

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
(A Special Revenue Fund and Enterprise Funds of the State of West Virginia)

Financial Statements, Required Supplemental Information
and Other Financial Information

Year ended June 30, 2013
and
Independent Auditors' Report

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
(A Special Revenue Fund and Enterprise Funds of the State of West Virginia)
Financial Statements, Required Supplemental Information
and Other Financial Information
June 30, 2013

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position (Deficit)	11
Statement of Activities	12
Fund Financial Statements	
Statement of Net Position (Deficit)-Governmental Fund	13
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Fund	14
Statement of Net Position (Deficit)-Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Fund Net Position (Deficit)- Proprietary Funds	16
Statement of Cash Flows-Proprietary Funds	17
Notes to Financial Statements	18
Required Supplemental Information - Unaudited	48
Supplemental Revenue and Reserve Development Information	49
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information	50
Supplemental Revenue and Reserve Development Information - AccessWV	51
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information - AccessWV	52
Supplemental Revenue and Reserve Development Information - State Entities Workers' Compensation Program	53
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information - State Entities Workers' Compensation Program	54
Budgetary Comparison Schedule-Operating Fund	55
Budgetary Comparison Schedule-Budget-to-GAAP Reconciliation-Operating Fund	56
Other Financial Information	
Schedule of Net Position (Deficit)-Workers' Compensation Information	57
Schedule of Revenues, Expenses and Change in Fund Net Position (Deficit) - Workers' Compensation Information	58
Schedule of Cash Flows-Workers' Compensation Information	59
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>	60



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, 2013, 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 *Governmental 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, 2013, 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.

Change in Accounting Principle

As described in Note 2 to the financials, in 2013, the West Virginia Offices of the Insurance Commissioner adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The primary financial reporting impact resulting from the implementation of GASB 63 in the accompanying financial statements was the renaming of “Net Assets” to “Net Position” and presentation of the Statements of Net Position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 10, the unaudited supplemental information on pages 48 through 54, and budgetary comparison information on pages 55 through 56 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 57 through 59 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 10, 2013, 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.

Dixon Hughes Goodman LLP

*Charleston, West Virginia
October 10, 2013*

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

June 30, 2013
(In Thousands)

This section of the West Virginia Offices of the Insurance Commissioner's annual financial report presents management's discussion and analysis of its financial performance for the fiscal years ended June 30, 2013 and June 30, 2012. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

June 30, 2013
(In Thousands)

GOVERNMENT-WIDE STATEMENTS

The statement of net position (deficit) 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 (deficit) - the difference between total assets and total liabilities, and how they have changed from the prior year.

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

- 1) Governmental activities - These are the activities that are necessary for the government to function and meet its intended purpose. In the financial statements of the West Virginia Offices of the Insurance Commissioner, the governmental funds include the main operating fund of the entity, which is primarily funded through fees and assessments.
- 2) Business-type activities - The West Virginia Offices of the Insurance Commissioner charges fees to customers to help it cover the costs of certain services it provides, and receives special revenues and assessments dedicated to fund specific liabilities. For the West Virginia Offices of the Insurance Commissioner, this consists of the Workers' Compensation related funds and AccessWV.
- 3) Component units - The West Virginia Offices of the Insurance Commissioner has no component units. However, the 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

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

June 30, 2013
(In Thousands)

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the West Virginia Offices of the Insurance Commissioner's major funds, not the West Virginia Offices of the Insurance Commissioner as a whole. Funds are accounting devices that governments use to keep track of specific sources of funding and spending for particular purposes. The 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 AccessWV.

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

June 30, 2013
(In Thousands)

FINANCIAL HIGHLIGHTS

- The overall financial position of the West Virginia Offices of the Insurance Commissioner improved during fiscal year 2013, with the total net deficit decreasing \$202,521 on an agency wide basis, primarily as a result of the decrease in the Workers' Compensation Old Fund deficit. During fiscal year 2013, the Workers' Compensation Old Fund deficit decreased by \$196,871. The deficit reduction was anticipated because the revenue stream provided by Senate Bill 1004 remained stable while the payment stream declined as claim obligations were satisfied. This marks the seventh consecutive year of deficit reduction progress for the Old Fund. As of June 30, 2013, the Old Fund's deficit was \$628,598, and the West Virginia Offices of the Insurance Commissioner's total net deficit was \$388,214.
- The West Virginia Offices of the Insurance Commissioner's total assets increased by \$93,256 during the year, while the agency's total liabilities decreased by \$109,265. The primary factor contributing to the increase in assets is the agency's investment earnings, while the primary factor contributing to the decrease in liabilities is the \$109,500 reduction of the Workers' Compensation Old Fund estimated liability for unpaid claims and claims adjustment expense. The West Virginia Offices of the Insurance Commissioner experienced an increase of \$45,760 in the fair market value of its investments held during fiscal year 2013. This change in fair market value, when combined with the yearly investment earnings of \$19,672, yield a net investment income of \$65,432 for fiscal year 2013.
- The West Virginia Offices of the Insurance Commissioner distributed \$24,500 from the West Virginia Offices of the Insurance Commissioner's Operating Fund to the State's General Revenue Fund on April 29, 2013, in accordance with the provisions of House Bill 2538 as enacted by the Legislature on April 13, 2013. This legislative reappropriation of funds is unusual in nature and infrequent in occurrence. Consequently, it is reflected as an extraordinary item.
- During fiscal year 2013, the West Virginia Offices of the Insurance Commissioner evaluated and executed activities related to the implementation of the federal Patient Protection and Affordable Care Act (commonly known as the ACA). The West Virginia Offices of the Insurance Commissioner's involvement with the implementation of the ACA predominantly focused on those aspects of the ACA that specifically impact insurance, particularly the establishment of the Health Care Exchange for the State of West Virginia. In February 2013, West Virginia announced it would become a Partnership state, meaning that the State has chosen to take on the functionalities of consumer assistance and plan management related to the Exchange, while the federal government will actually house the Exchange. The Exchange will serve as an online portal (Healthcare.gov) for consumers to compare information on available health plan options, enroll in plans, and receive subsidies if financially eligible. The West Virginia Offices of

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

June 30, 2013
(In Thousands)

the Insurance Commissioner received \$2,330 in federal grants during fiscal year 2013 in order to accomplish the activities related to implementation of the ACA.

- AccessWV, the State's high-risk health insurance pool, experienced a decline in net position of \$3,160. This decline was anticipated, given the fiscal year 2013 premium structure established by the AccessWV Board. Due to certain provisions of the ACA, it is anticipated that AccessWV will cease to exist during fiscal year 2014.
- Fiscal Year 2013 marked the second 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, 2013, the West Virginia Offices of the Insurance Commissioner had accumulated a Loss Reserve Fund balance of \$13,805.

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

June 30, 2013
(In Thousands)

The following tables summarizes the financial position as of June 30 and results of operations of the West Virginia Offices of the Insurance Commissioner for the years ended June 30, 2013 and 2012.

STATEMENT OF NET POSITION (DEFICIT)
June 30

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current Assets	\$ 50,830	\$ 62,745	\$ 1,398,417	\$ 1,292,939	\$ 1,449,247	\$ 1,355,684
Capital Assets, Net	1,004	1,311	-	-	1,004	1,311
Total Assets	51,834	64,056	1,398,417	1,292,939	1,450,251	1,356,995
Current Liabilities	10,829	10,356	225,805	206,801	236,634	217,157
Long-Term Liabilities	255	247	1,601,576	1,730,326	1,601,831	1,730,573
Total Liabilities	11,084	10,603	1,827,381	1,937,127	1,838,465	1,947,730
Net Position						
Invested in Capital Assets, Net of Related Debt	1,004	1,311	-	-	1,004	1,311
Restricted	-	-	199,634	181,281	199,634	181,281
Unrestricted (Deficit)	39,746	52,142	(628,598)	(825,469)	(588,852)	(773,327)
Total Net Position (Deficit)	\$ 40,750	\$ 53,453	\$ (428,964)	\$ (644,188)	\$ (388,214)	\$ (590,735)

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

For the Fiscal Year Ended June 30, 2013
(In Thousands)

CHANGES IN NET POSITION (DEFICIT)
Year Ended June 30

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues						
Program Revenues						
Charges for Services	\$ 39,769	\$ 47,109	\$ 75,064	\$ 70,924	\$ 114,833	\$ 118,033
Total Operating Revenues	<u>39,769</u>	<u>47,109</u>	<u>75,064</u>	<u>70,924</u>	<u>114,833</u>	<u>118,033</u>
Expenses						
Program Expenses						
Workers' Compensation	-	-	105,544	147,147	105,544	147,147
AccessWV	-	-	9,101	6,848	9,101	6,848
State Entities Workers' Compensation Program Fund	-	-	14,271	8,984	14,271	8,984
General Government	<u>27,977</u>	<u>30,781</u>	<u>-</u>	<u>-</u>	<u>27,977</u>	<u>30,781</u>
Total Operating Expenses	<u>27,977</u>	<u>30,781</u>	<u>128,916</u>	<u>162,979</u>	<u>156,893</u>	<u>193,760</u>
Operating Income	<u>11,792</u>	<u>16,328</u>	<u>(53,852)</u>	<u>(92,055)</u>	<u>(42,060)</u>	<u>(75,727)</u>
Nonoperating Revenues						
Investment Earnings	5	4	65,427	39,671	65,432	39,675
Lottery Revenue	-	-	11,000	11,000	11,000	11,000
Personal Income Tax	-	-	95,400	95,400	95,400	95,400
Severance Tax	-	-	97,249	92,635	97,249	92,635
Total Nonoperating Revenues	<u>5</u>	<u>4</u>	<u>269,076</u>	<u>238,706</u>	<u>269,081</u>	<u>238,710</u>
Change in Net Position Before Transfers/ Extraordinary Item	11,797	16,332	215,224	146,651	227,021	162,983
Other Transfers In (Out)	-	(21,655)	-	21,655	-	-
Extraordinary Item						
Reappropriation to the State of West Virginia General Fund	<u>(24,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,500)</u>	<u>-</u>
Change in Net Position (Deficit)	(12,703)	(5,323)	215,224	168,306	202,521	162,983
Net Position (Deficit), Beginning of Year	<u>53,453</u>	<u>58,776</u>	<u>(644,188)</u>	<u>(812,494)</u>	<u>(590,735)</u>	<u>(753,718)</u>
Net Position (Deficit), End of Year	<u>\$ 40,750</u>	<u>\$ 53,453</u>	<u>\$ (428,964)</u>	<u>\$ (644,188)</u>	<u>\$ (388,214)</u>	<u>\$ (590,735)</u>

FINANCIAL STATEMENTS

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF NET POSITION (DEFICIT)

June 30, 2013
(In Thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 44,846	\$ 1,362,024	\$ 1,406,870
Receivables, Net:			
Statutory Allocations	-	11,694	11,694
Assessments	1,124	87	1,211
Employer Surcharge	4,286	9,188	13,474
Premiums	-	26	26
Other	149	72	221
Internal Balances	425	(425)	-
Prepaid Assets	-	1,946	1,946
Loss Reserve Fund	-	13,805	13,805
Total Current Assets	50,830	1,398,417	1,449,247
Noncurrent Assets			
Capital Assets, Net	1,004	-	1,004
Total Noncurrent Assets	1,004	-	1,004
Total Assets	51,834	1,398,417	1,450,251
Liabilities			
Current Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	224,034	224,034
Compensated Absences	740	-	740
Accrued Expenses and Other Liabilities	890	1,738	2,628
OPEB Liability	9,199	33	9,232
Total Current Liabilities	10,829	225,805	236,634
Noncurrent Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	1,601,576	1,601,576
Compensated Absences	255	-	255
Total Noncurrent Liabilities	255	1,601,576	1,601,831
Total Liabilities	11,084	1,827,381	1,838,465
Net Position			
Invested in Capital Assets, Net of Related Debt	1,004	-	1,004
Restricted for:			
Coal Workers' Pneumoconiosis	-	149,287	149,287
Uninsured Fund	-	8,810	8,810
Self-Insured Funds	-	9,772	9,772
AccessWV	-	7,964	7,964
State Entities Workers' Compensation Program Fund	-	23,801	23,801
Unrestricted (Deficit)	39,746	(628,598)	(588,852)
Total Net Position (Deficit)	\$ 40,750	\$ (428,964)	\$ (388,214)

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2013
(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	\$ 27,635	\$ 39,769	\$ 12,134	\$ -	\$ 12,134
Depreciation, Unallocated	342	-	(342)	-	(342)
Total Governmental Activities	<u>27,977</u>	<u>39,769</u>	<u>11,792</u>	<u>-</u>	<u>11,792</u>
Business-type Activities					
Workers' Compensation	105,544	54,917	-	(50,627)	(50,627)
AccessWV	9,101	5,947	-	(3,154)	(3,154)
State Entities Workers' Compensation					
Program Fund	14,271	14,200	-	(71)	(71)
Total Business-Type Activities	<u>128,916</u>	<u>75,064</u>	<u>-</u>	<u>(53,852)</u>	<u>(53,852)</u>
Total Primary Government	<u>\$ 156,893</u>	<u>\$ 114,833</u>	<u>11,792</u>	<u>(53,852)</u>	<u>(42,060)</u>
General Revenues:					
Investment Earnings			5	65,427	65,432
Lottery Revenue			-	11,000	11,000
Personal Income Tax			-	95,400	95,400
Severance Tax			-	97,249	97,249
Total General Revenues			<u>5</u>	<u>269,076</u>	<u>269,081</u>
Change in Net Position Before Extraordinary Item					
			11,797	215,224	227,021
Extraordinary Item					
Reappropriation to the State of West Virginia General Fund			<u>(24,500)</u>	<u>-</u>	<u>(24,500)</u>
Change in Net Position (Deficit)					
			(12,703)	215,224	202,521
Net Position (Deficit)-Beginning of Year					
			<u>53,453</u>	<u>(644,188)</u>	<u>(590,735)</u>
Net Position (Deficit)-End of Year					
			<u>\$ 40,750</u>	<u>\$ (428,964)</u>	<u>\$ (388,214)</u>

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF NET POSITION (DEFICIT)
GOVERNMENTAL FUND

June 30, 2013
(In Thousands)

	Operating Fund
Assets	
Cash and Cash Equivalents	\$ 44,846
Accounts Receivable – Assessments	1,124
Accounts Receivable – Employer Surcharge	4,286
Accounts Receivable – Other	149
Due from Old Fund	425
Total Assets	\$ 50,830
Liabilities	
Compensated Absences	\$ 740
Accrued Expenditures and Other Liabilities	890
OPEB Liability	9,199
Total Liabilities	10,829
Fund Balance	
Committed	40,001
Total Fund Balance	40,001
Total Liabilities and Fund Balances	\$ 50,830
Total Fund Balance	\$ 40,001
Amounts reported for governmental activities in the Statement of Net Position (Deficit) are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,004
Long term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds	(255)
Net Position of Governmental Activities	\$ 40,750

See accompanying notes to financial statements.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the Fiscal Year Ended June 30, 2013
(In Thousands)

	Operating Fund
Revenues	
Fees, Assessments, and Other	\$ 39,769
Investment Earnings	5
Total Revenues	39,774
Expenditures	
General and Administrative	27,662
Total Expenditures	27,662
Excess of Revenues over Expenditures	12,112
Extraordinary Item	
Reappropriation to the State of West Virginia General Fund	(24,500)
Net Change in Fund Balance	(12,388)
Fund Balance - Beginning of Year	52,389
Fund Balance - End of Year	\$ 40,001
Net Change in Fund Balance	\$ (12,388)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenses over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.	(307)
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.	(8)
Change in Net Position (Deficit) of Governmental Activities	\$ (12,703)

See accompanying notes to financial statements.

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

June 30, 2013
(In Thousands)

	Workers' Compensation	AccessWV	State Entities Workers' Compensation	Total
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 1,333,471	\$ 9,170	\$ 19,383	\$ 1,362,024
Receivables, Net:				
Statutory Allocations	11,694	-	-	11,694
Assessments	87	-	-	87
Employer Surcharge	9,188	-	-	9,188
Premiums	26	-	-	26
Other	-	72	-	72
Prepaid Assets	-	-	1,946	1,946
Loss Reserve Fund	-	-	13,805	13,805
Total Current Assets	1,354,466	9,242	35,134	1,398,842
Total Assets	1,354,466	9,242	35,134	1,398,842
Liabilities				
Current Liabilities				
Estimated Liability for Unpaid Claims and Claim				
Adjustment Expense	214,700	1,210	8,124	224,034
Accrued Expenses and Other Liabilities	1,670	35	33	1,738
Due to Operating Fund	425	-	-	425
OPEB Liability	-	33	-	33
Total Current Liabilities	216,795	1,278	8,157	226,230
Noncurrent Liabilities				
Estimated Liability for Unpaid Claims and Claim				
Adjustment Expense	1,598,400	-	3,176	1,601,576
Total Noncurrent Liabilities	1,598,400	-	3,176	1,601,576
Total Liabilities	1,815,195	1,278	11,333	1,827,806
Net Position				
Restricted for:				
Coal Workers' Pneumoconiosis	149,287	-	-	149,287
Uninsured Fund	8,810	-	-	8,810
Self-Insured Funds	9,772	-	-	9,772
AccessWV	-	7,964	-	7,964
State Entities Workers' Compensation Program Fund	-	-	23,801	23,801
Unrestricted (Deficit)	(628,598)	-	-	(628,598)
Total Net Position (Deficit)	\$ (460,729)	\$ 7,964	\$ 23,801	\$ (428,964)

See accompanying notes to financial statements.

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

For the Fiscal Year Ended June 30, 2013
(In Thousands)

	<u>Workers' Compensation</u>	<u>AccessWV</u>	<u>State Entities Workers' Compensation</u>	<u>Total</u>
Operating Revenues				
Assessments	\$ 54,404	\$ -	\$ -	\$ 54,404
Premium Revenue, Net	414	5,814	14,200	20,428
Other Operating Revenue	99	133	-	232
Total Operating Revenue	<u>54,917</u>	<u>5,947</u>	<u>14,200</u>	<u>75,064</u>
Operating Expenses and Claims Provisions				
Claims and Claim Adjustment Provisions (See Note 5)	90,217	8,700	12,571	111,488
General and Administration	15,327	401	1,700	17,428
Total Operating Expenses and Claims Provisions	<u>105,544</u>	<u>9,101</u>	<u>14,271</u>	<u>128,916</u>
Operating Loss	(50,627)	(3,154)	(71)	(53,852)
Nonoperating Revenues				
Investment Earnings	65,433	(6)	-	65,427
Lottery Revenue	11,000	-	-	11,000
Personal Income Tax	95,400	-	-	95,400
Severance Tax	97,249	-	-	97,249
Total Nonoperating Revenues	<u>269,082</u>	<u>(6)</u>	<u>-</u>	<u>269,076</u>
Change in Net Position (Deficit)	218,455	(3,160)	(71)	215,224
Total Net Position (Deficit) - Beginning of Year	<u>(679,184)</u>	<u>11,124</u>	<u>23,872</u>	<u>(644,188)</u>
Total Net Position (Deficit) - End of Year	<u>\$ (460,729)</u>	<u>\$ 7,964</u>	<u>\$ 23,801</u>	<u>\$ (428,964)</u>

See accompanying notes to financial statements.

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

For the Fiscal Year Ended June 30, 2013
(In Thousands)

	Workers' Compensation	AccessWV	State Entities Workers' Compensation	Total
Cash Flows from Operating Activities				
Receipts from Fees and Assessments	\$ 56,653	\$ -	\$ 18,446	\$ 75,099
Receipts from Employers and Policyholders	442	5,814	-	6,256
Receipts from Other Operating Revenues	99	61	-	160
Payments to Claimants and Providers	(205,817)	(8,360)	(8,107)	(222,284)
Payments for Premiums	-	-	(5,831)	(5,831)
Deposits into Loss Reserve Fund	-	-	(14,003)	(14,003)
Withdrawals from Loss Reserve Fund	-	-	8,107	8,107
Payments to Employees	(77)	(63)	-	(140)
Payments to Suppliers	(13,751)	(348)	(38)	(14,137)
Net Cash Used in Operating Activities	<u>(162,451)</u>	<u>(2,896)</u>	<u>(1,426)</u>	<u>(166,773)</u>
Cash Flows from Noncapital Financing Activities				
Statutory Allocations	<u>200,963</u>	<u>-</u>	<u>-</u>	<u>200,963</u>
Net Cash Provided by Noncapital Financing Activities	<u>200,963</u>	<u>-</u>	<u>-</u>	<u>200,963</u>
Cash Flows from Investing Activities				
Investment Earnings (Loss)	<u>65,433</u>	<u>(6)</u>	<u>-</u>	<u>65,427</u>
Net Cash Provided by (Used in) Investing Activities	<u>65,433</u>	<u>(6)</u>	<u>-</u>	<u>65,427</u>
Net Increase (Decrease) in Cash and Cash Equivalents	103,945	(2,902)	(1,426)	99,617
Cash and Cash Equivalents - Beginning of Year	<u>1,229,526</u>	<u>12,072</u>	<u>20,809</u>	<u>1,262,407</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,333,471</u>	<u>\$ 9,170</u>	<u>\$ 19,383</u>	<u>\$ 1,362,024</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:				
Operating Loss	\$ (50,627)	\$ (3,154)	\$ (71)	\$ (53,852)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:				
Net Change in Assets and Liabilities:				
Receivables, Net	2,277	(72)	-	2,205
Loss Reserve Fund	-	-	(5,896)	(5,896)
Prepaid Premiums	-	-	93	93
Estimated Liability for Claims and Claim Adjustment Expenses	(115,600)	340	4,463	(110,797)
OPEB Liability	-	1	-	1
Accrued Expenses and Other Liabilities	<u>1,499</u>	<u>(11)</u>	<u>(15)</u>	<u>1,473</u>
Net Cash Used in Operating Activities	<u>\$ (162,451)</u>	<u>\$ (2,896)</u>	<u>\$ (1,426)</u>	<u>\$ (166,773)</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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

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.

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 three third party administrators to manage the claims activity of the workers' compensation related funds. Beginning January 1, 2008 to present day, third-party administrator claims management services are divided between Sedgwick Claims Management Services, HealthSmart Disability Management, and American Mining Claims Services Incorporated.

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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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 currently administers the West Virginia Health Insurance Plan known as AccessWV, which is a high-risk health insurance pool. AccessWV provides health insurance for medically uninsurable individuals and their dependents. Due to the federal government's 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, it is anticipated that AccessWV will cease to exist during fiscal year 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, 2013, 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

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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 40, *Deposits and Investment Risk Disclosures - an amendment of GASB 3* (GASB 40), and GASB Statement 46, *Net Assets Restricted by Enabling Legislation - an amendment to GASB 34* (GASB 46), and GASB Statement 45 *Other Post Employment Benefits* (GASB 45).

GASB 40 limits required disclosures to:

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

GASB 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets and disclosed. A legally enforceable enabling legislation restriction is defined as one that a party external to a government such as citizens, public interest groups, or the judiciary can compel a government to honor.

During the fiscal year ended June 30, 2013, the West Virginia Offices of the Insurance Commissioner adopted GASB No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, which modified certain requirements for inclusion of component units in the financial reporting entity. This adoption of this statement had no impact on the financial statements.

During the fiscal year ended June 30, 2013, the West Virginia Offices of the Insurance Commissioner also adopted GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, 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

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

contradict GASB pronouncements. The adoption of this statement did not have a material impact on the financial statements.

Furthermore, during the fiscal year ended June 30, 2013, the West Virginia Offices of the Insurance Commissioner adopted Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement established a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The primary financial reporting impact resulting from the implementation of this Statement was the renaming of “Net Assets” to “Net Position” and presentation of Statements of Net Position.

During the fiscal year ended June 30, 2013, the West Virginia Offices of the Insurance Commissioner also adopted GASB Statement No. 65, *Items Previously Recognized as Assets and Liabilities*, which clarified the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB No. 65 also provided financial reporting guidance on matters such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The adoption of this statement did not have a material impact on the financial statements.

Additionally, during the fiscal year ended June 30, 2013, the West Virginia Offices of the Insurance Commissioner adopted GASB Statement No. 66, *Technical Corrections -2012 – an amendment of GASB Statements No. 10 and No. 62*, 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 adoption of this statement did not have a material impact on the financial statements.

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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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

Budgetary Data

Pursuant to §5A-2-12 of the 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, 2013, totaled \$72,234. 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 \$1,324,547, and cash pooled with funds of other state agencies and invested by the Board of Treasury Investments (BTI) was \$10,089. 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 (deficit) represent management's best estimate of the net realizable value of taxes, fees, assessments, premiums and related revenue due as of June 30, 2013. 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'

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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, 2013, cost of capital assets was \$3,917 with \$342 current depreciation expense and \$2,913 accumulated depreciation.

Estimated Liability for Unpaid Claims and Claim Adjustment Expenses

The liability for unpaid claims and claim adjustment expense represents management's estimate, developed in conjunction and with the assistance of the West Virginia Offices of the Insurance Commissioner's consulting actuary, of the 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 expenses 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

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* provides standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplemental information. 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. At June 30, 2013, the estimated current liability related to OPEB costs was \$9,232.

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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

Statutory Allocations Proceeds

The West Virginia Offices of the Insurance Commissioner recognized \$203,649 of revenues allocated to Old Fund Debt Reduction during fiscal year 2013. The allocations are comprised of \$97,249 in severance tax proceeds, \$95,400 in personal income tax proceeds and \$11,000 from West Virginia Lottery proceeds.

Extraordinary Item

During fiscal year 2013, House Bill 2538 was passed requiring a reappropriation of \$24,500 of funds from the West Virginia Offices of the Insurance Commissioner Operating Fund to the State of West Virginia general fund. This legislative mandate is unusual in nature and infrequent in occurrence. Accordingly, this transaction has been reflected as an extraordinary item in the accompanying 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 (deficit) 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, 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 (deficit).

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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:

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

Future Adoption of Accounting Pronouncements

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement is effective for fiscal year 2015, and management has not yet determined the financial impact of the pronouncement.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

The GASB has also issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for fiscal year 2015, and management has not yet determined the financial impact of the pronouncement.

The GASB has also issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement is effective for fiscal year 2014, and management has not yet determined the financial impact of the pronouncement.

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 10, 2013, 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.

During fiscal year 2013, stock holdings were limited to 20 percent of the Old Fund portfolio. The equity allocation was also limited to 20 percent of the Coal Worker's Pneumoconiosis Fund. Because the assets are held in the pools, no other disclosure related to credit or market risk is required. However, market risk exists as the assets of the pools may decline in value because of an increase in interest rates or a decline in stock prices. Such market risk is borne by the participants in the pools.

Invested assets of both the Worker's Compensation Uninsured Employers' Fund and the Self-Insured Guaranty Risk Pool were invested 20 percent in equity securities and 80 percent in fixed income securities during fiscal year 2013. During fiscal year 2013, the investments of the AccessWV Health Plan with the IMB were allocated 100 percent to fixed income in anticipation of the plans closure in 2014.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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, 2013.

Investment Pool	WC Old Fund	CWPF	Uninsured	Self- Insured	AccessWV
Large Cap Domestic	\$ 77,600	\$ 19,540	\$ 728	\$ 1,088	\$ -
Non-Large Cap Domestic	27,465	7,036	254	387	-
International Nonqualified	37,574	9,683	358	506	-
International Equity	69,137	17,717	654	990	-
Short-Term Fixed Income	108,396	12,061	999	703	2
Total Return Fixed Income	402,308	76,177	2,502	4,208	892
Core Fixed Income	215,574	40,672	1,339	2,255	478
TIPS	98,187	24,879	921	1,374	1,062
Hedge Fund	-	53,871	1,994	2,976	-
Total by Pool	<u>\$ 1,036,241</u>	<u>\$ 261,636</u>	<u>\$ 9,749</u>	<u>\$ 14,487</u>	<u>\$ 2,434</u>

Large Cap Domestic

This pool holds equity securities of U.S. companies, exchange traded stock index futures, and money market funds with the highest credit rating. These types of securities are exposed to no or minimal credit risk, interest rate risk, custodial credit risk, or foreign currency risk. At June 30, 2013, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of this pool and is not exposed to concentration of credit risk.

Non-Large Cap Domestic

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. These types of securities are exposed to no or minimal credit risk, interest rate

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

risk, custodial credit risk, or foreign currency risk. At June 30, 2013, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of this pool and is not exposed to concentration of credit risk.

International Nonqualified

This pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2013, was \$122,099. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. West Virginia statute limits the amount of international securities to no more than 30 percent of the total assets managed by the IMB. At June 30, 2013, the IMB was in compliance with this limitation. This pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

International Equity

This pool is exposed to no or minimal credit risk, interest rate risk, or custodial credit risk. At June 30, 2013, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of this pool. This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. West Virginia statute limits the amount of international securities to no more than 30 percent of the total assets managed by the IMB. At June 30, 2013, the IMB was in compliance with this limitation. The amounts at fair value (in U.S. dollars) of investments and cash denominated in foreign currencies as of June 30, 2013 are as follows:

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

Currency	Investments	Cash	Total	Percent
Australian Dollar	\$ 58,914	\$ 1	\$ 58,915	2.6%
Brazil Real	73,031	483	73,514	3.3
British Pound	226,351	1,732	228,083	10.2
Canadian Dollar	91,289	321	91,610	4.1
Czech Koruna	12,966	-	12,966	0.6
Danish Krone	11,122	-	11,122	0.5
Egyptian Pound	4,704	-	4,704	0.2
Emirati Dirham	4,861	505	5,366	0.2
Euro Currency Unit	321,667	1,921	323,588	14.5
Hong Kong Dollar	174,653	1,533	176,186	7.9
Hungarian Forint	5,798	1	5,799	0.3
Indian Rupee	58,591	162	58,753	2.6
Indonesian Rupiah	10,747	123	10,870	0.5
Israeli Shekel	13,434	92	13,526	0.6
Japanese Yen	250,440	2,065	252,505	11.3
Malaysian Ringgit	9,405	337	9,742	0.4
Mexican Peso	31,774	272	32,046	1.4
New Taiwan Dollar	42,197	2,288	44,485	2.0
New Zealand Dollar	5,779	135	5,914	0.3
Norwegian Krone	21,859	1,120	22,979	1.0
Pakistan Rupee	1,734	-	1,734	0.1
Philippine Peso	7,640	21	7,661	0.3
Polish Zloty	5,565	43	5,608	0.3
Qatari Riyal	1,561	-	1,561	0.1
Singapore Dollar	17,626	37	17,663	0.8
South African Rand	47,500	2,432	49,932	2.2
South Korean Won	155,163	1,070	156,233	7.0
Swedish Krona	17,104	364	17,468	0.8
Swiss Franc	62,012	-	62,012	2.8
Thailand Baht	19,336	-	19,336	0.9
Turkish Lira	32,902	45	32,947	1.5
Total	<u>\$ 1,797,725</u>	<u>\$ 17,103</u>	<u>\$ 1,814,828</u>	<u>81.3%</u>

This table excludes cash and investments held by this pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated cash and investments is \$417,554 or 18.7 percent.

Short-Term Fixed Income

Credit Risk - The IMB limits the exposure to credit risk in this pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor's

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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 this pool's investments as of June 30, 2013.

Security Type	Moody's	S&P	Carrying Value	Percent
Commercial paper	P-1	A-1	\$ 47,991	15.0%
U.S. government agency discount notes	Aaa	AA	129,988	40.5
U.S. government agency notes	Aaa	AA	8,015	2.5
U.S. Treasury bills	P-1	AA	51,995	16.2
U.S. Treasury notes	Aaa	AA	82,550	25.8
Total rated investments			\$ 320,539	100.0%

This table includes U.S. Treasury notes received as collateral for a repurchase agreement with a fair value of \$79,531 as compared to the amortized cost of the repurchase agreement of \$78,206.

Concentration of Credit Risk - West Virginia statutes prohibit this pool from investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2013, this pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk - At June 30, 2013, 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 various asset types in this pool as of June 30, 2013.

Security Type	Carrying Value	WAM (days)
Commercial paper	\$ 47,991	38
Repurchase agreement	78,206	1
U.S. government agency discount notes	129,988	43
U.S. government agency notes	8,015	106
U.S. Treasury bills	51,995	45
U.S. Treasury notes	3,019	123
Total investments	\$ 319,214	35

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

Foreign Currency Risk – This pool has no investments that are subject to foreign currency risk.

Total Return Fixed Income

Credit Risk - The IMB limits the exposure to credit risk in this pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted average credit ratings of the rated assets in this pool as of June 30, 2013.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate asset backed issues	Ba1	AA	\$ 44,433	1.9%
Corporate bonds	Baa2	BBB	728,766	31.7
Corporate CMO	Caa	CCC	20,767	0.9
Corporate preferred security	Ba2	BB	8,757	0.4
Foreign government bond	Baa1	A	6,879	0.3
Municipal bonds	A2	BBB	80,320	3.4
Short-term issue	Aaa	AAA	171,036	7.2
U.S. Government agency CMO	Aaa	AA	61,696	2.6
U.S. Government agency discount note	Aaa	AA	4,718	0.2
U.S. Government agency MBS	Aaa	AA	342,200	14.4
U.S. Government agency TBAs	Aaa	AA	58,879	2.5
U.S. Treasury issues	Aaa	AA	362,481	13.9
Total rated investments			<u>\$ 1,890,932</u>	<u>79.4%</u>

Unrated investments include investments in other funds valued at \$474,821, investments made with cash collateral for securities loaned valued at \$13,882, and option contracts purchased valued at \$176. These unrated investments represent 20.6 percent of the fair value of the Pool's investments.

Concentration of Credit Risk - West Virginia statutes prohibit investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2013, this pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk - At June 30, 2013, this pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102 percent and the collateral is held in the name of the IMB. Investments in commingled funds are held in an account in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

Interest Rate Risk - The IMB monitors interest rate risk by evaluating the modified duration of the investments. The following table provides the weighted average modified duration for the various asset types in this pool as of June 30, 2013.

Investment Type	Fair Value	Effective Duration (years)
Corporate asset backed issues	\$ 44,433	1.9
Corporate bonds	728,766	6.5
Corporate CMO	20,767	1.4
Foreign government bond	6,879	7.0
Investments in other funds	474,821	3.7
Investments made with cash collateral for securities loaned	13,882	0.0
Municipal bonds	80,320	8.4
Short-term issues	171,036	0.0
U.S. Government agency CMO	61,696	2.2
U.S. Government agency discount notes	4,718	0.4
U.S. Government agency MBS	342,200	2.3
U.S. Government agency TBAs	58,879	6.5
U.S. Treasury issues	362,481	6.7
Total investments	<u>\$ 2,370,878</u>	<u>4.7</u>

This pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The 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, 2013, this pool held \$527,975 of these securities. This represents approximately 22 percent of the value of this pool's securities.

Foreign Currency Risk - Of the notes, bonds, asset-backed securities, mortgage-backed securities, collateralized mortgage obligations and money market funds held by this pool, only the foreign government bond denominated in Mexican Peso is exposed to foreign currency risk. The market value of this bond is \$6,879, which represents less than 1 percent of the value of this pool's securities. This pool also has foreign exchange forward contracts. Additionally, this pool has indirect exposure to foreign currency risk through its ownership interests in certain of the commingled investment pools. Approximately \$153,875, or 32 percent, of the commingled investment pools hold substantially all of their investments in foreign currencies. This represents approximately 6 percent of the value of the Pool's securities. West Virginia statute limits the amount of international securities to no more than

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

30 percent of the total assets managed by the IMB. At June 30, 2013 the IMB was in compliance with this limitation.

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, 2013.

Investment Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate asset backed issues	Aa3	AA	\$ 48,767	3.7%
Corporate bonds	A3	A	270,356	20.8
Corporate CMO	A2	AA	134,887	10.4
Foreign government bonds	Aa1	AA	12,467	1.0
Municipal bonds	Aa2	AA	7,311	0.6
Short-term issue	Aaa	AAA	10,892	0.8
U.S. Government agency bonds	Aaa	AA	26,487	2.0
U.S. Government agency CMO	Aaa	AA	259,377	19.9
U.S. Government agency MBS	Aaa	AA	220,519	17.0
U.S. Treasury issues	Aaa	AA	282,660	21.7
Total rated investments			\$ 1,273,723	97.9%

Unrated securities include investments made with cash collateral for securities loaned valued at \$26,850 or 2.1 percent of the fair value of the Pool's investments.

Concentration of Credit Risk - West Virginia statutes prohibit this pool from investing more than 5 percent of its assets in securities issued by a single private corporation or association. At June 30, 2013, this pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk - At June 30, 2013, 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 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, 2013.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

Investment Type	Fair Value	Effective Duration (years)
Corporate asset backed issues	\$ 48,767	1.4
Corporate bonds	270,356	5.7
Corporate CMO	134,887	2.2
Foreign government bonds	12,467	5.4
Investments made with cash collateral for securities loaned	26,850	0.0
Municipal bonds	7,311	14.3
Short-term issue	10,892	0.0
U.S. Government agency bonds	26,487	5.6
U.S. Government agency CMO	259,377	3.7
U.S. Government agency MBS	220,519	4.6
U.S. Treasury issues	282,660	6.5
Total investments	<u>\$ 1,300,573</u>	<u>4.6</u>

This pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The 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, 2013, this pool held \$663,550 of these securities. This represents approximately 51 percent of the value of this pool's securities.

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

TIPS

Credit Risk – The IMB limits the exposure to credit risk 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 this pool as of June 30, 2013.

Investment Type	Moody's	S&P	Fair Value	Percent of Assets
Short-term issue	Aaa	AAA	\$ 601	0.1%
U.S. Treasury inflation-protected securities	Aaa	AA	653,371	99.9
Total rated investments			<u>\$ 653,972</u>	<u>100.0%</u>

Concentration of Credit Risk – West Virginia statutes prohibit this pool from investing more than 5 percent of its assets in securities issued by a single private corporation or association.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

At June 30, 2013, this pool did not have investments in any one private corporation or association that represented more than 5 percent of assets.

Custodial Credit Risk – At June 30, 2013, this pool held no securities that were subject to custodial credit risk. All securities are held by the IMB’s custodian in the name of the IMB.

Interest Rate Risk – The IMB monitors interest rate risk of this pool by evaluating the real modified duration of the investments in this pool. The following table provides the weighted average real modified duration for the various asset types in this pool as of June 30, 2013.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Real Modified Duration (years)</u>
Short-term issue	\$ 601	0.0
U.S. Treasury inflation-protected securities	653,371	7.8
Total investments	<u>\$ 653,972</u>	<u>7.8</u>

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

Hedge Fund

This pool holds shares in 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. At June 30, 2013, this pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5 percent of the value of the Pool 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 West Virginia Money Market Pool. At June 30, 2013, the Operating Fund and AccessWV Fund have \$3,505 and \$6,584, respectively in this pool. The following footnote information pertains to the pool as a whole.

The BTI is charged with managing the individual investment pools and accounts of the Consolidated Fund under authority of West Virginia State Code Chapter 12, Article 6C, West Virginia Treasury Investments Act. The 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

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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.

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The West Virginia 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.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

39

June 30, 2013

(In Thousands)

“AAAm” is the highest principal stability fund rating assigned by Standard & Poor’s. The West Virginia Money Market Pool is subject to credit risk.

The BTI limits the exposure to credit risk in the West Virginia Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor’s and P1 by Moody’s. The pool must have at least 15 percent of its assets in U.S. Treasury issues.

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

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody’s	S&P		
Commercial Paper	P-1	A-1+	\$ 243,538	9.76%
	P-1	A-1	726,857	29.12
Corporate Bonds and Notes	Aa3	AA-	10,000	0.40
U.S. Agency Bonds	Aaa	AA+	66,603	2.67
U.S. Treasury Notes *	Aaa	AA+	279,755	11.21
U.S. Treasury Bills *	P-1	A-1+	34,993	1.40
Negotiable Certificates of Deposit	Aa1	AA-	10,000	0.40
	Aa2	A+	9,000	0.36
	Aa3	AA-	15,000	0.60
	P-1	A-1+	50,000	2.00
	P-1	A-1	160,000	6.41
	P-2	A-1	15,000	0.60
U.S. Agency Discount Notes	P-1	A-1+	445,784	17.86
Money Market Funds	Aaa	AAAm	200,012	8.02
Repurchase Agreements (Underlying Securities):				
U.S. Treasury Notes *	Aaa	AA+	188,826	7.57
U.S. Agency Notes	Aaa	AA+	40,500	1.62
			\$ 2,495,868	100.00%

* 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

June 30, 2013

(In Thousands)

4. Leases

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

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

Future minimum scheduled rentals under operating leases at June 30, 2013, were as follows:

2014	\$ 1,640
2015	1,565
2016	707
2017	370
2018	142
Thereafter	<u>174</u>
Total minimum lease payments	<u>\$ 4,598</u>

Rental expense was \$1,650 for the year ended June 30, 2013.

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 5 percent at June 30, 2013. The claims liabilities of the Uninsured Employers' Fund and the Self-Insured Employers' Funds have been discounted at 3 percent at June 30, 2013. The impact of discounting on the stated value of the liabilities is significant.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

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

At June 30, 2013, the total undiscounted claims liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds approximated \$2.89 billion, and the undiscounted claims liability for the Old Fund approximated \$2.68 billion. The total discounted claims liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds approximated \$1.81 billion, and the discounted claims liability for the Old Fund approximated \$1.69 billion. Invested assets of the Old Fund are not sufficient at current investment rates to retire the claims liability and the Old Fund has a significant deficit. If discounting of the Old Fund claims liability were limited to anticipated investment income, the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds total discounted claims liability would have increased by approximately \$0.82 billion to a claims liability of approximately \$2.63 billion and the Old Fund's discounted claims liability would have increased to a claims liability of approximately \$2.51 billion. The West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds total deficit would increase to approximately \$1.28 billion and the Old Funds' deficit would increase to approximately \$1.45 billion at June 30, 2013.

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, 2013, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the year then ended. Losses include claim adjustment expenses. Discounting has been applied at 5 percent for the Old Fund and CWPF and 3 percent for the UEF and SI Funds.

Unpaid claims and claim adjustment expenses at beginning of year	\$ 1,928,700
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	817
Changes in provision for insured events of prior fiscal years	(1,695)
Amortization of discount	<u>91,095</u>
Total claims and claim adjustment expenses	<u>90,217</u>
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(78)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(205,739)</u>
Total payments	<u>(205,817)</u>
Unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,813,100</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

The following schedule represents the reconciliation of the unpaid claims liability for AccessWV at June 30, 2013, including an analysis of changes in aggregate liabilities for claim and claim adjustment expenses for the year then ended (undiscounted):

Unpaid claims and claim adjustment expenses at beginning of year	\$ 870
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	8,700
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>(8,360)</u>
Unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,210</u>

The following schedule represents the reconciliation of the unpaid claims liability for SEWC at June 30, 2013, 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	\$ 6,836
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	11,978
Changes in provision for insured events of prior fiscal years	<u>593</u>
Total claims and claim adjustment expenses	<u>12,571</u>
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(4,402)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(3,705)</u>
Total payments	<u>(8,107)</u>
Unpaid claims and claim adjustment expenses at end of the year	<u>\$ 11,300</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

6. Deficit Funding Plan

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

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

With the passage of Senate Bill 1004, Workers' Compensation Old Fund (Old Fund) was established. Disbursements from the Old Fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, for any claim with a date of injury on or before June 30, 2005.

Senate Bill 1004 also established a workers' compensation debt reduction fund in the State treasury for the deposit of monies received after June 30, 2005, including certain funds designated in Code §4-11a-2(d): \$30 million to be received annually until 2025 from the tobacco master settlement agreement. On March 10, 2007, Senate Bill 185 ceased the tobacco settlement payments to the debt reduction fund and replaced those revenues with \$50.4 million dollars in annual personal income tax proceeds. These personal income tax proceeds dedicated in §4-11A-18 are in addition to the income tax proceeds already dedicated to the debt reduction fund. Other Old Fund revenue sources currently include: Code §29-22A-10,10b: an estimated \$11 million to be received annually from the video lottery income, and Code §11-13V-4: new and additional severance taxes imposed estimated to yield approximately \$92.2 million annually, Code §11-21-96: personal income tax proceeds of approximately \$45 million annually, and Code §23-2C-3(f)(3): monthly premium surcharges to be collected for all West Virginia employers expected to yield approximately \$46 million annually. The net proceeds from collection of these monies are to be dedicated to paying the unfunded liability in the workers' compensation fund until fully paid or paying debt service on bonds sold to raise funds to pay the unfunded liability in the workers' compensation fund.

7. Pension Plan

Plan Description - The West Virginia Offices of the Insurance Commissioner contributes to the West Virginia Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS provides retirement, disability and death benefits to

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

plan members and beneficiaries. Chapter 5, Article 10 of the West Virginia Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. CPRB issues a publicly available financial report that includes financial statements and required supplemental information for PERS. That report can be obtained by writing to CPRB, Capitol Complex, Building 5 Room 1000, Charleston, West Virginia 25305.

Funding Policy - Plan members are required to contribute 4.5 percent of their annual covered salary and the West Virginia Offices of the Insurance Commissioner was required to contribute 14.5 percent for the current fiscal year. The contribution requirements of plan members and the West Virginia Offices of the Insurance Commissioner are established and may be amended by the PERS Board of Trustees, subject to limitations set by the West Virginia Legislature. The West Virginia Offices of the Insurance Commissioner's contributions to PERS for the year ended June 30, 2013 were \$1,819, which was equal to the required contributions for the year.

8. Commitments and Contingencies

Contingent Liability for Self-Insured Employers

An employer who has been granted self-insured status for workers' compensation insurance coverage must post security with the West Virginia Offices of the Insurance Commissioner for an actuarially determined amount of their liabilities incurred with dates of injury prior to July 1, 2004. Payments made for claims of employees of defaulted self-insured employers for injuries prior to July 1, 2004, will be made from the Self-Insured Security Pool established by Senate Bill 1004. The assets of the Security Pool consist of the proceeds received from the security held by the West Virginia Offices of the Insurance Commissioner and any necessary assessments made to active self-insured employers for the default of a self-insured employer.

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

To the extent a self-insured employer cannot meet its obligations under the Law, the two self-insured pools discussed above remain contingently liable for all policy benefits. The only sources of revenue permitted under the Law to fund the Security Pool and the Guaranty Pool must be obtained from self-insured employers. Self-insured employers are considered joint and severally liable for the obligations of a defaulted self-insured employer. The amount has not been included in the estimated liabilities for unpaid claims and claim adjustment expenses because the likelihood of future self-insurer defaults cannot be estimated.

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

Risk Management

The West Virginia Offices of the Insurance Commissioner is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

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

The West Virginia Offices of the Insurance Commissioner participates in the West Virginia State Board of Risk and Insurance Management (WVBRIM), a public entity risk pool, to obtain coverage for general liability and property damage. WVBRIM is a State agency established by the Legislature in 1957 to provide property and liability insurance coverage for state and local governmental entities including the West Virginia Offices of the Insurance Commissioner. This coverage is offered in exchange for an annual premium.

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

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

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

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

reasonable estimate of the total amount of cash that would become impaired if the self-insured employers would prevail in litigation on this matter.

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

Premium Advance Deposits

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

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 a one-time, non-interest bearing loan made in order to provide the initial funding for the program. It is anticipated that the loan will

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(In Thousands)

be repaid over time. However, no schedule for repayment has been established at this time and no loan payments were received during fiscal year 2013.

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 2013, the SEWC made a deposit of \$2,403 into the Loss Reserve Fund in accordance with the adjustment formula.

Premiums received from pool participants were \$18,467, while premiums paid for insurance coverage were \$4,267, during the year ended June 30, 2013, resulting in net premiums of \$14,200. The Loss Reserve Fund balance at June 30, 2013 was \$13,805.

REQUIRED SUPPLEMENTAL INFORMATION - UNAUDITED

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION
(Unaudited)

GASB standards require the presentation of ten years supplemental revenue and reserve development information, if available. The table on the following page illustrates how the West Virginia Offices of the Insurance Commissioner's earned revenues and investment income compare to related costs of loss and other expenses assumed (on a discounted basis) as of the end of each of the last 10 years, as available. AccessWV and SEWC information is presented since inception, which is less than 10 years.

The rows of the table are defined as follows:

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

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

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

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION
WORKERS' COMPENSATION FUND, COAL WORKERS' PNEUMOCONIOSIS FUND, SELF INSURED FUNDS, UNINSURED FUND
(Unaudited)

(In Millions)

	Fiscal and Policy Year Ended June 30									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating Revenues	\$ 678.8	\$ 736.0	\$ 57.0	\$ 221.2	\$ 271.7	\$ 50.0	\$ 50.7	\$ 52.1	\$ 54.5	\$ 54.9
Statutory Allocations	-	-	137.0	41.0	11.0	229.8	198.4	200.8	199.0	203.6
Investment Income (Loss)	23.8	74.1	4.4	109.0	(5.2)	(89.2)	129.9	109.0	39.5	65.4
Total Income (1)	702.6	810.1	198.4	371.2	277.5	190.6	379.0	361.9	293.0	323.9
Other expenses (2)	66.0	73.8	51.3	23.5	24.6	20.0	20.2	20.0	18.4	15.3
Original Incurred Loss (3)	352.4	305.8	0.6	2.7	0.7	1.0	1.5	0.4	0.8	0.8
Cumulative Payments (4):										
Year 1	70.9	72.6	-	0.2	0.1	0.1	0.1	-	0.1	0.1
Year 2	152.0	141.7	0.4	0.7	0.3	0.2	0.4	0.1	0.2	
Year 3	181.4	169.5	0.6	1.1	0.4	0.3	0.6	0.2		
Year 4	196.6	180.1	0.9	1.3	0.4	0.3	0.6			
Year 5	203.7	187.2	1.2	2.2	0.4	0.3				
Year 6	211.5	194.5	1.5	2.4	0.4					
Year 7	218.4	200.1	1.7	2.5						
Year 8	223.5	204.4	1.9							
Year 9	227.7	207.3								
Year 10	231.4									
Re-estimated Incurred Claims and Expenses (5):										
Year 1	352.4	305.8	0.6	2.7	0.7	1.0	1.5	0.4	0.8	0.8
Year 2	315.6	301.3	3.1	1.9	0.6	0.6	0.9	0.6	0.3	
Year 3	305.9	277.4	3.2	3.8	0.5	0.6	1.6	0.6		
Year 4	301.9	243.7	3.8	4.7	0.5	0.4	1.8			
Year 5	261.7	247.0	3.6	5.3	0.9	0.5				
Year 6	267.1	252.9	1.6	4.0	0.7					
Year 7	275.5	248.6	3.7	3.2						
Year 8	274.1	255.1	3.8							
Year 9	282.6	258.7								
Year 10	288.7									
(Decrease) Increase in Estimated Incurred Claims and Expense from end of Policy Year (6)	(63.7)	(47.1)	3.2	0.5	-	(0.5)	0.3	0.2	(0.5)	-

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 5 percent. The Uninsured Employers Fund and the Self-Insured Funds are discounted at 3 percent. Losses include claim adjustment expenses.

	Fiscal and Policy Year Ended June 30, 2013				Total
	WC Old Fund	CWPF	UEF	Self-Insured Funds	
Unpaid claims and claim adjustment expenses at beginning of year	\$ 1,796,900	\$ 118,300	\$ 2,900	\$ 10,600	\$ 1,928,700
Claims and claim adjustment expenses					
Provision for insured events of the current fiscal year	-	-	682	135	817
Changes in provision for insured events of prior fiscal years	(2,569)	1,045	(1,503)	1,332	(1,695)
Amortization of discount	85,103	5,605	83	304	91,095
Total claims and claim adjustment expenses	<u>82,534</u>	<u>6,650</u>	<u>(738)</u>	<u>1,771</u>	<u>90,217</u>
Payments					
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	-	-	(10)	(68)	(78)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(192,034)	(12,550)	(252)	(903)	(205,739)
Total payments	<u>(192,034)</u>	<u>(12,550)</u>	<u>(262)</u>	<u>(971)</u>	<u>(205,817)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,687,400</u>	<u>\$ 112,400</u>	<u>\$ 1,900</u>	<u>\$ 11,400</u>	<u>\$ 1,813,100</u>

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION
ACCESSWV
(Unaudited)

June 30, 2013
(In Thousands)

	Fiscal and Policy Year Ended June 30							
	2006	2007	2008	2009	2010	2011	2012	2013
Premiums	\$ 739	\$ 2,094	\$ 3,121	\$ 3,893	\$ 4,619	\$ 5,366	\$ 5,096	\$ 5,814
Investment Income	136	265	358	128	(18)	316	201	(6)
Total Premium and Investment Income (1)	875	2,359	3,479	4,021	4,601	5,682	5,297	5,808
Other Expenses (2)	389	227	328	365	325	377	368	401
Original Incurred Loss (3)	734	1,469	2,696	3,165	4,238	6,337	6,480	8,700
Fiscal Year Payments (4):	314	1,609	2,676	3,155	3,998	6,167	6,330	8,360

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SUPPLEMENTAL RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF
CONTRACT INFORMATION
ACCESSWV
(Unaudited)

June 30, 2013
(In Thousands)

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

	Fiscal and Policy Year Ended June 30, 2013
Unpaid claims and claim adjustment expenses at beginning of year	\$ 870
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	8,700
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(8,360)
Total unpaid claims and claim adjustment expenses at end of year	\$ 1,210

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

(In Thousands)

	Fiscal and Policy Year Ended June 30	
	2012	2013
Premium Revenue Earned	\$ 21,645	\$ 18,467
Premiums Paid to Insurance Companies	<u>(10,444)</u>	<u>(4,267)</u>
Total Income/Net Premiums (1)	11,201	14,200
Other Expenses (2)	90	1,700
Original Incurred Loss (3)	8,894	11,978
Cumulative Payments (4)		
Year 1	2,058	4,402
Year 2	5,763	
Re-estimated Incurred Claims and Expenses (5)		
Year 1	8,894	11,978
Year 2	9,487	-
Increase in Estimated Incurred Claims and Expense from End of Policy Year (6)	<u>\$ 593</u>	<u>\$ -</u>

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.

	Fiscal and Policy Year Ended June 30, 2013
Unpaid claims and claim adjustment expenses at beginning of year	\$ 6,836
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	11,978
Changes in provision for insured events of prior fiscal years	593
Total claims and claim adjustment expenses	12,571
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(4,402)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(3,705)
Total payments	(8,107)
Total unpaid claims and claim adjustment expenses at end of year	\$ 11,300

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

For the Fiscal Year Ended June 30, 2013
(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:				
2013 Revenue	\$ 58,196	\$ 58,196	\$ 42,482	\$ (15,714)
Revenue Refunds	-	-	(603)	(603)
Total Revenue Available for Appropriation	<u>58,196</u>	<u>58,196</u>	<u>41,879</u>	<u>(16,317)</u>
Expenditures:				
Personal Services	17,945	18,404	13,460	4,944
Employee Benefits	8,401	8,573	4,935	3,638
Contractual and Professional	13,310	12,679	3,299	9,380
Claims	50	50	-	50
Intrafund Transactions	-	-	275	(275)
Other Expenditures	<u>15,830</u>	<u>15,830</u>	<u>5,911</u>	<u>9,919</u>
Total Expenditures Charged to Appropriation	<u>55,536</u>	<u>55,536</u>	<u>27,880</u>	<u>27,656</u>
Excess (Deficiency) of Revenue Over (Under)				
Expenditures	<u>2,660</u>	<u>2,660</u>	<u>13,999</u>	<u>11,339</u>
Budgetary Fund Balance, Beginning of Year	<u>78,641</u>	<u>58,489</u>	<u>55,346</u>	<u>(3,143)</u>
Budgetary Fund Balance, June 30, 2013	<u>\$ 81,301</u>	<u>\$ 61,149</u>	<u>\$ 69,345</u>	<u>\$ 8,196</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, 2013, to comparable amounts presented in conformity with accounting principles generally accepted in the United States is set forth in the schedule on page 56.

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, 2013
(In Thousands)

	<u>Operating Funds</u>
SOURCES/INFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total revenue available for appropriation" from the budgetary comparison schedule	\$ 41,879
Differences-Budget to GAAP:	
Intrafund transactions not included in GAAP revenues	(275)
Reversal of prior year accruals	(7,388)
Accruals booked for current year	5,558
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	\$ 39,774
USES/OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total expenditures charged to appropriations" from the budgetary comparison schedule	\$ 27,880
Differences-Budget to GAAP:	
Intrafund transactions not included in GAAP expenditures	(275)
Reversal of prior year accruals	(907)
Accruals booked for current year	964
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance governmental funds	\$ 27,662

Note to Budget-to-GAAP Reconciliation Schedule:

Extraordinary Item

During fiscal year 2013, there was an extraordinary item related to a reappropriation of funds to the State of West Virginia General Fund. Given the nature of this transaction, it was not budgeted for, therefore it is excluded from the above analysis.

OTHER FINANCIAL INFORMATION

WEST VIRGINIA
OFFICES OF THE INSURANCE COMMISSIONER
SCHEDULE OF NET POSITION (DEFICIT)
WORKERS' COMPENSATION INFORMATION

June 30, 2013
(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>
Assets:					
Current Assets					
Cash and Cash Equivalents	\$ 1,039,973	\$ 261,687	\$ 10,623	\$ 21,188	\$ 1,333,471
Receivables, Net:					
Statutory Allocations	11,694	-	-	-	11,694
Assessments	-	-	87	-	87
Employer Surcharge	9,188	-	-	-	9,188
Premiums	26	-	-	-	26
Total Current Assets	<u>1,060,881</u>	<u>261,687</u>	<u>10,710</u>	<u>21,188</u>	<u>1,354,466</u>
Total Assets	<u>1,060,881</u>	<u>261,687</u>	<u>10,710</u>	<u>21,188</u>	<u>1,354,466</u>
Liabilities:					
Current Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	201,100	12,900	200	500	214,700
Due to Operating Fund	425	-	-	-	425
Accrued Expenses and Other Liabilities	1,654	-	-	16	1,670
Total Current Liabilities	<u>203,179</u>	<u>12,900</u>	<u>200</u>	<u>516</u>	<u>216,795</u>
Noncurrent Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	1,486,300	99,500	1,700	10,900	1,598,400
Total Noncurrent Liabilities	<u>1,486,300</u>	<u>99,500</u>	<u>1,700</u>	<u>10,900</u>	<u>1,598,400</u>
Total Liabilities	<u>1,689,479</u>	<u>112,400</u>	<u>1,900</u>	<u>11,416</u>	<u>1,815,195</u>
Net position:					
Restricted for:					
Coal Workers' Pneumoconiosis	-	149,287	-	-	149,287
Uninsured Fund	-	-	8,810	-	8,810
Self-Insured Fund	-	-	-	9,772	9,772
Unrestricted (Deficit)	<u>(628,598)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(628,598)</u>
Total Net Position (Deficit)	<u>\$ (628,598)</u>	<u>\$ 149,287</u>	<u>\$ 8,810</u>	<u>\$ 9,772</u>	<u>\$ (460,729)</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, 2013
(In Thousands)

	WC Old Fund Debt Reduction	Coal Workers' Pneumoconiosis	Uninsured Fund	Self-Insured Funds	Total
Operating Revenues					
Assessments	\$ 43,345	\$ -	\$ 574	\$ 10,485	\$ 54,404
Premium Revenue, Net	257	-	157	-	414
Other Operating Revenue	99	-	-	-	99
Total Operating Revenue	<u>43,701</u>	<u>-</u>	<u>731</u>	<u>10,485</u>	<u>54,917</u>
Operating Expenses and Claims Provision					
Claims and Claim Adjustment Provision (See Note 5)	82,534	6,650	(738)	1,771	90,217
General and Administration	<u>14,861</u>	<u>54</u>	<u>130</u>	<u>282</u>	<u>15,327</u>
Total Operating Expenses and Claims Provision	<u>97,395</u>	<u>6,704</u>	<u>(608)</u>	<u>2,053</u>	<u>105,544</u>
Operating (Loss) Income	<u>(53,694)</u>	<u>(6,704)</u>	<u>1,339</u>	<u>8,432</u>	<u>(50,627)</u>
Nonoperating Revenues					
Investment Earnings	46,916	17,119	601	797	65,433
Lottery Revenue	11,000	-	-	-	11,000
Personal Income Tax	95,400	-	-	-	95,400
Severance Tax	<u>97,249</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,249</u>
Total Nonoperating Revenues	<u>250,565</u>	<u>17,119</u>	<u>601</u>	<u>797</u>	<u>269,082</u>
Change in Net Position (Deficit)	196,871	10,415	1,940	9,229	218,455
Total Net Position (Deficit) - Beginning of Year	<u>(825,469)</u>	<u>138,872</u>	<u>6,870</u>	<u>543</u>	<u>(679,184)</u>
Total Net Position (Deficit) - End of Year	<u>\$ (628,598)</u>	<u>\$ 149,287</u>	<u>\$ 8,810</u>	<u>\$ 9,772</u>	<u>\$ (460,729)</u>

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

For the Fiscal Year Ended June 30, 2013
(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	\$ 45,587	\$ -	\$ 581	\$ 10,485	\$ 56,653
Receipts from Employers	285	-	157	-	442
Receipts from Other Operating Revenue	99	-	-	-	99
Payments to Claimants and Providers	(192,034)	(12,550)	(262)	(971)	(205,817)
Payments to Employees	(77)	-	-	-	(77)
Payments to Suppliers	(13,300)	(54)	(130)	(267)	(13,751)
Net Cash (Used in) Provided by Operating Activities	<u>(159,440)</u>	<u>(12,604)</u>	<u>346</u>	<u>9,247</u>	<u>(162,451)</u>
Cash Flows from Noncapital Financing Activities					
Statutory Allocations	<u>200,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,963</u>
Net Cash Provided by Noncapital Financing Activities	<u>200,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,963</u>
Cash Flows from Investing Activities					
Investment Earnings	<u>46,916</u>	<u>17,119</u>	<u>601</u>	<u>797</u>	<u>65,433</u>
Net Cash Provided by Investing Activities	<u>46,916</u>	<u>17,119</u>	<u>601</u>	<u>797</u>	<u>65,433</u>
Net Increase in Cash and Cash Equivalents	88,439	4,515	947	10,044	103,945
Cash and Cash Equivalents - Beginning of Year	<u>951,534</u>	<u>257,172</u>	<u>9,676</u>	<u>11,144</u>	<u>1,229,526</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,039,973</u>	<u>\$ 261,687</u>	<u>\$ 10,623</u>	<u>\$ 21,188</u>	<u>\$ 1,333,471</u>
Reconciliation of Operating (Loss) Income to Net Cash provided by (used in) Operating Activities:					
Operating Income (Loss)	\$ (53,694)	\$ (6,704)	\$ 1,339	\$ 8,432	\$ (50,627)
Adjustments to Reconcile Operating (Loss) Income to Net Cash provided by (used in) Operating Activities:					
Net Change in Assets and Liabilities					
Receivables, Net	2,270	-	7	-	2,277
Estimated Liability for Claims and Claim Adjustment Expenses	(109,500)	(5,900)	(1,000)	800	(115,600)
Accrued Expenses and Other Liabilities	1,484	-	-	15	1,499
Net Cash (Used in) Provided by Operating Activities	<u>\$ (159,440)</u>	<u>\$ (12,604)</u>	<u>\$ 346</u>	<u>\$ 9,247</u>	<u>\$ (162,451)</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, 2013, 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 10, 2013.

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.

Dixon Hughes Goodman LLP

*Charleston, West Virginia
October 10, 2013*

