

# West Virginia Offices of the Insurance Commissioner

(A Special Revenue Fund and Enterprise Funds of the State of West Virginia)

---

**Financial Statements**

**Year Ended June 30, 2016**

## **Table of Contents**

<b>Independent Auditor’s Report</b> .....	1
<b>Management’s Discussion and Analysis</b> .....	3
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position.....	8
Statement of Activities .....	9
Fund Financial Statements	
Statement of Net Position - Governmental Fund.....	10
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund.....	11
Statement of Net Position - Proprietary Funds.....	12
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds.....	13
Statement of Cash Flows - Proprietary Funds .....	14
Notes to Financial Statements .....	15
<b>Required Supplemental Information - Unaudited</b>	
Supplemental Reserve Development Information.....	45
Supplemental Revenue and Reserve Development Information – Workers’ Compensation Fund, Coal Workers’ Pneumoconiosis Fund, Self Insured Funds, Uninsured Fund.....	46
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information – Workers’ Compensation Fund .....	47
Supplemental Revenue and Reserve Development Information - State Entities Workers’ Compensation Program .....	48
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information - State Entities Workers’ Compensation Program .....	49
Required Supplementary Information - Budgetary Comparison Schedule - Operating Fund.....	50
Required Supplementary Information - Budgetary Comparison Schedule - Budget-to-GAAP Reconciliation - Operating Fund.....	51
Schedule of the West Virginia Offices of the Insurance Commissioner’s Proportionate Share of the Net Pension Liability.....	52

**West Virginia Offices of the Insurance Commissioner**

---

Schedule of the West Virginia Offices of the Insurance Commissioner Contributions .....	53
Note to the Required Supplementary Pension Information.....	54
<b>Other Financial Information</b>	
Schedule of Net Position (Deficit) - Workers' Compensation Information.....	55
Schedule of Revenues, Expenses and Change in Fund Net Position (Deficit) - Workers' Compensation Information .....	56
Schedule of Cash Flows - Workers' Compensation Information .....	57
<b>Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>.....</b>	<b>58</b>

## **INDEPENDENT AUDITOR'S REPORT**

West Virginia Offices of the Insurance Commissioner  
Charleston, West Virginia

### ***Report on the Financial Statements***

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, a special revenue fund and enterprise funds of the State of West Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the West Virginia Offices of the Insurance Commissioner, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

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, 2016, 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.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, the unaudited supplemental information on pages 45 through 49, and 52 through 54, and budgetary comparison information on pages 50 through 51 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

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's basic financial statements as a whole. The Workers' Compensation other financial information on pages 55 through 57 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this other information is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2016, on our consideration of the West Virginia Offices of the Insurance Commissioner's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the West Virginia Offices of the Insurance Commissioner's internal control over financial reporting and compliance.



**Charleston, West Virginia  
October 31, 2016**

***Management's Discussion And Analysis***

## ***Management's Discussion And Analysis***

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, 2016 and June 30, 2015. 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 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 (now inactive).

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplemental information (unaudited), 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 position 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 supplemental information that presents budgetary comparisons and further explains and supports the information in the financial statements.

### ***Government-Wide Statements***

The statement of net position 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 position - the difference between total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources, 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, the State Entities Worker's Compensation Fund and formerly AccessWV (now inactive).
- 3) Component units - The West Virginia Offices of the Insurance Commissioner has no component units. However, the operating governmental fund of the West Virginia Offices of the Insurance Commissioner is a special revenue fund and its proprietary funds are enterprise funds of the State of West Virginia.

### ***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 West Virginia State Legislature has established these funds to control and manage money for the specific purposes stated in Chapter 23 of the West Virginia 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 formerly AccessWV (now inactive).



**West Virginia Offices of the Insurance Commissioner  
Management's Discussion and Analysis  
June 30, 2016 ( In Thousands)**

The following tables summarizes the financial position and results of operations of the West Virginia Offices of the Insurance Commissioner for the years ended June 30, 2016 and 2015.

Statement of Net Position

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Current Assets	\$ 34,272	\$ 52,457	\$ 1,694,496	\$ 1,661,706	\$ 1,728,768	\$ 1,714,163
Capital Assets, Net	299	489	-	-	299	489
Other Long Term Receivable	242	264	-	-	242	264
Deferred Outflows of Resources	2,682	1,628	-	-	2,682	1,628
Total Assets and Deferred Outflows of Resources	<u>37,495</u>	<u>54,838</u>	<u>1,694,496</u>	<u>1,661,706</u>	<u>1,731,991</u>	<u>1,716,544</u>
Current Liabilities	11,886	12,183	186,273	190,634	198,159	202,817
Long-Term Liabilities	5,583	3,722	1,403,700	1,393,900	1,409,283	1,397,622
Deferred Inflows of Resources	2,057	3,919	-	-	2,057	3,919
Total Liabilities and Deferred Inflows of Resources	<u>19,526</u>	<u>19,824</u>	<u>1,589,973</u>	<u>1,584,534</u>	<u>1,609,499</u>	<u>1,604,358</u>
Net Position						
Invested in Capital Assets						
Net of Related Debt	299	489	-	-	299	489
Restricted	-	-	155,614	167,626	155,614	167,626
Unrestricted (Deficit)	17,670	34,525	(51,091)	(90,454)	(33,421)	(55,929)
Total Net Position	<u>\$ 17,969</u>	<u>\$ 35,014</u>	<u>\$ 104,523</u>	<u>\$ 77,172</u>	<u>\$ 122,492</u>	<u>\$ 112,186</u>

**West Virginia Offices of the Insurance Commissioner**  
**Statement of Activities and Changes in Net Position (Deficit)**  
**For the Fiscal Year Ended June 30, 2016 (In Thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$ 36,353	\$ 43,594	\$ 119,582	\$ 59,809	\$ 155,935	\$ 103,403
Total Operating Revenues	36,353	43,594	119,582	59,809	155,935	103,403
Expenses						
Program Expenses						
Workers' Compensation	-	-	202,406	44,540	202,406	44,540
AccessWV	-	-	(24)	(11)	(24)	(11)
State Entities Workers' Compensation Program Fund	-	-	13,772	13,508	13,772	13,508
General Government	24,809	28,164	-	-	24,809	28,164
Total Operating Expenses	24,809	28,164	216,154	58,037	240,963	86,201
Operating Income (loss)	11,544	15,430	(96,572)	1,772	(85,028)	17,202
Nonoperating Revenues						
Investment Earnings	11	4	19,946	14,947	19,957	14,951
Lottery Revenue	-	-	6,735	11,000	6,735	11,000
Personal Income Tax	-	-	42,400	95,400	42,400	95,400
Severance Tax	-	-	73,119	124,855	73,119	124,855
Total Nonoperating Revenues	11	4	142,200	246,202	142,211	246,206
Change in Net Position Before Reappropriations/Interfund Transfers	11,555	15,434	45,628	247,974	57,183	263,408
Reappropriation to State of West Virginia General Revenue	(33,600)	(16,700)	(13,277)	-	(46,877)	(16,700)
Interfund Transfers	5,000	(34)	(5,000)	34	-	-
Change in Net Position (Deficit)	(17,045)	(1,300)	27,351	248,008	10,306	246,708
Net Position (Deficit), Beginning of Year	35,014	36,314	77,172	(170,836)	112,186	(134,522)
Net Position (Deficit), End of Year	\$ 17,969	\$ 35,014	\$ 104,523	\$ 77,172	\$ 122,492	\$ 112,186

***Financial Highlights (In Thousands)***

The overall financial position of the West Virginia Offices of the Insurance Commissioner improved during fiscal year 2016, resulting in an overall increase in positive net position of \$10,306. During fiscal year 2016, the Workers' Compensation Old Fund deficit decreased by \$39,363 marking the tenth consecutive year of deficit reduction progress for the Old Fund. As of June 30, 2016, the Old Fund's deficit was \$51,091, and the West Virginia Offices of the Insurance Commissioner's total net position was \$122,492.

The West Virginia Offices of the Insurance Commissioner's total assets and deferred outflows of resources increased by \$15,477 during the year, while the agency's total liabilities and deferred inflows of resources also increased by \$5,141. Factors contributing to the increase in assets and deferred outflows of resources were the transferred revenues for Old Fund deficit reduction received during a portion of fiscal year 2016 and the investment earnings on existing assets. The primary factors contributing to the increase in liabilities and deferred inflows of resources include the decrease in the discount rate applied to the long term liabilities of the Workers' Compensation Old Fund and the Coal Worker's Pneumoconiosis Fund, and continued adverse claims development in the Coal Worker's Pneumoconiosis Fund. See Note 5 for additional information regarding discounted liabilities.

The West Virginia Offices of the Insurance Commissioner experienced a decrease of \$6,953 in the fair market value of its investments held during fiscal year 2016. This change in fair market value, when combined with the yearly investment earnings of \$26,910, yield a net investment income of \$19,957 for fiscal year 2016.

Driven by negative trends in the State's economy, particularly in the energy sectors, and the resulting declining revenues in the State of West Virginia's General Fund, the WV Legislature enacted several bills that re-appropriated or redirected revenues from the Offices of the Insurance Commissioner to the State's General Fund. During fiscal year 2016, The West Virginia Offices of the Insurance Commissioner disbursed \$46,877 from various agency funds to the State's General Revenue Fund. See Note 2 for additional information.

The Worker's Compensation Self-insured Funds expanded significantly in terms of the number of claims administered by the Funds and the assets and liabilities of the Self-insured Funds, resulting in a \$13,760 increase in net position as of June 30, 2016. The expansion of the magnitude of the Self-insured Funds was the result of the bankruptcy and default of a large self-insured energy sector employer that formerly operated in the state.

Fiscal Year 2016 marked the fifth 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. 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. As of June 30, 2016, the West Virginia Offices of the Insurance Commissioner had accumulated a Loss Reserve Fund balance of \$18,041.

The Coal Worker's Pneumoconiosis Fund experienced a decline in net position of \$15,770 during fiscal year 2016. The decline was attributable to the combined effects of negative investment earnings during fiscal year 2016, the adverse claims development that increased the estimated liabilities by \$1,200, and the normal expected payout of the claims in a closed fund. The increased liability estimate for the CWP Fund is a result of certain provisions included in the ACA, which made significant changes to the federal black lung act and the implementation of federal rules as the result of the legislation.

## ***Financial Statements***

**West Virginia Offices of the Insurance Commissioner**  
**Statement of Net Position (Deficit)**  
**June 30, 2016 ( In Thousands)**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 30,304	\$ 1,656,498	\$ 1,686,802
Receivables, Net:			
Statutory Allocations	-	10,951	10,951
Assessments	864	75	939
Employer Surcharge	3,099	6,957	10,056
Premiums	-	15	15
Other	5	-	5
Prepaid Assets	-	1,959	1,959
Loss Reserve Fund	-	18,041	18,041
Total Current Assets	<u>34,272</u>	<u>1,694,496</u>	<u>1,728,768</u>
Noncurrent Assets			
Other Receivables	242	-	242
Capital Assets, Net	299	-	299
Total Noncurrent Assets	<u>541</u>	<u>-</u>	<u>541</u>
Total Assets	<u>34,813</u>	<u>1,694,496</u>	<u>1,729,309</u>
Deferred Outflows of Resources			
Deferred Outflows of Resources Related to Pension	2,682	-	2,682
Total Deferred Outflows of Resources	<u>2,682</u>	<u>-</u>	<u>2,682</u>
Total Assets and Deferred Outflows of Resources	<u>37,495</u>	<u>1,694,496</u>	<u>1,731,991</u>
<b>LIABILITIES</b>			
Current Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	185,501	185,501
Compensated Absences	568	-	568
Accrued Expenses and Other Liabilities	1,371	772	2,143
OPEB Liability	9,947	-	9,947
Total Current Liabilities	<u>11,886</u>	<u>186,273</u>	<u>198,159</u>
Noncurrent Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	1,403,700	1,403,700
Net Pension Liability	5,118	-	5,118
Compensated Absences	465	-	465
Total Noncurrent Liabilities	<u>5,583</u>	<u>1,403,700</u>	<u>1,409,283</u>
Total Liabilities	<u>17,469</u>	<u>1,589,973</u>	<u>1,607,442</u>
Deferred Inflows of Resources			
Deferred Inflows of Resources Related to Pension	2,057	-	2,057
Total Deferred Inflows of Resources	<u>2,057</u>	<u>-</u>	<u>2,057</u>
Total Liabilities and Deferred Inflows of Resources	<u>19,526</u>	<u>1,589,973</u>	<u>1,609,499</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	299	-	299
Restricted for:			
Coal Workers' Pneumoconiosis	-	95,783	95,783
Uninsured Fund	-	10,467	10,467
Self-Insured Funds	-	26,267	26,267
AccessWV	-	30	30
State Entities Workers' Compensation			
Program Fund	-	23,067	23,067
Unrestricted (Deficit)	<u>17,670</u>	<u>(51,091)</u>	<u>(33,421)</u>
Total Net Position	<u>\$ 17,969</u>	<u>\$ 104,523</u>	<u>\$ 122,492</u>

See accompanying notes.

**West Virginia Offices of the Insurance Commissioner**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2016 (In Thousands)**

Functions/Programs	Expenses and Claims Provisions	Program Revenues	Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Governmental Activities	Business-Type Activities	Totals
Primary Government					
Governmental Activities					
General Government	\$ 24,640	\$ 36,353	\$ 11,713	\$ -	\$ 11,713
Depreciation, Unallocated	169	-	(169)	-	(169)
Total Governmental Activities	<u>24,809</u>	<u>36,353</u>	<u>11,544</u>	<u>-</u>	<u>11,544</u>
Business-type Activities					
Workers' Compensation	202,406	105,952	-	(96,454)	(96,454)
AccessWV	(24)	-	-	24	24
State Entities Workers' Compensation Program Fund	13,772	13,630	-	(142)	(142)
Total Business-Type Activities	<u>216,154</u>	<u>119,582</u>	<u>-</u>	<u>(96,572)</u>	<u>(96,572)</u>
Total Primary Government	<u>\$ 240,963</u>	<u>\$ 155,935</u>	<u>11,544</u>	<u>(96,572)</u>	<u>(85,028)</u>
General Revenues:					
Investment Earnings			11	19,946	19,957
Lottery Revenue			-	6,735	6,735
Personal Income Tax			-	42,400	42,400
Severance Tax			-	73,119	73,119
Total General Revenues			<u>11</u>	<u>142,200</u>	<u>142,211</u>
Change in Net Position Before Reappropriations/Interfund Transfers			11,555	45,628	57,183
Reappropriation to State of West Virginia General Revenue			(33,600)	(13,277)	(46,877)
Interfund Transfers			<u>5,000</u>	<u>(5,000)</u>	<u>-</u>
Change in Net Position			(17,045)	27,351	10,306
Net Position-Beginning of Year			<u>35,014</u>	<u>77,172</u>	<u>112,186</u>
Net Position-End of Year			<u>\$ 17,969</u>	<u>\$ 104,523</u>	<u>\$ 122,492</u>

See accompanying notes.

**West Virginia Offices of the Insurance Commissioner**  
**Statement of Net Position - Governmental Fund**  
**June 30, 2016 (In Thousands)**

	<u>Operating Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 30,304
Accounts Receivable – Assessments	864
Accounts Receivable – Employer Surcharge	3,099
Accounts Receivable – Other	5
Total Assets	<u>\$ 34,272</u>
<b>LIABILITIES</b>	
Compensated Absences	\$ 568
Accrued Expenses and Other Liabilities	1,371
OPEB Liability	9,947
Total Liabilities	<u>11,886</u>
Fund Balance	
Committed	<u>22,386</u>
Total Fund Balance	<u>22,386</u>
Total Liabilities and Fund Balances	<u>\$ 34,272</u>
Total Fund Balance	\$ 22,386
 Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds	299
Deferred outflows of resources are not financial resources and therefore are not reported in the funds	2,682
Arrears Pay is not a financial resource and therefore is not reported in the funds	242
Net Pension liability is not due and payable in the current period and therefore are not reported in the funds	(5,118)
Long Term Compensated Absences are not due and payable in the current period and therefore are not reported in the funds	(465)
Deferred inflows of resources are not financial resources and therefore are not reported in the funds	<u>(2,057)</u>
Net Position of Governmental Activities	<u>\$ 17,969</u>

See accompanying notes.

**West Virginia Offices of the Insurance Commissioner**  
**Statement of Revenues, Expenditures and Changes in Fund Balance -**  
**Governmental Fund**  
**For the Fiscal Year Ended June 30, 2016 ( In Thousands)**

	<u>Operating Fund</u>
<b>REVENUES</b>	
Fees, Assessments, and Other	\$ 36,353
Investment Earnings	11
Total Revenues	<u>36,364</u>
<b>EXPENDITURES</b>	
General and Administrative	<u>25,652</u>
Total Expenditures	<u>25,652</u>
Excess of Revenues over Expenditures	10,712
Reappropriation to the State of West Virginia General Fund	(33,600)
Interfund Transfers	<u>5,000</u>
Net Change in Fund Balance	(17,888)
Fund Balance - Beginning of Year	<u>40,274</u>
Fund Balance - End of Year	<u><u>\$ 22,386</u></u>
Net Change in Fund Balance	\$ (17,888)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	1,636
Net Pension Expense does not require the use of current financial resources and therefore is not reported in governmental funds.	(465)
Change in Employer Contributions are not included in the Statement of Activities	112
Arrears Pay does not require the use of current financial resources and therefore are not reported in governmental funds.	(22)
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.	(190)
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>(228)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (17,045)</u></u>

See accompanying notes.



**West Virginia Offices of the Insurance Commissioner**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2016 (In Thousands)**

	<u>Workers'</u> <u>Compensation</u>	<u>AccessWV</u>	<u>State Entities</u> <u>Workers'</u> <u>Compensation</u>	<u>Total</u>
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$ 1,637,501	\$ 30	\$ 18,967	\$ 1,656,498
Receivables, Net:				
Statutory Allocations	10,951	-	-	10,951
Assessments	75	-	-	75
Employer Surcharge	6,957	-	-	6,957
Premiums	15	-	-	15
Prepaid Assets	-	-	1,959	1,959
Loss Reserve Fund	-	-	18,041	18,041
Total Current Assets	<u>1,655,499</u>	<u>30</u>	<u>38,967</u>	<u>1,694,496</u>
 Total Assets	 <u>1,655,499</u>	 <u>30</u>	 <u>38,967</u>	 <u>1,694,496</u>
<b>LIABILITIES</b>				
Current Liabilities				
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	179,901	-	5,600	185,501
Accrued Expenses and Other Liabilities	<u>772</u>	<u>-</u>	<u>-</u>	<u>772</u>
Total Current Liabilities	<u>180,673</u>	<u>-</u>	<u>5,600</u>	<u>186,273</u>
Noncurrent Liabilities				
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	<u>1,393,400</u>	<u>-</u>	<u>10,300</u>	<u>1,403,700</u>
Total Noncurrent Liabilities	<u>1,393,400</u>	<u>-</u>	<u>10,300</u>	<u>1,403,700</u>
 Total Liabilities	 <u>1,574,073</u>	 <u>-</u>	 <u>15,900</u>	 <u>1,589,973</u>
Net Position				
Restricted for:				
Coal Workers' Pneumoconiosis	95,783	-	-	95,783
Uninsured Fund	10,467	-	-	10,467
Self-Insured Funds	26,267	-	-	26,267
AccessWV	-	30	-	30
State Entities Workers' Compensation Program Fund	-	-	23,067	23,067
Unrestricted (Deficit)	<u>(51,091)</u>	<u>-</u>	<u>-</u>	<u>(51,091)</u>
Total Net Position	<u>\$ 81,426</u>	<u>\$ 30</u>	<u>\$ 23,067</u>	<u>\$ 104,523</u>

See accompanying notes.

**West Virginia Offices of the Insurance Commissioner**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position -**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016 (In Thousands)**

	<b>Workers'</b> <b>Compensation</b>	<b>AccessWV</b>	<b>State Entities</b> <b>Workers'</b> <b>Compensation</b>	<b>Total</b>
Operating Revenues				
Assessments	\$ 105,651	\$ -	\$ -	\$ 105,651
Premium Revenue, Net	249	-	13,630	13,879
Other Operating Revenue	52	-	-	52
Total Operating Revenue	<u>105,952</u>	<u>-</u>	<u>13,630</u>	<u>119,582</u>
Operating Expenses and Claims Provisions				
Claims and Claim Adjustment Provisions (See Note 5)	191,360	(24)	12,317	203,653
General and Administration	11,046	-	1,455	12,501
Total Operating Expenses and Claims Provisions	<u>202,406</u>	<u>(24)</u>	<u>13,772</u>	<u>216,154</u>
Operating Income (Loss)	<u>(96,454)</u>	<u>24</u>	<u>(142)</u>	<u>(96,572)</u>
Nonoperating Revenues				
Investment Earnings	19,940	6	-	19,946
Lottery Revenue	6,735	-	-	6,735
Personal Income Tax	42,400	-	-	42,400
Severance Tax	73,119	-	-	73,119
Total Nonoperating Revenues	<u>142,194</u>	<u>6</u>	<u>-</u>	<u>142,200</u>
Change in Net Position before Transfers	45,740	30	(142)	45,628
Reappropriation to State of WV General Revenue	(8,477)	(4,800)	-	(13,277)
Interfund Transfer	-	-	(5,000)	(5,000)
Total Net Position - Beginning of Year	<u>44,163</u>	<u>4,800</u>	<u>28,209</u>	<u>77,172</u>
Total Net Position - End of Year	<u>\$ 81,426</u>	<u>\$ 30</u>	<u>\$ 23,067</u>	<u>\$ 104,523</u>

**West Virginia Offices of the Insurance Commissioner**  
**Statement of Cash Flows - Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016 (In Thousands)**

	<b>Workers'</b> <b>Compensation</b>	<b>AccessWV</b>	<b>State Entities</b> <b>Workers'</b> <b>Compensation</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>				
Receipts from Fees and Assessments	\$ 107,051	\$ -	\$ 18,490	\$ 125,541
Receipts from Employers and Policyholders	883	-	-	883
Receipts from Other Operating Revenues	52	-	-	52
Payments to Claimants and Providers	(186,660)	24	(10,917)	(197,553)
Payments for Premiums	-	-	(6,403)	(6,403)
Deposits into Loss Reserve Fund	-	-	(11,122)	(11,122)
Withdrawals from Loss Reserve Fund	-	-	10,917	10,917
Payments to Employees	(22)	-	-	(22)
Payments to Suppliers	(11,686)	-	(20)	(11,706)
Net Cash (Used in) Provided by Operating Activities	<u>(90,382)</u>	<u>24</u>	<u>945</u>	<u>(89,413)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Statutory Allocations	122,200	-	-	122,200
Transfers	(8,477)	(4,800)	(5,000)	(18,277)
Net Cash Provided by Noncapital Financing Activities	<u>113,723</u>	<u>(4,800)</u>	<u>(5,000)</u>	<u>103,923</u>
<b>Cash Flows from Investing Activities</b>				
Investment Earnings	19,940	6	-	19,946
Net Cash Provided by Investing Activities	<u>19,940</u>	<u>6</u>	<u>-</u>	<u>19,946</u>
Net Increase (Decrease) in Cash and Cash Equivalents	43,281	(4,770)	(4,055)	34,456
Cash and Cash Equivalents - Beginning of Year	<u>1,594,220</u>	<u>4,800</u>	<u>23,022</u>	<u>1,622,042</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,637,501</u>	<u>\$ 30</u>	<u>\$ 18,967</u>	<u>\$ 1,656,498</u>
<b>Reconciliation of Operating Loss to Net Cash (Used in) Provided by Operating Activities:</b>				
Operating (Loss) Income	\$ (96,454)	\$ 24	\$ (142)	\$ (96,572)
<b>Adjustments to Reconcile Operating Loss to Net Cash (Used in) Provided by Operating Activities:</b>				
<b>Net Change in Assets and Liabilities:</b>				
Receivables, Net	2,034	-	-	2,034
Loss Reserve Fund	-	-	(205)	(205)
Prepaid Premiums	-	-	(108)	(108)
Estimated Liability for Claims and Claim Adjustment Expenses	4,700	-	1,400	6,100
Accrued Expenses and Other Liabilities	(662)	-	-	(662)
Net Cash (Used in) Provided by Operating Activities	<u>\$ (90,382)</u>	<u>\$ 24</u>	<u>\$ 945</u>	<u>\$ (89,413)</u>

See accompanying notes.

***Notes To Financial Statements***

## **Notes to Financial Statements**

### **1. Financial Reporting Entity**

The West Virginia Offices of the Insurance Commissioner is a special revenue fund and enterprise funds of the State of West Virginia (the State) and, accordingly, is reported as such as part of the primary government in the State's Comprehensive Annual Financial Report (CAFR). The West Virginia Offices of the Insurance Commissioner is responsible for the regulation and oversight of all insurance transactions conducted in the State. 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 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. 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. The residual assets and liabilities of the former Worker's Compensation Fund are now reported in a fund known as the Workers' Compensation Old Fund (Old 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 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 in run-off status under the administrative oversight of the West Virginia Offices of the Insurance Commissioner.

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 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 established by Senate Bill 1004 consist of the Uninsured Employers' Fund (UEF) and the Self-Insured Employers' Funds (SI).

The 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 West Virginia Code (the Code). 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 (ten thousand dollars) against an employer if the employer fails to provide mandatory coverage.

## **West Virginia Offices of the Insurance Commissioner Notes to Financial Statements**

---

The Self-Insured Guaranty Risk Pool is a 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 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 a 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 are the claims liabilities of bankrupt or defaulted self-insured employers with dates of injury prior to July 1, 2004, provided that the default of the employer took place after the termination of the WCC on December 31, 2005.

The West Virginia Offices of the Insurance Commissioner utilizes the services of third party administrators to manage the claims activity of the workers' compensation related funds. Beginning January 1, 2008 thru May 2014, third-party administrator claims management services were divided between Sedgwick Claims Management Services, HealthSmart Disability Management, and American Mining Claims Services Incorporated. In May 2014, all claims being handled by American Mining Claims Services Incorporated were transitioned to HealthSmart Benefit Solutions, Inc.

On March 12, 2011, the West Virginia 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 State Entities Workers' Compensation program (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 has fulfilled certain responsibilities for the State of West Virginia related to the implementation of federal legislation enacted on March 23, 2010, known as the Patient Protection and Affordable Care Act (ACA). In order to accomplish the implementation of the insurance regulatory responsibilities outlined in the ACA, the West Virginia Offices of the Insurance Commissioner has been awarded federal grants that are accounted for in the entity's Operating Fund.

The West Virginia Offices of the Insurance Commissioner administered the West Virginia Health Insurance Plan known as AccessWV, which was a high-risk health insurance pool. AccessWV provided health insurance for medically uninsurable individuals and their dependents. Due to the federal government's enactment of the Patient 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, AccessWV ceased to provide insurance coverage on March 31, 2014.

The Old Fund, the CWPF, the UEF, 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 maintains an Operating Fund that is reported as the general fund for financial statement purposes. Certain general and administrative expenses of the other funds are paid from the Operating Fund. All transactions related to federal grants are also reported in 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, 2016, and the changes in its financial position and its cash flows for the year then ended.

## **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 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The West Virginia Offices of the Insurance Commissioner is also subject to GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62), which incorporated 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.

Additionally, the West Virginia Offices of the Insurance Commissioner is subject to GASB Statement No. 66, Technical Corrections -2012 – an amendment of GASB Statements No. 10 and No. 62 (GASB 66), which resolved conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports.

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 Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 (GASB 67), GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68), and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68 (GASB 71).

### ***Use of Estimates***

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.

## **West Virginia Offices of the Insurance Commissioner Notes to Financial Statements**

---

### ***Budgetary Data***

Pursuant to §5A-2-12 of 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 Revenue 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 non-appropriated 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, 2016, totaled \$53,658. 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 \$1,629,619, and cash pooled with funds of other state agencies and invested by the Board of Treasury Investments (BTI) was \$3,525. 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.

### ***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 up to the retention level established by the insurance contract.

### ***Receivables***

Net receivables at the date of the statement of net position represent management's best estimate of the net realizable value of taxes, fees, assessments, premiums and related revenue due as of June 30, 2016. 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, 2016, cost of capital assets was \$3,598 with \$169 current depreciation expense and \$3,299 accumulated depreciation.

### ***Deferred Outflows of Resources***

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Balances of deferred outflows of resources may be presented in the statement of net position or governmental fund balance sheet as aggregations of different types of deferred amounts. At June 30, 2016 deferred outflows in the statement of net position were composed of \$2,682 related to Employer contributions to the Public Employees Retirement System (PERS) made during the current fiscal year and differences between expected and actual experience.



**West Virginia Offices of the Insurance Commissioner  
Notes to Financial Statements**

---

***Estimated Liability for Unpaid Claims and Claim Adjustment Expense***

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 ultimate net cost of all unpaid claims and claim adjustment expenses incurred as of the date of the statement of net position (deficit). 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 expense is adequate. However, due to the inherent variability of the assumptions used to estimate this liability, the actual incurred losses and loss adjustment expenses may vary significantly from the estimated 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 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 by accruing 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.

During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for other 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, the Retiree Health Benefit Trust Fund, 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 1½ 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 toward insurance premiums when they retire. The liability is now provided for under the multiple employer cost-sharing plan sponsored by the State.

OPEB costs are accrued based upon invoices received from PEIA based upon actuarial required contribution amounts. The actuarial required contributions were \$1,102, \$1,051, and \$742 for the years ended June 30, 2016, 2015, and 2014 respectively. The actuarial amounts contributed were \$478, \$501, and \$551 for the years ended June 30, 2016, 2015, and 2014 respectively. At June 30, 2016, the estimated current liability related to OPEB costs was \$9,947.

**West Virginia Offices of the Insurance Commissioner  
Notes to Financial Statements**

---

***Deferred Inflows of Resources***

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. Balances of deferred inflows of resources may be presented in the statement of net position or governmental fund balance sheet as aggregations of different types of deferred amounts. At June 30, 2016 deferred inflows in the statement of net position were composed of \$2,057 related to the difference between projected and actual earnings on pension plan investments, differences in assumptions, and changes in proportion, and differences between employer contributions and the proportionate share of contributions.

***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 \$122,254 of revenues allocated to Old Fund Debt Reduction during fiscal year 2016. The allocations are comprised of \$73,119 in severance tax proceeds, \$42,400 in personal income tax proceeds and \$6,735 from West Virginia Lottery proceeds.

***Re-appropriation to the State's General Revenue Fund***

During fiscal year 2016, legislation was passed requiring a re-appropriation or redirection of \$46,877 from the West Virginia Offices of the Insurance Commissioner various agency funds to the State of West Virginia General Fund.

<b>Fund Transferred From</b>	<b>Fund Name Transferred From</b>	<b>Amount Transferred</b>	<b>Transfer Date</b>	<b>Related Legislation</b>
7161	AccessWV	\$ 4,800	2/5/2016	SB 364
7150	Exam Revolving Fund	1,940	2/5/2016	SB 364
7150	Exam Revolving Fund	660	3/2/2016	SB 341
7152	OIC Operating Fund	26,000	3/2/2016	SB 341
7152	OIC Operating Fund	5,000	6/5/2016	SB 1002
7169	Debt Reduction Fund	1,163	4/11/2016	SB 419
7169	Debt Reduction Fund	5,953	5/9/2016	SB 419
7169	Debt Reduction Fund	1,323	6/3/2016	SB 419
7169	Debt Reduction Fund	29	6/28/2016	SB 419
7169	Debt Reduction Fund	<u>9</u>	6/30/2016	SB 419
Total transferred to the State of West Virginia General Fund		<u>\$ 46,877</u>		

## **West Virginia Offices of the Insurance Commissioner Notes to Financial Statements**

---

### ***Net Position (Deficit)***

The West Virginia Offices of the Insurance Commissioner displays net position (deficit) 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 position 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 position - Restricted net position should be reported when constraints placed on the net position 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, CWPF, Uninsured Employers' Fund, Self-Insured Employers' Funds, AccessWV and the SEWC are restricted for payment of related expenses.
- Unrestricted net position (deficit) - Unrestricted net position (deficit) consist of net positions that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." In the governmental environment, net positions 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 position.

### ***Fund Balance***

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:

- Non-spendable fund balances – These include amounts that cannot be spent because they are in a non-spendable 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.

***Newly Adopted Statements Issued by the GASB***

The Governmental Accounting Standards Board issued Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The adoption of GASB Statement No. 72 had no impact on the June 30, 2016 financial statements.

The Governmental Accounting Standards Board has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of GASB Statement No. 76 had no impact on the June 30, 2016 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, effective for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities. The adoption of GASB Statement No. 73 had no impact on the June 30, 2016 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for fiscal years beginning after June 15, 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The adoption of GASB Statement No. 79 had no impact on the June 30, 2016 financial statements.

***Future Adoption of Accounting Pronouncements***

The Governmental Accounting Standards Board has also issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after June 15, 2016. The requirements of this Statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. Management has not yet determined the effect that the adoption of GASB Statement No. 74 may have on its financial statements.

## **West Virginia Offices of the Insurance Commissioner Notes to Financial Statements**

---

The Governmental Accounting Standards Board has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. Management has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 77, *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015. The requirements of this Statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. Management has not yet determined the effect that the adoption of GASB Statement No. 77 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for fiscal years beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Management has not yet determined the effect that the adoption of GASB Statement No. 78 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Management has not yet determined the effect that the adoption of GASB Statement No. 82 may have on its financial statements.

### ***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 31, 2016, the date the financial statements were available for issuance. No items were noted that merit recognition or disclosure in the financial statements.

### **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.

**West Virginia Offices of the Insurance Commissioner  
Notes to Financial Statements**

During fiscal year 2016, stock holdings were limited to 30 percent of the Old Fund portfolio. The equity allocation was also limited to 30 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 the Worker's Compensation Uninsured Employers' Fund, the Self-Insured Security Risk Pool and the Self-Insured Guaranty Risk Pool were invested 30 percent in equity securities and 70 percent in fixed income like securities and cash during fiscal year 2016.

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.

The following schedule provides the value of the West Virginia Offices of the Insurance Commissioner's balances in the various pools at June 30, 2016.

<u>Investment Pool</u>	<u>WC Old Fund</u>	<u>CWPF</u>	<u>Uninsured</u>	<u>Self Insured Guaranty</u>	<u>Self Insured Security</u>
Large Cap Domestic	\$ 157,082	\$ 29,399	\$ 1,298	\$ 3,968	\$ 6,496
Non-Large Cap					
Domestic	36,940	7,022	306	940	1,551
International					
Nonqualified	42,953	10,198	498	721	331
International Equity	154,844	27,440	1,142	4,284	7,818
Short-Term Fixed					
Income	43,590	10,886	1,093	1,240	1,913
Total Return Fixed					
Income	472,962	57,314	2,002	7,552	12,840
Core Fixed Income	219,013	26,176	915	3,459	5,829
TIPS	132,677	25,066	1,096	3,423	5,523
Opportunistic Debt	24,783	2,918	109	398	643
Hedge Fund	-	50,215	2,383	7,433	10,936
	<u>\$ 1,284,844</u>	<u>\$ 246,634</u>	<u>\$ 10,842</u>	<u>\$ 33,418</u>	<u>\$ 53,880</u>
Total by Pool					

***Large Cap Domestic***

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

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

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

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

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

Custodial Credit Risk - At June 30, 2016, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 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.

Interest Rate Risk - The Pool is exposed to interest rate risk from certain investments made with cash collateral for securities loaned. The weighted average maturity for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the weighted average maturities (WAM) for applicable investments made with cash collateral for securities loaned as of June 30, 2016.

Investment Type	Fair Value	WAM (days)
Repurchase agreements	\$ 314,482	2
Time deposits	105,545	1
Total	\$ 420,027	1

Foreign Currency Risk- The Pool is exposed to no or minimal foreign currency risk.

***Non-Large Cap Domestic***

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

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

The following table provides information on the weighted average credit ratings of the Pool's investments as of June 30, 2016.

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

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

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

Custodial Credit Risk - At June 30, 2016, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 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.

Interest Rate Risk - The Pool is exposed to interest rate risk from certain investments made with cash collateral for securities loaned. The weighted average maturity for investments made with cash collateral for securities loaned is not to exceed 90 days. The maturity of floating rate notes is assumed to be the next interest reset date. The following table provides the weighted average maturities (WAM) for applicable investments made with cash collateral for securities loaned as of June 30, 2016.

Investment Type	Fair Value	WAM (days)
Repurchase agreements	\$ 218,904	2
Time deposits	73,468	1
Total	\$ 292,372	1

Foreign Currency Risk - The Pool is exposed to no or minimal foreign currency risk.

***International Nonqualified***

The Pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2016, was \$141,311. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. The Pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.



**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

***International Equity***

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

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

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

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

Custodial Credit Risk - At June 30, 2016, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 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.

Interest Rate Risk - The Pool is exposed to interest rate risk from certain investments made with cash collateral for securities loaned. The weighted average maturity for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the weighted average maturities (WAM) for applicable investments made with cash collateral for securities loaned as of June 30, 2016.

Investment Type	Fair Value	WAM (days)
Repurchase agreements	\$ 112,380	2
Time deposits	37,716	1
Total	\$ 150,096	1

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

Foreign Currency Risk - The Pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. The amounts at fair value (in U.S. dollars) of investments and cash denominated in foreign currencies as of June 30, 2016 are as follows:

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

This table excludes investments held by the Pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated investments is \$531,171 or 17.5 percent.

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

***Short-Term Fixed Income***

Credit Risk - The IMB limits the exposure to credit risk in the Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor's and P-1 by Moody's. Additionally, the Pool must have at least 15 percent of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of the Pool's investments as of June 30, 2016.

Investment Type	Moody's	S&P	Carrying Value	Percent of Total Investments
Commercial paper	P-1	A-1	\$ 52,734	14.9%
Money market mutual fund	Aaa	AAA	82,161	23.2
U.S. Government agency bonds	P-1	A-1	130,482	37.0
U.S. Treasury bonds	Aaa	AA	88,046	24.9
Total rated investments			\$ 353,423	100.0%

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

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

Custodial Credit Risk - At June 30, 2016, this pool held no investments 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 investments are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk - The weighted average maturity of the investments of the Pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the applicable asset types in the Pool as of June 30, 2016.

Investment Type	Carrying Value	WAM (days)
Commercial paper	\$ 52,734	22
Money market mutual fund	82,161	N/A
Repurchase agreement	13,000	1
U.S. Government agency issues	130,482	55
U.S. Treasury issues	74,786	28
Total applicable investments	\$ 353,163	39

Foreign Currency Risk – The Pool has no investments that are subject to foreign currency risk.

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

***Total Return Fixed Income***

Credit Risk - The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted average credit ratings of the rated assets in the Pool as of June 30, 2016.

Investment Type	Moody's	S&P	Fair Value	Percent of Total Investments
Bank loan	B	B	\$ 936	0.0%
Corporate asset backed issues	A	A	36,980	1.7
Corporate CMO	Ba	BB	27,879	1.3
Corporate preferred securities	Ba	BB	10,472	0.5
Foreign asset backed issues	A	A	11,726	0.5
Foreign corporate bonds	Baa	BBB	293,586	13.6
Foreign government bonds	Ba	BB	217,700	10.1
Money market mutual funds	Aaa	AAA	66,469	3.1
Municipal bonds	A	A	40,081	1.9
Time deposits	P-1	A-1	20,028	0.9
U.S. corporate bonds	Baa	BBB	542,373	25.2
U.S. Government agency bonds	Aaa	AA	3,332	0.2
U.S. Government agency CMO	Aaa	AA	64,627	3.0
U.S. Government agency CMO interest- only	Aaa	AA	6,519	0.3
U.S. Government agency MBS	Aaa	AA	275,666	12.8
U.S. Government agency TBA	Aaa	AA	637	0.0
U.S. Treasury bonds	Aaa	AA	107,797	5.0
U.S. Treasury inflation-protected securities	Aaa	AA	26,550	1.2
Total rated investments			1,753,358	81.3
Common stock			32,528	1.5
Corporate ABS residual			5,385	0.3
Investments in other funds			360,669	16.8
Options contracts purchased			1,192	0.1
Total investments			\$ 2,153,132	100.0%

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

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

Custodial Credit Risk - At June 30, 2016, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102 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.

Interest Rate Risk - The IMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. The following table provides the weighted average effective duration for the various asset types in the Pool as of June 30, 2016.

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

Investment Type	Fair Value	Effective Duration (years)
Bank loan	\$ 936	0.1
Corporate asset backed issues	36,980	1.8
Corporate ABS residual	5,385	N/A
Corporate CMO	27,879	1.9
Corporate preferred securities	10,472	0.1
Foreign asset backed issues	11,726	2.4
Foreign corporate bonds	292,987	6.6
Foreign government bonds	217,698	6.0
Investment in other funds	360,669	2.9
Money market mutual funds	66,469	N/A
Municipal Bonds	40,081	10.4
Options contracts purchased	1,192	N/A
Repurchase agreements	59,675	0.0
Time deposits	20,028	0.0
U.S. corporate bonds	540,049	8.3
U.S. Government agency bonds	2,699	3.3
U.S. Government agency CMO	64,627	0.9
U.S. Government agency CMO interest-only	6,519	34.0
U.S. Government agency MBS	254,842	1.7
U.S. Government agency TBA	637	0.0
U.S. Treasury bonds	101,702	3.0
U.S. Treasury inflation-protected securities	26,550	19.5
Total investments	\$ 2,149,802	5.1

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2016, the Pool held \$407,958 of these securities. This represents approximately 19 percent of the value of the Pool's securities.

Foreign Currency Risk - The Pool has foreign government bonds and foreign corporate bonds that are denominated in foreign currencies and are exposed to foreign currency risks. The Pool also has foreign denominated futures contracts, a currency swap, and foreign exchange forward contracts. Refer to Notes 7, 8, and 9, respectively, for details on these contracts. Additionally, the Pool has indirect exposure to foreign currency risk through its ownership interests in certain of the commingled investment pools. Approximately \$82,390, or 23 percent, of the commingled investment pools hold substantially all of their investments in foreign currencies. This represents approximately 4 percent of the value of the Pool's securities. The amounts at fair value (in U.S. dollars) of investments and cash denominated in foreign currencies as of June 30, 2016, are as follows:

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

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

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

**Core 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 the Pool as of June 30, 2016.

Investment Type	Moody's	S&P	Fair Value	Percent of Total Investments
Corporate asset backed issues	Aa	AA	\$ 71,452	6.7%
Corporate CMO	A	A	58,738	5.5
Corporate CMO interest-only	Ba	AAA	713	0.1
Corporate CMO principal-only	B	AA	200	0.0
Foreign asset backed issues	Aa	AA	1,793	0.2
Foreign corporate bonds	A	A	44,793	4.2
Foreign government bonds	Aa	A	7,252	0.7
Money market mutual funds	Aa	AAA	35,271	3.3
Municipal bonds	Aa	AA	9,782	0.9
Time deposits	P-1	A-1	13,097	1.2
U.S. corporate bonds	A	A	222,175	21.1
U.S. Government agency bonds	Aaa	AA	23,219	2.2
U.S. Government agency CMO	Aaa	AA	129,989	12.3

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

U.S. Government agency CMO interest-only	Aaa	AA	5,229	0.5
U.S. Government agency CMO principal-only	Aaa	AA	9,002	0.8
U.S. Government agency MBS	Aaa	AA	201,029	19.0
U.S. Treasury bonds	Aaa	AA	204,730	19.3
U.S. Treasury inflation protected security	Aaa	AA	431	0.0
Total rated investments			1,038,895	98.0
Common stock			21,270	2.0
Total investments			\$ 1,060,165	100.0%

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

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

Custodial Credit Risk - At June 30, 2016, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102 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.

Interest Rate Risk - The IMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. The following table provides the weighted average effective duration for the various asset types in the Pool as of June 30, 2016.

Investment Type	Fair Value	Effective Duration (years)
Corporate asset backed issues	\$ 71,452	2.1
Corporate CMO	58,738	2.5
Corporate CMO interest-only	713	(17.4)
Corporate CMO principal-only	200	4.2
Foreign asset backed issues	1,793	0.1
Foreign corporate bonds	44,399	5.7
Foreign government bonds	7,251	9.0
Money market mutual funds	35,271	N/A
Municipal bonds	9,782	14.4
Repurchase agreements	39,023	0.0
Time deposits	13,097	0.0
U.S. Corporate bonds	220,665	6.3
U.S. Government agency bonds	22,805	3.8
U.S. Government agency CMO	129,989	3.0
U.S. Government agency CMO interest-only	5,229	5.9
U.S. Government agency CMO principal-only	9,002	7.2
U.S. Government agency MBS	187,410	4.4
U.S. Treasury bonds	200,740	8.5
U.S. Treasury inflation protected security	431	3.4
Total investments	\$ 1,057,990	4.9

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2016, the Pool held \$464,526 of these securities. This represents approximately 44 percent of the value of the Pool's securities.

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

***TIPS***

Credit Risk – The IMB limits the exposure to credit risk in this pool by primarily investing in U.S. Treasury inflation protected securities. The following table provides the weighted average credit ratings of the rated assets in the Pool as of June 30, 2016.

Investment Type	Moody's	S&P	Fair Value	Percent of Total Investments
Money market mutual fund	Aaa	AAA	\$ 127	0.0%
U.S. Treasury inflation-protected securities	Aaa	AA	374,622	100.0
Total investments			\$ 374,749	100.0%

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

Custodial Credit Risk – At June 30, 2016, the Pool held no securities that were subject to custodial credit risk. All securities are held by the IMB's custodian in the name of the IMB.

Interest Rate Risk – The IMB monitors interest rate risk of the Pool by evaluating the real modified duration of the investments in the Pool. The following table provides the weighted average real modified duration for the applicable asset types in the Pool as of June 30, 2016.

Investment Type	Fair Value	Real Modified Duration (years)
Money market mutual fund	\$ 127	N/A
U.S. Treasury inflation-protected securities	374,622	7.9
Total investments	\$ 374,749	7.9

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

***Opportunistic Debt***

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



## **West Virginia Offices of the Insurance Commissioner Notes to Financial Statements**

---

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

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

Interest Rate Risk - The Pool is exposed to interest rate risk from investments in direct lending funds. The IMB manages interest rate risk of the Pool by requiring at least 80 percent of the fund holdings that mature in more than one year to have variable or floating interest rate structures.

Foreign Currency Risk - The investments in direct lending funds might be indirectly exposed to foreign currency risk.

### ***Hedge Fund***

The Pool holds shares in hedge funds and shares of a money market fund with the highest credit rating. The investments in hedge funds might be indirectly exposed to foreign currency risk, credit risk, interest rate risk, and/or custodial credit risk. The Pool is restricted from investing more than 10 percent of the value of the pool with any single manager. At June 30, 2016, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

### ***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, 2016, the Operating Fund has \$3,525 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 West Virginia Legislature established the BTI 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 monies 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 invested in any direct obligation of or obligation guaranteed by the United States government.

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

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 Federated Investors 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 A+ 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.

The following table provides information on the credit ratings of the West Virginia Money Market Pool’s investments:

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value</u>	<u>Percent of Pool Assets</u>
	<u>Moody’s</u>	<u>S&amp;P</u>		
Commercial Paper	P-1	A-1+	\$ 290,118	18.65%
	P-1	A-1	632,773	40.68
Corporate Bonds and Notes	Aa1	AA-	23,014	1.48
	Aa3	AA-	15,000	0.96
	A2	A	11,268	0.72
U.S. Agency Bonds	Aaa	AA+	9,499	0.61
U.S. Treasury Notes *	Aaa	AA+	231,398	14.88
U.S. Treasury Bills *	P-1	A-1+	19,982	1.28
Negotiable Certificates of Deposit	Aa2	AA-	3,000	0.19
	Aa3	AA-	6,000	0.39
	P-1	A-1+	78,006	5.02
	P-1	A-1	121,001	7.78
Money Market Funds	Aaa	AAAm	72,370	4.65
Repurchase Agreements (Underlying Securities):				
U.S. Treasury Notes *	Aaa	AA+	42,100	2.71
			<u>\$ 1,555,529</u>	<u>100.00%</u>

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

**West Virginia Offices of the Insurance Commissioner  
Notes to Financial Statements**

---

**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 non-cancelable. These leases are accounted for as operating leases with the lease payments recorded as rent expense as they become payable.

Future minimum scheduled rentals under operating leases at June 30, 2016, were as follows:

2017	\$	1,471
2018		1,285
2019		562
2020		240
2021		81
Thereafter		<u>51</u>
Total minimum lease payments	\$	<u>3,690</u>

Rental expense was \$1,471 for the year ended June 30, 2016.

**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's 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 CWPf have been discounted using a rate of 4.5 percent at June 30, 2016. The claims liabilities of the Uninsured Employers' Fund and the Self-Insured Employers' Funds have been discounted at 3 percent at June 30, 2016. The impact of discounting on the stated value of the liabilities is significant. A half percent (0.5%) change to the discount rate applied has a material impact on the presentation value of the liabilities. For example, a half percent decrease in the discount rate increased the estimated value of the June 30, 2016 Old Fund liabilities by approximately \$51 million, and a half percent decrease in the discount rate increased the estimated value of the June 30, 2016 Coal Workers' Pneumoconiosis Fund liabilities by approximately \$6 million.

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

At June 30, 2016, the total undiscounted claims liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds approximated \$2.42 billion, and the undiscounted claims liability for the Old Fund approximated \$2.09 billion. The total discounted claims liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds approximated \$1.57 billion, and the discounted claims liability for the Old Fund approximated \$1.36 billion. Invested assets of the Old Fund are not sufficient at

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

---

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 \$0.49 billion to a claims liability of approximately \$2.07 billion and the Old Fund's discounted claims liability would have increased to a claims liability of approximately \$1.85 billion. The West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds total deficit would increase to approximately \$0.41 billion and the Old Funds' deficit would increase to approximately \$0.55 billion at June 30, 2016.

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, 2016, 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 4.5 percent for the Old Fund and CWPF and 3 percent for the UEF and SI Funds.

Unpaid claims and claim adjustment expenses at beginning of year	<u>\$ 1,568,600</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	1,297
Changes in provision for insured events of prior fiscal years	123,795
Amortization of discount	<u>66,268</u>
Total claims and claim adjustment expenses	<u>191,360</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(381)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(186,279)</u>
Total payments	<u>(186,660)</u>
Unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,573,300</u>

The following schedule represents the reconciliation of the unpaid claims liability for SEWC at June 30, 2016, including an analysis of changes in aggregate liabilities for claim and claim adjustment expenses for the year then ended. Liabilities are presented on an undiscounted basis.

Unpaid claims and claim adjustment expenses at beginning of year	<u>\$ 14,500</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	11,785
Changes in provision for insured events of prior fiscal years	<u>532</u>
Total claims and claim adjustment expenses	<u>12,317</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(4,286)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(6,631)</u>
Total payments	<u>(10,917)</u>
Unpaid claims and claim adjustment expenses at end of the year	<u>\$ 15,900</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 twenty-one 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, the 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: 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 annually to yield approximately \$100 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 West Virginia employers expected to yield approximately \$43 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.

On February 26, 2016, the WV Legislature passed Senate Bill 419, amending and reenacting the following sections of the Code of West Virginia: §4-11A-18, §11-13A-3b, §11-13V-4, §11-21-96, §23-2-C-3, §29-22A-10d and §29-22A-10e all relating to termination of transfers of certain tax revenues to the Workers' Compensation Debt Reduction Fund; termination of additional severance taxes on coal, natural gas and timber on or after July 1, 2016 and authorizing redirection of the additional severance tax revenues to the General Fund prior to the termination date, and authorizing redirection by Executive Order of amounts collected from employer surcharges and assessments on worker's compensation insurance policies for periods prior to June 30, 2017 and authorizing redirection of amounts collected from certain deposits of revenues derived from net terminal income for periods prior to June 30, 2017. Subsequent to fiscal year 2017, the employer surcharges and lottery revenues, estimated to yield approximately \$50 million annually, will remain statutorily dedicated to the Old Fund until the deficit is eliminated.

A summary of the future impact of Senate Bill 419 is as follows:

With regard to the impact of Senate Bill 419 on future fiscal years and on resolution of the Worker's Compensation Old Fund deficit the Governor may, by Executive Order, redirect one-half of the deposits of the amount collected from premium surcharges, self-insured assessments and net terminal income deposits for any period commencing after June 30, 2016 and ending before July 1, 2017 (fiscal year 2017) to the General Revenue Fund. Thereafter, the surcharges, self-insured assessments and net terminal proceeds may be retained by the Old Fund until the unfunded liability has been eradicated.

## **West Virginia Offices of the Insurance Commissioner Notes to Financial Statements**

---

### **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). 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 supplemental information for PERS. That report can be obtained by writing to CPRB, Capitol Complex, Building 5 Room 1000, Charleston, West Virginia 25305.

*Benefits provided* - Employees who retire at or after age 60 with five or more years of credited service, or at least age 55 with age and service equal to 80 or greater, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-life annuity equal to two percent of the employee's final average salary. Final average salary is the average of the highest annual compensation received by an employee during any period of three consecutive years of credited service included within fifteen years of credited service immediately preceding the termination date of employment with a participating public employer or, if the employee has less than three years of credited service, the average of the annual rate of compensation received by the employee during the total years of credited service. Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62.

*Contributions* - While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. Current funding policy requires employer contributions of 13.5%, 14.0%, and 14.5% for the years ended June 30, 2016, 2015, and 2014, respectively. For periods prior to July 1, 2015, the employee contribution rate was 4.5%. Effective July 1, 2015 the employee contribution increases to 6.0% for those hired for the first time who have never been a member of PERS. The West Virginia Offices of the Insurance Commissioner's contribution to the Plan, excluding the employee's contribution paid by the West Virginia Offices of the Insurance Commissioner, approximated \$1,636, \$1,741, and \$1,833 for the fiscal years ended June 30, 2016, 2015, and 2014, respectively.

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the West Virginia Offices of the Insurance Commissioner reported a liability of \$5,118 for its proportionate share of the net pension liability. The net pension liability, deferred inflows of resources, deferred outflows of resources, and pension expense were determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015, which is the measurement date. The West Virginia Offices of the Insurance Commissioner's proportion of the net pension liability was based on the West Virginia Offices of the Insurance Commissioner's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2015. At June 30, 2015, the West Virginia Offices of the Insurance Commissioner's proportionate share was 0.92%, which was a decrease of .02% from its proportionate share measured as of June 30, 2014.

For the year ended June 30, 2016, the West Virginia Offices of the Insurance Commissioner recognized pension expense of \$465. At June 30, 2016, the West Virginia Offices of the Insurance Commissioner reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**West Virginia Offices of the Insurance Commissioner**  
**Notes to Financial Statements**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 1,122
Differences between expected and actual experience	1,046	-
Deferred difference in assumptions	-	616
Changes in proportion and differences between West Virginia Offices of the Insurance Commissioner contributions and proportionate share of contributions	-	319
West Virginia Offices of the Insurance Commissioner contributions subsequent to the measurement date	<u>1,636</u>	<u>-</u>
Total	<u>\$ 2,682</u>	<u>\$ 2,057</u>

\$1,636 reported as deferred outflows of resources related to pensions resulting from West Virginia Offices of the Insurance Commissioner contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as credits to pension expense as follows:

<u>Year ended June 30:</u>	
2017	\$ 196
2018	196
2019	196
2020	196
2021	226

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Weighted Average Expected Real Rate of Return</u>
US Equity	27.5%	7.0%	1.92%
International Equity	27.5%	7.7%	2.12%

**West Virginia Offices of the Insurance Commissioner  
Notes to Financial Statements**

Core Fixed Income	7.5%	2.7%	0.20%
High Yield Fixed Income	7.5%	5.5%	0.41%
Real Estate	10.0%	5.6%	0.56%
Private Equity	10.0%	9.4%	0.94%
Hedge Funds	10.0%	4.7%	0.47%
Cash	0.0%	1.5%	0.0%
Total	<u>100.0%</u>		<u>6.62%</u>
Inflation (CPI)			<u>1.90%</u>
			<u>8.52%</u>

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

*Sensitivity of the West Virginia Offices of the Insurance Commissioner's proportionate share of the net pension liability to changes in the discount rate* - The following table presents the West Virginia Offices of the Insurance Commissioner's proportionate share of the net pension liability calculated using the current discount rate of 7.5% as well as the West Virginia Offices of the Insurance Commissioner's proportionate share of the net pension liability if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	Total Net Pension Liability		
	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
PERS	<u>\$ 11,803</u>	<u>\$ 5,118</u>	<u>\$ (530)</u>

*Pension plan fiduciary net position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

**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.

Payments for the injuries of defaulted self-insured employers incurred after July 1, 2004, will be made by the Self-Insured Guaranty Pool; however, any self-insured employer who fails the analytical financial review will also be required to post security to the Guaranty Pool on any workers' compensation liabilities incurred after July 1, 2004. The Self-Insured Guaranty Pool is funded through quarterly assessments to self-insured employers and the proceeds received from the security held.



## **West Virginia Offices of the Insurance Commissioner Notes to Financial Statements**

---

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 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.

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 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.

## **9. State Entities Workers' Compensation Program Fund**

On March 12, 2011, the West Virginia 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.

In fiscal year 2012, 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 made in order to provide the initial funding for the program. The amount transferred may be repaid over time. In September 2015, the first repayment of the loan was made and \$5,000 was transferred back to the Operating Fund. In July 2016, the second repayment of the loan was made and \$5,000 was transferred back to the Operating Fund.

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 has transferred the risk for losses in excess of a two hundred fifty thousand dollar deductible to Zurich and the SEWC retains the loss exposure up to the two hundred fifty thousand dollar per occurrence deductible limit. The SEWC has provided for these losses by establishing a Loss Reserve Fund with Zurich. Zurich will pay statutory benefits for all losses incurred by the SEWC up to the deductible limit from the Loss Reserve Fund. Zurich will provide claims management services for all claims.

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. During fiscal year 2016, the SEWC made a deposit of \$122 into the Loss Reserve Fund in accordance with the adjustment formula.

Premiums received from pool participants were \$18,490, while premiums paid for insurance coverage were \$4,860, during the year ended June 30, 2016, resulting in net premiums of \$13,630. The Loss Reserve Fund balance at June 30, 2016 was \$18,041.

***Required Supplemental Information - Unaudited***

## **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. 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 years 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, Self Insured Funds, Uninsured Fund**  
**(Unaudited)**  
**(In Millions)**

	Fiscal and Policy Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues	\$ 221.2	\$ 271.7	\$ 50.0	\$ 50.7	\$ 52.1	\$ 54.5	\$ 54.9	\$ 45.2	\$ 46.0	\$ 106.0
Statutory Allocations	41.0	11.0	229.8	198.4	200.8	199.0	203.6	215.9	231.3	122.2
Investment Income (Loss)	109.0	(5.2)	(89.2)	129.9	109.0	39.5	65.4	125.0	14.9	19.9
Total Income (1)	371.2	277.5	190.6	379.0	361.9	293.0	323.9	386.1	292.2	248.1
Other expenses (2)	23.5	24.6	20.0	20.2	20.0	18.4	15.3	12.2	11.2	11.0
Original Incurred Loss (3)	2.7	0.7	1.0	1.5	0.4	0.8	0.8	0.7	0.3	1.3
Cumulative Payments (4):										
Year 1	0.2	0.1	0.1	0.1	-	0.1	0.1	0.1	-	0.4
Year 2	0.7	0.3	0.2	0.4	0.1	0.2	0.3	0.2	0.6	
Year 3	1.1	0.4	0.3	0.6	0.2	0.3	0.7	0.5		
Year 4	1.3	0.4	0.3	0.6	0.2	0.3	0.8			
Year 5	2.2	0.4	0.3	0.7	0.3	0.6				
Year 6	2.4	0.4	0.4	0.8	0.3					
Year 7	2.5	0.5	0.4	0.9						
Year 8	2.5	0.6	0.4							
Year 9	2.6	0.7								
Year 10	2.7									
Re-estimated Incurred Claims and Expenses (5):										
Year 1	2.7	0.7	1.0	1.5	0.4	0.8	0.8	0.7	0.3	1.3
Year 2	1.9	0.6	0.6	0.9	0.6	0.3	1.0	0.4	2.1	
Year 3	3.8	0.5	0.6	1.6	0.6	0.5	1.0	2.2		
Year 4	4.7	0.5	0.4	1.8	0.7	0.4	1.5			
Year 5	5.3	0.9	0.5	1.8	0.7	1.4				
Year 6	4.0	0.7	0.4	1.7	0.8					
Year 7	3.2	0.7	0.4	3.8						
Year 8	3.2	1.0	1.1							
Year 9	3.1	2.5								
Year 10	3.7									
(Decrease) Increase in Estimated Incurred Claims and Expense from end of Policy Year (6)	1.0	1.8	0.1	2.3	0.4	0.6	0.7	1.5	1.8	-

**West Virginia Offices of the Insurance Commissioner**  
**Supplemental Reconciliation of Claims Liabilities by Type of Contract Information**  
**Workers' Compensation Information**  
**(Unaudited)**  
**(In Thousands)**

The table below presents WC Old Fund and CWPF changes in claims liabilities discounted at 4.5 percent. The Uninsured Employers Fund and the Self-Insured Funds are discounted at 3 percent. Losses include claim adjustment expenses.

	<b>Fiscal and Policy Year Ended June 30, 2016</b>				
	<u>WC Old Fund</u>	<u>CWPF</u>	<u>UEF</u>	<u>Funds</u>	<u>Total</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 1,404,900	\$ 149,800	\$ 1,500	\$ 12,400	\$ 1,568,600
Claims and claim adjustment expenses					
Provision for insured events of the current fiscal year	-	-	329	968	1,297
Changes in provision for insured events of prior fiscal years	63,683	7,624	82	52,406	123,795
Amortization of discount	59,468	6,454	40	306	66,268
Total claims and claim adjustment expenses	<u>123,151</u>	<u>14,078</u>	<u>451</u>	<u>53,680</u>	<u>191,360</u>
Payments					
Claims and claim adjustment expenses attributable to insured events of current fiscal year	-	-	(101)	(280)	(381)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(168,651)	(12,878)	(350)	(4,400)	(186,279)
Total payments	<u>(168,651)</u>	<u>(12,878)</u>	<u>(451)</u>	<u>(4,680)</u>	<u>(186,660)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,359,400</u>	<u>\$ 151,000</u>	<u>\$ 1,500</u>	<u>\$ 61,400</u>	<u>\$ 1,573,300</u>

**West Virginia Offices of the Insurance Commissioner**  
**Supplemental Revenue and Reserve Development Information - State Entities**  
**Workers' Compensation Program**  
**(Unaudited)**  
**(In Thousands)**

	Fiscal and Policy Years Ended June 30				
	2012	2013	2014	2015	2016
Premium Revenue Earned	\$ 21,645	\$ 18,467	\$ 20,691	\$ 18,747	\$ 18,490
Premiums Paid to Insurance Companies	(10,444)	(4,267)	(4,989)	(5,247)	(4,860)
Total Income/Net Premiums (1)	11,201	14,200	15,702	13,500	13,630
Other Expenses (2)	90	1,700	1,390	1,836	1,455
Original Incurred Loss (3)	8,894	11,978	10,198	10,641	11,785
Cumulative Payments (4)					
Year 1	2,058	4,402	3,568	3,547	4,286
Year 2	5,763	7,943	7,881	7,669	
Year 3	7,150	9,489	9,499		
Year 4	7,617	10,272			
Year 5	7,726				
Re-estimated Incurred Claims and Expenses (5)					
Year 1	8,894	11,978	10,198	10,641	11,785
Year 2	9,488	11,954	11,383	11,094	
Year 3	9,208	12,006	11,826		
Year 4	9,004	12,072			
Year 5	8,574				
(Decrease) Increase in Estimated Incurred Claims and Expense from End of Policy Year (6)	\$ (320)	\$ 94	\$ 1,628	\$ 453	\$ -

**West Virginia Offices of the Insurance Commissioner**  
**Supplemental Reconciliation of Claims Liabilities by Type of Contract Information -**  
**State Entities Workers' Compensation Program**  
**(Unaudited)**  
**(In Thousands)**

The table below presents State Entities Workers' Compensation changes in claims liabilities, including claim adjustment expenses.

	<b>Fiscal and Policy Year Ended June 30, 2016</b>
Unpaid claims and claim adjustment expenses at beginning of year	<u>\$ 14,500</u>
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	11,785
Changes in provision for insured events of prior fiscal years	<u>532</u>
Total claims and claim adjustment expenses	<u>12,317</u>
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(4,286)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(6,631)</u>
Total payments	<u>(10,917)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 15,900</u>



**West Virginia Offices of the Insurance Commissioner**  
**Required Supplemental Information - Budgetary Comparison Schedule - Operating Fund**  
**(Unaudited)**  
**For the Fiscal Year Ended June 30, 2016**  
**(In Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget</u>
Revenues:				
2016 Revenue	\$ 56,196	\$ 56,196	\$ 38,340	\$ (17,856)
Total Revenue Available for Appropriation	<u>56,196</u>	<u>56,196</u>	<u>38,340</u>	<u>(17,856)</u>
Expenditures:				
Personal Services	18,512	18,512	12,674	5,838
Employee Benefits	8,546	8,546	4,487	4,059
Contractual and Professional	15,747	15,747	2,613	13,134
Claims	50	50	-	50
Other Expenditures	<u>10,396</u>	<u>10,396</u>	<u>6,174</u>	<u>4,222</u>
Total Expenditures Charged to Appropriation	<u>53,251</u>	<u>53,251</u>	<u>25,948</u>	<u>27,303</u>
Excess of Revenue Over Expenditures	2,945	2,945	12,392	9,447
Reappropriation to the State of WV General Fund	-	-	(33,600)	(33,600)
Interfund Transfer	-	-	5,000	5,000
Budgetary Fund Balance, Beginning of Year	<u>87,190</u>	<u>67,039</u>	<u>46,509</u>	<u>(20,530)</u>
Budgetary Fund Balance, June 30, 2016	<u>\$ 90,135</u>	<u>\$ 69,984</u>	<u>\$ 30,301</u>	<u>\$ (39,683)</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, 2016, to comparable amounts presented in conformity with accounting principles generally accepted in the United States is set forth in the schedule on page 57.

**West Virginia Offices of the Insurance Commissioner**  
**Required Supplemental Information Budgetary Comparison Schedule - Budget-to-**  
**GAAP Reconciliation - Operating Fund**  
**(Unaudited)**  
**For the Fiscal Year Ended June 30, 2016**  
**(In Thousands)**

	<u>Operating Funds</u>
<b>SOURCES/INFLOWS OF RESOURCES</b>	
Actual amounts (budgetary basis) "total revenue available for appropriation" from the budgetary comparison schedule	\$ 38,340
Differences-Budget to GAAP:	
Reversal of prior year accruals	(5,948)
Accruals booked for current year	<u>3,972</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u>\$ 36,364</u>
<b>USES/OUTFLOWS OF RESOURCES</b>	
Actual amounts (budgetary basis) "total expenditures charged to appropriations" from the budgetary comparison schedule	\$ 25,948
Differences-Budget to GAAP:	
Reversal of prior year accruals	(2,859)
Accruals booked for current year	<u>2,563</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance governmental funds	<u>\$ 25,652</u>

**West Virginia Offices of the Insurance Commissioner**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**Public Employee Retirement System (PERS)**  
**Last Two Fiscal Years\***  
**(In Thousands)**

	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)(percentage)	0.9164%	0.9440%
Employer's proportionate share of the net pension liability (asset)	\$ 5,118	\$ 3,484
Employer's covered-employee payroll	\$ 12,429	\$ 12,641
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	41.18%	27.56%
Plan fiduciary net position as a percentage of the total pension liability **	91.29%	93.98%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30. (measurement date)

\*\* This will be the same percentage for all participant employers in the Employer's plan.

**West Virginia Offices of the Insurance Commissioner**  
**Schedule of Contributions**  
**Public Employee Retirement System (PERS)**  
**Last Four Fiscal Years**  
**(In Thousands)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,636	\$ 1,740	\$ 1,833	\$ 1,832
Contributions in relation to the contractually required contribution	<u>(1,636)</u>	<u>(1,740)</u>	<u>(1,833)</u>	<u>(1,832)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 12,110	\$ 12,429	\$ 12,641	\$ 13,086
Contributions as a percentage of covered-employee payroll	13.50%	14.00%	14.50%	14.00%

**West Virginia Offices of the Insurance Commissioner  
Note to Required Supplementary Pension Information**

---

Amounts reported during the year ended June 30, 2016 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 2016, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 2016. Amounts reported in 2016 also reflect a change in salary increase assumptions to more closely reflect actual experience.

There were no other factors that affected trends in the amounts reported. Additional information can be obtained from the CPRB Comprehensive Annual Financial Report for the year ended June 30, 2015.

***Other Financial Information***

**West Virginia Offices of the Insurance Commissioner**  
**Schedule of Net Position (Deficit) - Workers' Compensation Information**  
**June 30, 2016 (In Thousands)**

	<u>WC Old Fund Debt Reduction</u>	<u>Coal Workers' Pneumoconiosis</u>	<u>Uninsured Fund</u>	<u>Self-Insured Funds</u>	<u>Total</u>
<b>ASSETS</b>					
Current Assets					
Cash and Cash Equivalents	\$ 1,291,038	\$ 246,857	\$ 11,892	\$ 87,714	\$ 1,637,501
Receivables, Net:					
Statutory Allocations	10,951	-	-	-	10,951
Assessments	-	-	75	-	75
Employer Surcharge	6,957	-	-	-	6,957
Premiums	15	-	-	-	15
Total Current Assets	<u>1,308,961</u>	<u>246,857</u>	<u>11,967</u>	<u>87,714</u>	<u>1,655,499</u>
Total Assets	<u>1,308,961</u>	<u>246,857</u>	<u>11,967</u>	<u>87,714</u>	<u>1,655,499</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	155,700	15,101	300	8,800	179,901
Accrued Expenses and Other Liabilities	652	73	-	47	772
Total Current Liabilities	<u>156,352</u>	<u>15,174</u>	<u>300</u>	<u>8,847</u>	<u>180,673</u>
Noncurrent Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	<u>1,203,700</u>	<u>135,900</u>	<u>1,200</u>	<u>52,600</u>	<u>1,393,400</u>
Total Noncurrent Liabilities	<u>1,203,700</u>	<u>135,900</u>	<u>1,200</u>	<u>52,600</u>	<u>1,393,400</u>
Total Liabilities	<u>1,360,052</u>	<u>151,074</u>	<u>1,500</u>	<u>61,447</u>	<u>1,574,073</u>
Net position:					
Restricted for:					
Coal Workers' Pneumoconiosis	-	95,783	-	-	95,783
Uninsured Fund	-	-	10,467	-	10,467
Self-Insured Fund	-	-	-	26,267	26,267
Unrestricted (Deficit)	<u>(51,091)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51,091)</u>
Total Net Position (Deficit)	<u>\$ (51,091)</u>	<u>\$ 95,783</u>	<u>\$ 10,467</u>	<u>\$ 26,267</u>	<u>\$ 81,426</u>

**West Virginia Offices of the Insurance Commissioner**  
**Schedule of Revenues, Expenses, and Change in Fund Net Position (Deficit) - Workers' Compensation**  
**Information**  
**For the Fiscal Year Ended June 30, 2016**  
**(In Thousands)**

	<b>WC Old Fund Debt Reduction</b>	<b>Coal Workers' Pneumoconiosis</b>	<b>Uninsured Fund</b>	<b>Self-Insured Funds</b>	<b>Total</b>
Operating Revenues					
Assessments	\$ 37,838	\$ -	\$ 638	\$ 67,175	\$ 105,651
Premium Revenue, Net	249	-	-	-	249
Other Operating Revenue	52	-	-	-	52
<b>Total Operating Revenue</b>	<b>38,139</b>	<b>-</b>	<b>638</b>	<b>67,175</b>	<b>105,952</b>
Operating Expenses and Claims Provision					
Claims and Claim Adjustment Provision (See Note 5)	123,151	14,078	451	53,680	191,360
General and Administration	9,589	749	229	479	11,046
<b>Total Operating Expenses and Claims Provision</b>	<b>132,740</b>	<b>14,827</b>	<b>680</b>	<b>54,159</b>	<b>202,406</b>
<b>Operating (Loss) Income</b>	<b>(94,601)</b>	<b>(14,827)</b>	<b>(42)</b>	<b>13,016</b>	<b>(96,454)</b>
Nonoperating Revenues					
Investment Earnings	20,187	(943)	(48)	744	19,940
Lottery Revenue	6,735	-	-	-	6,735
Personal Income Tax	42,400	-	-	-	42,400
Severance Tax	73,119	-	-	-	73,119
<b>Total Nonoperating Revenues</b>	<b>142,441</b>	<b>(943)</b>	<b>(48)</b>	<b>744</b>	<b>142,194</b>
<b>Change in Net Position (Deficit)</b>	<b>47,840</b>	<b>(15,770)</b>	<b>(90)</b>	<b>13,760</b>	<b>45,740</b>
Reappropriation to State of WV General Revenue	(8,477)	-	-	-	(8,477)
<b>Total Net Position (Deficit) - Beginning of Year</b>	<b>(90,454)</b>	<b>111,553</b>	<b>10,557</b>	<b>12,507</b>	<b>44,163</b>
<b>Total Net Position (Deficit) - End of Year</b>	<b>\$ (51,091)</b>	<b>\$ 95,783</b>	<b>\$ 10,467</b>	<b>\$ 26,267</b>	<b>\$ 81,426</b>



**West Virginia Offices of the Insurance Commissioner**  
**Schedule of Cash Flows - Workers' Compensation Information**  
**For the Fiscal Year Ended June 30, 2016**  
**(In Thousands)**

	<u>WC Old Fund Debt Reduction</u>	<u>Coal Workers' Pneumoconiosis</u>	<u>Uninsured Fund</u>	<u>Self-Insured Funds</u>	<u>Total</u>
Cash Flows from Operating Activities					
Receipts from Fees and Assessments	\$ 39,890	\$ -	\$ (14)	\$ 67,175	\$ 107,051
Receipts from Employers	244	-	639	-	883
Receipts from Other Operating Revenue	52	-	-	-	52
Payments to Claimants and Providers	(168,651)	(12,878)	(451)	(4,680)	(186,660)
Payments to Employees	(22)	-	-	-	(22)
Payments to Suppliers	(10,273)	(742)	(229)	(442)	(11,686)
Net Cash (Used in) Provided by Operating Activities	<u>(138,760)</u>	<u>(13,620)</u>	<u>(55)</u>	<u>62,053</u>	<u>(90,382)</u>
Cash Flows from Noncapital Financing Activities					
Statutory Allocations	122,200	-	-	-	122,200
Transfers to General Revenue	(8,477)	-	-	-	(8,477)
Net Cash Provided by Noncapital Financing Activities	<u>113,723</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,723</u>
Cash Flows from Investing Activities					
Investment Earnings	20,187	(943)	(48)	744	19,940
Net Cash Provided by (Used in) Investing Activities	<u>20,187</u>	<u>(943)</u>	<u>(48)</u>	<u>744</u>	<u>19,940</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,850)	(14,563)	(103)	62,797	43,281
Cash and Cash Equivalents - Beginning of Year	1,295,888	261,420	11,995	24,917	1,594,220
Cash and Cash Equivalents - End of Year	<u>\$ 1,291,038</u>	<u>\$ 246,857</u>	<u>\$ 11,892</u>	<u>\$ 87,714</u>	<u>\$ 1,637,501</u>
Reconciliation of Operating (Loss) Income to Net Cash provided by (used in) Operating Activities:					
Operating Income (Loss)	\$ (94,601)	\$ (14,827)	\$ (42)	\$ 13,016	\$ (96,454)
Adjustments to Reconcile Operating (Loss) Income to Net Cash provided by (used in) Operating Activities:					
Net Change in Assets and Liabilities					
Receivables, Net	2,047	-	(13)	-	2,034
Estimated Liability for Claims and Claim Adjustment Expenses	(45,500)	1,200	-	49,000	4,700
Accrued Expenses and Other Liabilities	(706)	7	-	37	(662)
Net Cash (Used in) Provided by Operating Activities	<u>\$ (138,760)</u>	<u>\$ (13,620)</u>	<u>\$ (55)</u>	<u>\$ 62,053</u>	<u>\$ (90,382)</u>

***Independent Auditor's Report On Internal Control***

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

West Virginia Offices of the Insurance Commissioner  
Charleston, West Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the 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, 2016 and the related notes to the financial statements, which collectively comprise the West Virginia Offices of the Insurance Commissioner's basic financial statements, and have issued our report thereon dated October 31, 2016.

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

In planning and performing our audit of the financial statements, we considered the West Virginia Offices of the Insurance Commissioner's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the West Virginia Offices of the Insurance Commissioner's internal control. Accordingly, we do not express an opinion on the effectiveness of the West Virginia Offices of the Insurance Commissioner's internal control.

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

A handwritten signature in cursive script that reads "Seattle & Stalaker, PLLC".

**Charleston, West Virginia  
October 31, 2016**