</u>	<u>257,172</u>	<u>9,770</u>	<u>11,144</u>	<u>1,250,109</u>
Liabilities:					
Current Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	189,100	11,900	600	868	202,468
Accrued Expenses and Other Liabilities	<u>592</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>593</u>
Total Current Liabilities	<u>189,692</u>	<u>11,900</u>	<u>600</u>	<u>869</u>	<u>203,061</u>
Noncurrent Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	<u>1,607,800</u>	<u>106,400</u>	<u>2,300</u>	<u>9,732</u>	<u>1,726,232</u>
Total Noncurrent Liabilities	<u>1,607,800</u>	<u>106,400</u>	<u>2,300</u>	<u>9,732</u>	<u>1,726,232</u>
Total Liabilities	<u>1,797,492</u>	<u>118,300</u>	<u>2,900</u>	<u>10,601</u>	<u>1,929,293</u>
Net Assets:					
Restricted for:					
Coal Workers' Pneumoconiosis	-	138,872	-	-	138,872
Uninsured Fund	-	-	6,870	-	6,870
Self-Insured Fund	-	-	-	543	543
Unrestricted (Deficit)	<u>(825,469)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(825,469)</u>
Total Net Assets (Deficit)	<u>\$ (825,469)</u>	<u>\$ 138,872</u>	<u>\$ 6,870</u>	<u>\$ 543</u>	<u>\$ (679,184)</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET ASSETS
WORKERS' COMPENSATION INFORMATION

June 30, 2012
(In Thousands)

	WC Old Fund Debt Reduction	Coal Workers' Pneumoconiosis	Uninsured Fund	Self-Insured Funds	Total
Operating Revenues					
Assessments	\$ 51,662	\$ -	\$ 371	\$ 1,093	\$ 53,126
Premium Revenue, Net	696	-	539	-	1,235
Other Operating Revenue	<u>111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111</u>
Total Operating Revenue	<u>52,469</u>	<u>-</u>	<u>910</u>	<u>1,093</u>	<u>54,472</u>
Operating Expenses and Claims Provision					
Claims and Claim Adjustment Provision (See Note 5)	126,507	(6,469)	(1,246)	10,130	128,922
General and Administration	<u>18,116</u>	<u>17</u>	<u>7</u>	<u>85</u>	<u>18,225</u>
Total Operating Expenses and Claims Provision	<u>144,623</u>	<u>(6,452)</u>	<u>(1,239)</u>	<u>10,215</u>	<u>147,147</u>
Operating Income (Loss)	<u>(92,154)</u>	<u>6,452</u>	<u>2,149</u>	<u>(9,122)</u>	<u>(92,675)</u>
Nonoperating Revenues					
Investment Earnings	32,238	6,711	237	284	39,470
Lottery Revenue	11,000	-	-	-	11,000
Personal Income Tax	95,400	-	-	-	95,400
Severance Tax	<u>92,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,635</u>
Total Nonoperating Revenues	<u>231,273</u>	<u>6,711</u>	<u>237</u>	<u>284</u>	<u>238,505</u>
Change in Net Assets (Deficit)	139,119	13,163	2,386	(8,838)	145,830
Total Net Assets (Deficit) - Beginning of Year	<u>(964,588)</u>	<u>125,709</u>	<u>4,484</u>	<u>9,381</u>	<u>(825,014)</u>
Total Net Assets (Deficit) - End of Year	<u>\$ (825,469)</u>	<u>\$ 138,872</u>	<u>\$ 6,870</u>	<u>\$ 543</u>	<u>\$ (679,184)</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SCHEDULE OF CASH FLOWS
WORKERS' COMPENSATION INFORMATION

June 30, 2012
(In Thousands)

	WC Old Fund Debt Reduction	Coal Workers' Pneumoconiosis	Uninsured Fund	Self-Insured Funds	Total
Cash Flows from Operating Activities					
Fees and Assessments	\$ 49,379	\$ -	\$ 412	\$ 1,093	\$ 50,884
Receipts from Employers	666	-	539	-	1,205
Receipts from Other	111	-	-	-	111
Payments to Claimants and Providers	(251,407)	(11,131)	(554)	(30)	(263,122)
Payments to Employees	(518)	-	-	-	(518)
Payments to Suppliers	(17,492)	(17)	(7)	(86)	(17,602)
Net Cash Provided (Used) by Operating Activities	<u>(219,261)</u>	<u>(11,148)</u>	<u>390</u>	<u>977</u>	<u>(229,042)</u>
Cash Flows from Noncapital Financing Activities					
Statutory Allocations	<u>200,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,347</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>200,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,347</u>
Cash Flows from Investing Activities					
Investment Earnings	<u>32,238</u>	<u>6,711</u>	<u>237</u>	<u>284</u>	<u>39,470</u>
Net Cash Provided (Used) by Investing Activities	<u>32,238</u>	<u>6,711</u>	<u>237</u>	<u>284</u>	<u>39,470</u>
Net Increase in Cash and Cash Equivalents	13,324	(4,437)	627	1,261	10,775
Cash and Cash Equivalents - Beginning of Year	<u>938,210</u>	<u>261,609</u>	<u>9,049</u>	<u>9,883</u>	<u>1,218,751</u>
Cash and Cash Equivalents - End of Year	<u>\$ 951,534</u>	<u>\$ 257,172</u>	<u>\$ 9,676</u>	<u>\$ 11,144</u>	<u>\$ 1,229,526</u>
Reconciliation of Operating Income (Loss) to Net Cash provided (used) by Operating Activities					
Operating Income (Loss)	\$ (92,154)	\$ 6,452	\$ 2,149	\$ (9,122)	\$ (92,675)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Net Change in Assets and Liabilities					
Receivables, Net	(2,313)	-	41	-	(2,272)
Estimated Liability for Claims and Claim Adjustment Expenses	(124,900)	(17,600)	(1,800)	10,100	(134,200)
Accrued Expenses and Other Liabilities	<u>106</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>105</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (219,261)</u>	<u>\$ (11,148)</u>	<u>\$ 390</u>	<u>\$ 977</u>	<u>\$ (229,042)</u>