

West Virginia Offices of the Insurance Commissioner

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

Financial Statements

Year Ended June 30, 2017

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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, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the West Virginia Offices of the Insurance Commissioner, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, the unaudited supplemental information on pages 43 through 47, and 50 through 52, and budgetary comparison information on pages 48 through 49 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 53 through 55 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, 2017, on our consideration of the West Virginia Offices of the Insurance Commissioner's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the West Virginia Offices of the Insurance Commissioner's internal control over financial reporting and compliance.



**Charleston, West Virginia
October 10, 2017**

Management's Discussion And Analysis

Management's Discussion And Analysis

This section of the West Virginia Offices of the Insurance Commissioner's annual financial report presents management's discussion and analysis of its financial performance for the fiscal years ended June 30, 2017 and June 30, 2016. Please read it in conjunction with the financial statements, which follow this section.

Overview Of The Financial Statements

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

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

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

Government-Wide Statements

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

The government-wide statements report the entity's net position - the difference between total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources, and how they have changed from the prior year.

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

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

Fund Financial Statements

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

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

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

**West Virginia Offices of the Insurance Commissioner
Management's Discussion and Analysis
June 30, 2017 (In Thousands)**

The following tables summarizes the financial position and results of operations of the West Virginia Offices of the Insurance Commissioner for the years ended June 30, 2017 and 2016.

Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current Assets	\$ 30,572	\$ 34,302	\$ 1,657,625	\$ 1,694,466	\$ 1,688,197	\$ 1,728,768
Capital Assets, Net	240	299	-	-	240	299
Other Long Term Receivable	223	242	-	-	223	242
Deferred Outflows of Resources	4,617	2,682	-	-	4,617	2,682
Total Assets and Deferred Outflows of Resources	<u>35,652</u>	<u>37,525</u>	<u>1,657,625</u>	<u>1,694,466</u>	<u>1,693,277</u>	<u>1,731,991</u>
Current Liabilities	12,057	11,886	181,567	186,273	193,624	198,159
Long-Term Liabilities	8,485	5,583	1,357,000	1,403,700	1,365,485	1,409,283
Deferred Inflows of Resources	786	2,057	-	-	786	2,057
Total Liabilities and Deferred Inflows of Resources	<u>21,328</u>	<u>19,526</u>	<u>1,538,567</u>	<u>1,589,973</u>	<u>1,559,895</u>	<u>1,609,499</u>
Net Position						
Invested in Capital Assets						
Net of Related Debt	240	299	-	-	240	299
Restricted	-	-	148,064	155,584	148,064	155,584
Unrestricted (Deficit)	14,084	17,700	(29,006)	(51,091)	(14,922)	(33,391)
Total Net Position	<u>\$ 14,324</u>	<u>\$ 17,999</u>	<u>\$ 119,058</u>	<u>\$ 104,493</u>	<u>\$ 133,382</u>	<u>\$ 122,492</u>

West Virginia Offices of the Insurance Commissioner
Statement of Activities and Changes in Net Position (Deficit)
For the Fiscal Year Ended June 30, 2017 (In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for Services	\$ 34,797	\$ 36,353	\$ 48,659	\$ 119,582	\$ 83,456	\$ 155,935
Total Operating Revenues	34,797	36,353	48,659	119,582	83,456	155,935
Expenses						
Program Expenses						
Workers' Compensation	-	-	134,443	202,406	134,443	202,406
Access WV	-	-	-	(24)	-	(24)
State Entities Workers' Compensation Program Fund	-	-	11,304	13,772	11,304	13,772
General Government	23,229	24,809	-	-	23,229	24,809
Total Operating Expenses	23,229	24,809	145,747	216,154	168,976	240,963
Operating Income (loss)	11,568	11,544	(97,088)	(96,572)	(85,520)	(85,028)
Nonoperating Revenues						
Investment Earnings	7	11	135,114	19,946	135,121	19,957
Lottery Revenue	-	-	5,500	6,735	5,500	6,735
Personal Income Tax	-	-	-	42,400	-	42,400
Severance Tax	-	-	2,731	73,119	2,731	73,119
Total Nonoperating Revenues	7	11	143,345	142,200	143,352	142,211
Change in Net Position Before Reappropriations/Interfund Transfers	11,575	11,555	46,257	45,628	57,832	57,183
Reappropriation to State of West Virginia General Revenue	(24,250)	(33,600)	(22,692)	(13,277)	(46,942)	(46,877)
Interfund Transfers	9,000	5,000	(9,000)	(5,000)	-	-
Change in Net Position (Deficit)	(3,675)	(17,045)	14,565	27,351	10,890	10,306
Net Position (Deficit), Beginning of Year	17,999	35,044	104,493	77,142	122,492	112,186
Net Position (Deficit), End of Year	\$ 14,324	\$ 17,999	\$ 119,058	\$ 104,493	\$ 133,382	\$ 122,492

**West Virginia Offices of the Insurance Commissioner
Financial Highlights**

Financial Highlights (In Thousands)

The overall financial position of the West Virginia Offices of the Insurance Commissioner improved during fiscal year 2017, resulting in an overall increase in positive net position of \$10,890. During fiscal year 2017, the Workers' Compensation Old Fund deficit decreased by \$22,085 marking the eleventh consecutive year of deficit reduction progress for the Old Fund. As of June 30, 2017, the Old Fund's deficit was \$29,006, and the West Virginia Offices of the Insurance Commissioner's total net position was \$133,382.

The West Virginia Offices of the Insurance Commissioner's total assets and deferred outflows of resources decreased by \$38,714 during the year, while the agency's total liabilities and deferred inflows of resources also decreased by \$49,604. Factors contributing to the decrease in assets and deferred outflows of resources were the reduced revenues received for Old Fund deficit reduction and the transfers of cash from the OIC's Operating Fund to the State's General Revenue Fund during fiscal year 2017. The primary factor contributing to the decrease in liabilities and deferred inflows of resources was the anticipated reduction in outstanding Old Fund claims liabilities due to the closed status of the fund.

The West Virginia Offices of the Insurance Commissioner experienced an increase of \$107,646 in the fair market value of its investments held during fiscal year 2017. This change in fair market value, when combined with the yearly investment earnings of \$27,475, yield a net investment income of \$135,121 for fiscal year 2017.

Driven by negative trends in the State's economy, particularly in the energy sectors, and the resulting declining revenues in the State of West Virginia's General Fund, the WV Legislature enacted several bills that re-appropriated or redirected revenues from the Offices of the Insurance Commissioner to the State's General Fund. During fiscal year 2017, The West Virginia Offices of the Insurance Commissioner disbursed \$46,942 from various agency funds to the State's General Revenue Fund. See Note 2 for additional information.

Fiscal Year 2017 marked the sixth 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, 2017, the West Virginia Offices of the Insurance Commissioner had accumulated a Loss Reserve Fund balance of \$18,023.

The Coal Worker's Pneumoconiosis Fund experienced a decline in net position of \$4,663 during fiscal year 2017. The decline was attributable to the combined effects of the reduction in the discount rate applied to the long-term liabilities of the Coal Worker's Pneumoconiosis Fund and the adverse claims development that increased the estimated liabilities by \$9,600. The increased liability estimate for the CWP Fund is a result of certain provisions included in the ACA, which made significant changes to the federal black lung act and the implementation of federal rules as the result of the legislation. The increases in the liabilities were partially offset by an increase of \$4,932 in the total assets of the Coal Worker's Pneumoconiosis Fund due to investment earnings.

Financial Statements

West Virginia Offices of the Insurance Commissioner
Statement of Net Position (Deficit)
June 30, 2017 (In Thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 26,477	\$ 1,630,572	\$ 1,657,049
Receivables, Net:			
Statutory Allocations	-	99	99
Assessments	201	44	245
Employer Surcharge	3,894	7,452	11,346
Premiums	-	84	84
Other	-	-	-
Prepaid Assets	-	1,351	1,351
Loss Reserve Fund	-	18,023	18,023
Total Current Assets	<u>30,572</u>	<u>1,657,625</u>	<u>1,688,197</u>
Noncurrent Assets			
Other Receivables	223	-	223
Capital Assets, Net	<u>240</u>	<u>-</u>	<u>240</u>
Total Noncurrent Assets	<u>463</u>	<u>-</u>	<u>463</u>
Total Assets	<u>31,035</u>	<u>1,657,625</u>	<u>1,688,660</u>
Deferred Outflows of Resources			
Deferred Outflows of Resources Related to Pension	<u>4,617</u>	<u>-</u>	<u>4,617</u>
Total Deferred Outflows of Resources	<u>4,617</u>	<u>-</u>	<u>4,617</u>
Total Assets and Deferred Outflows of Resources	<u>35,652</u>	<u>1,657,625</u>	<u>1,693,277</u>
LIABILITIES			
Current Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	175,700	175,700
Compensated Absences	513	-	513
Accrued Expenses and Other Liabilities	1,248	5,867	7,115
OPEB Liability	<u>10,296</u>	<u>-</u>	<u>10,296</u>
Total Current Liabilities	<u>12,057</u>	<u>181,567</u>	<u>193,624</u>
Noncurrent Liabilities			
Estimated Liability for Unpaid Claims and Claim			
Adjustment Expense	-	1,357,000	1,357,000
Net Pension Liability	8,042	-	8,042
Compensated Absences	<u>443</u>	<u>-</u>	<u>443</u>
Total Noncurrent Liabilities	<u>8,485</u>	<u>1,357,000</u>	<u>1,365,485</u>
Total Liabilities	<u>20,542</u>	<u>1,538,567</u>	<u>1,559,109</u>
Deferred Inflows of Resources			
Deferred Inflows of Resources Related to Pension	<u>786</u>	<u>-</u>	<u>786</u>
Total Deferred Inflows of Resources	<u>786</u>	<u>-</u>	<u>786</u>
Total Liabilities and Deferred Inflows of Resources	<u>21,328</u>	<u>1,538,567</u>	<u>1,559,895</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	240	-	240
Restricted for:			
Coal Workers' Pneumoconiosis	-	91,120	91,120
Uninsured Fund	-	11,230	11,230
Self-Insured Funds	-	29,955	29,955
State Entities Workers' Compensation			
Program Fund	-	15,759	15,759
Unrestricted (Deficit)	<u>14,084</u>	<u>(29,006)</u>	<u>(14,922)</u>
Total Net Position	<u>\$ 14,324</u>	<u>\$ 119,058</u>	<u>\$ 133,382</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Activities
For the Fiscal Year Ended June 30, 2017 (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	\$ 23,161	\$ 34,797	\$ 11,636	\$ -	\$ 11,636
Depreciation, Unallocated	68	-	(68)	-	(68)
Total Governmental Activities	23,229	34,797	11,568	-	11,568
Business-type Activities					
Workers' Compensation	134,443	35,758	-	(98,685)	(98,685)
State Entities Workers' Compensation Program Fund	11,304	12,901	-	1,597	1,597
Total Business-Type Activities	145,747	48,659	-	(97,088)	(97,088)
Total Primary Government	<u>\$ 168,976</u>	<u>\$ 83,456</u>	<u>11,568</u>	<u>(97,088)</u>	<u>(85,520)</u>
General Revenues:					
Investment Earnings			7	135,114	135,121
Lottery Revenue			-	5,500	5,500
Severance Tax			-	2,731	2,731
Total General Revenues			<u>7</u>	<u>143,345</u>	<u>143,352</u>
Change in Net Position Before Reappropriations/Interfund Transfers			11,575	46,257	57,832
Reappropriation to State of West Virginia General Revenue			(24,250)	(22,692)	(46,942)
Interfund Transfers			<u>9,000</u>	<u>(9,000)</u>	<u>-</u>
Change in Net Position			(3,675)	14,565	10,890
Net Position-Beginning of Year			<u>17,999</u>	<u>104,493</u>	<u>122,492</u>
Net Position-End of Year			<u>\$ 14,324</u>	<u>\$ 119,058</u>	<u>\$ 133,382</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Net Position - Governmental Fund
June 30, 2017 (In Thousands)

	<u>Operating Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 26,477
Accounts Receivable – Assessments	201
Accounts Receivable – Employer Surcharge	3,894
Accounts Receivable – Other	-
Total Assets	<u>\$ 30,572</u>
LIABILITIES	
Compensated Absences	\$ 513
Accrued Expenses and Other Liabilities	1,248
OPEB Liability	<u>10,296</u>
Total Liabilities	12,057
Fund Balance	
Committed	<u>18,515</u>
Total Fund Balance	<u>18,515</u>
Total Liabilities and Fund Balances	<u>\$ 30,572</u>
Total Fund Balance	\$ 18,515
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds	240
Deferred outflows of resources are not financial resources and therefore are not reported in the funds	4,617
Arrears Pay is not a financial resource and therefore is not reported in the funds	223
Net Pension liability is not due and payable in the current period and therefore are not reported in the funds	(8,042)
Long Term Compensated Absences are not due and payable in the current period and therefore are not reported in the funds	(443)
Deferred inflows of resources are not financial resources and therefore are not reported in the funds	<u>(786)</u>
Net Position of Governmental Activities	<u>\$ 14,324</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Revenues, Expenditures and Changes in Fund Balance -
Governmental Fund
For the Fiscal Year Ended June 30, 2017 (In Thousands)

	<u>Operating Fund</u>
REVENUES	
Fees, Assessments, and Other	\$ 34,797
Investment Earnings	7
Total Revenues	<u>34,804</u>
EXPENDITURES	
General and Administrative	<u>23,455</u>
Total Expenditures	<u>23,455</u>
Excess of Revenues over Expenditures	11,349
Reappropriation to the State of West Virginia General Fund	(24,250)
Interfund Transfers	<u>9,000</u>
Net Change in Fund Balance	(3,901)
Fund Balance - Beginning of Year	<u>22,416</u>
Fund Balance - End of Year	<u><u>\$ 18,515</u></u>
Net Change in Fund Balance	\$ (3,901)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities	1,420
Net Pension Expense does not require the use of current financial resources and therefore is not reported in governmental funds.	(1,138)
Change in Employer Contributions are not included in the Statement of Activities	(8)
Arrears Pay does not require the use of current financial resources and therefore are not reported in governmental funds.	(19)
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.	(60)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>31</u>
Change in Net Position of Governmental Activities	<u><u>\$ (3,675)</u></u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Net Position - Proprietary Funds
June 30, 2017 (In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>State Entities</u> <u>Workers'</u> <u>Compensation</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,619,487	\$ 11,085	\$ 1,630,572
Receivables, Net:			
Statutory Allocations	99	-	99
Assessments	44	-	44
Employer Surcharge	7,452	-	7,452
Premiums	84	-	84
Prepaid Assets	-	1,351	1,351
Loss Reserve Fund	-	18,023	18,023
Total Current Assets	<u>1,627,166</u>	<u>30,459</u>	<u>1,657,625</u>
 Total Assets	 <u>1,627,166</u>	 <u>30,459</u>	 <u>1,657,625</u>
LIABILITIES			
Current Liabilities			
Estimated Liability for			
Unpaid Claims and Claim			
Adjustment Expense	170,100	5,600	175,700
Accrued Expenses and			
Other Liabilities	5,867	-	5,867
Total Current Liabilities	<u>175,967</u>	<u>5,600</u>	<u>181,567</u>
Noncurrent Liabilities			
Estimated Liability for			
Unpaid Claims and Claim			
Adjustment Expense	1,347,900	9,100	1,357,000
Total Noncurrent Liabilities	<u>1,347,900</u>	<u>9,100</u>	<u>1,357,000</u>
 Total Liabilities	 <u>1,523,867</u>	 <u>14,700</u>	 <u>1,538,567</u>
Net Position			
Restricted for:			
Coal Workers' Pneumoconiosis	91,120	-	91,120
Uninsured Fund	11,230	-	11,230
Self-Insured Funds	29,955	-	29,955
State Entities Workers'			
Compensation Program Fund	-	15,759	15,759
Unrestricted (Deficit)	(29,006)	-	(29,006)
Total Net Position	<u>\$ 103,299</u>	<u>\$ 15,759</u>	<u>\$ 119,058</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Revenues, Expenses, and Changes in Fund Net Position -
Proprietary Funds
For the Fiscal Year Ended June 30, 2017 (In Thousands)

	Workers' Compensation	State Entities Workers' Compensation	Total
Operating Revenues			
Assessments	\$ 569	\$ -	\$ 569
Employer Surcharge	34,702	-	34,702
Premium Revenue, Net	464	12,901	13,365
Other Operating Revenue	23	-	23
Total Operating Revenue	<u>35,758</u>	<u>12,901</u>	<u>48,659</u>
Operating Expenses and Claims Provisions			
Claims and Claim Adjustment Provisions (See Note 5)	124,169	9,769	133,938
General and Administration	10,274	1,535	11,809
Total Operating Expenses and Claims Provisions	<u>134,443</u>	<u>11,304</u>	<u>145,747</u>
Operating Income (Loss)	<u>(98,685)</u>	<u>1,597</u>	<u>(97,088)</u>
Nonoperating Revenues			
Investment Earnings	135,019	95	135,114
Lottery Revenue	5,500	-	5,500
Severance Tax	2,731	-	2,731
Total Nonoperating Revenues	<u>143,250</u>	<u>95</u>	<u>143,345</u>
Change in Net Position before Transfers	44,565	1,692	46,257
Reappropriation to State of WV General Revenue	(22,692)	-	(22,692)
Interfund Transfer	-	(9,000)	(9,000)
Total Net Position - Beginning of Year	<u>81,426</u>	<u>23,067</u>	<u>104,493</u>
Total Net Position - End of Year	<u>\$ 103,299</u>	<u>\$ 15,759</u>	<u>\$ 119,058</u>

See accompanying notes.

West Virginia Offices of the Insurance Commissioner
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2017 (In Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>State Entities</u> <u>Workers'</u> <u>Compensation</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from Fees and Assessments	\$ 34,237	\$ 18,356	\$ 52,593
Receipts from Employers and Policyholders	964	-	964
Receipts from Other Operating Revenues	23	-	23
Payments to Claimants and Providers	(179,469)	(8,839)	(188,308)
Payments for Premiums	-	(6,376)	(6,376)
Deposits into Loss Reserve Fund	-	(10,950)	(10,950)
Withdrawals from Loss Reserve Fund	-	8,839	8,839
Payments to Employees	(20)	-	(20)
Payments to Suppliers	(10,748)	(7)	(10,755)
Net Cash (Used in) Provided by Operating Activities	<u>(155,013)</u>	<u>1,023</u>	<u>(153,990)</u>
Cash Flows from Noncapital Financing Activities			
Statutory Allocations	19,083	-	19,083
Transfers	(17,103)	(9,000)	(26,103)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>1,980</u>	<u>(9,000)</u>	<u>(7,020)</u>
Cash Flows from Investing Activities			
Investment Earnings	135,019	95	135,114
Net Cash Provided by Investing Activities	<u>135,019</u>	<u>95</u>	<u>135,114</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(18,014)	(7,882)	(25,896)
Cash and Cash Equivalents - Beginning of Year	<u>1,637,501</u>	<u>18,967</u>	<u>1,656,468</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,619,487</u>	<u>\$ 11,085</u>	<u>\$ 1,630,572</u>
Reconciliation of Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities:			
Operating (Loss) Income	\$ (98,685)	\$ 1,597	\$ (97,088)
Adjustments to Reconcile Operating (Loss) Income to Net Cash (Used in) Provided by Operating Activities:			
Net Change in Assets and Liabilities:			
Receivables, Net	(534)	-	(534)
Loss Reserve Fund	-	18	18
Prepaid Premiums	-	608	608
Estimated Liability for Claims and Claim Adjustment Expenses	(55,300)	(1,200)	(56,500)
Accrued Expenses and Other Liabilities	(494)	-	(494)
Net Cash (Used in) Provided by Operating Activities	<u>\$ (155,013)</u>	<u>\$ 1,023</u>	<u>\$ (153,990)</u>

See accompanying notes.

Notes To Financial Statements

Notes to Financial Statements

1. Financial Reporting Entity

The West Virginia Offices of the Insurance Commissioner is a special revenue fund and enterprise funds of the State of West Virginia (the State) and, accordingly, is reported as such as part of the primary government in the State's Comprehensive Annual Financial Report (CAFR). The West Virginia Offices of the Insurance Commissioner is responsible for the regulation and oversight of all insurance transactions conducted in the State. The mission of the West Virginia Offices of the Insurance Commissioner is to promote a competitive and solvent insurance market, with adequate consumer protection, by fairly and consistently administering the insurance laws of the State.

The West Virginia Offices of the Insurance Commissioner is also responsible for the administration and oversight of the remaining assets and liabilities of the former West Virginia Workers' Compensation Commission (WCC).

West Virginia operated an exclusive state-managed workers' compensation insurance fund from 1913 until 2005, which provided for the payment of benefits to all employees sustaining personal injuries in the course of and as a result of their covered employment. In order to address the substantial deficit in the workers' compensation fund, a special session of the West Virginia Legislature was convened in January 2005. During the special session, the West Virginia Legislature enacted Senate Bill 1004, effective January 29, 2005, that established a framework for the privatization of workers' compensation insurance in West Virginia and established a timeline for the transition to an open competitive market by July 1, 2008. Senate Bill 1004 also established a revenue stream dedicated to paying down the unfunded liability in the workers' compensation fund. The residual assets and liabilities of the former Worker's Compensation Fund are now reported in a fund known as the Workers' Compensation Old Fund (Old Fund). Disbursements from the Old Fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, for any claim with a date of injury on or before June 30, 2005.

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

With the passage of Senate Bill 1004, several funds were established in the State Treasury. Upon termination of the WCC, the administrative oversight of those funds transitioned to the West Virginia Offices of the Insurance Commissioner. The West Virginia Offices of the Insurance Commissioner is responsible for certain proprietary funds established for the purpose of maintaining an effective workers' compensation system. Those funds established by Senate Bill 1004 consist of the Uninsured Employers' Fund (UEF) and the Self-Insured Employers' Funds (SI).

The UEF is the fund held by the West Virginia State Treasurer's Office consisting of those funds transferred to it from the workers' compensation fund and any other source, including assessments to carriers and employers. An injured worker may receive compensation from the UEF if he or she meets all jurisdictional and entitlement provisions of Chapter 23 of the West Virginia Code (the Code). The West Virginia Offices of the Insurance Commissioner has the right to recover all payments made on behalf of an employer that is found to be liable, including interest on any amounts paid. In addition, the West Virginia Offices of the Insurance Commissioner may impose an administrative fine of not more than \$10 (ten thousand dollars) against an employer if the employer fails to provide mandatory coverage.

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

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

The Self-Insured Security Risk Pool is a fund held by the West Virginia State Treasurer's Office consisting of those funds paid into it through the West Virginia Offices of the Insurance Commissioner's administration of 85 CSR §19 (2004). The obligations of the fund are the claims liabilities of bankrupt or defaulted self-insured employers with dates of injury prior to July 1, 2004, provided that the default of the employer took place after the termination of the WCC on December 31, 2005.

The West Virginia Offices of the Insurance Commissioner utilizes the services of third party administrators to manage the claims activity of the workers' compensation related funds. Currently, the third-party administrators engaged to provide claims management services are Sedgwick Claims Management Services and HealthSmart Casualty Claims Solutions.

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

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

The West Virginia Offices of the Insurance Commissioner administered the West Virginia Health Insurance Plan known as AccessWV, which was a high-risk health insurance pool. AccessWV provided health insurance for medically uninsurable individuals and their dependents. Due to the federal government's enactment of the Patient Protection and Affordable Care Act (PPACA), insurance carriers will no longer be able to deny coverage to individuals with pre-existing health conditions beginning 2014. Accordingly, AccessWV ceased to provide insurance coverage on March 31, 2014. Beginning with the fiscal year 2017 financial statements, the residual assets of AccessWV will be reported as part of the OIC's Operating Fund.

The Old Fund, the CWPFF, 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 and the SEWC 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, 2017, and the changes in its financial position and its cash flows for the year then ended.

2. Significant Accounting Policies

Basis of Presentation

The West Virginia Offices of the Insurance Commissioner operates enterprise funds subject to Governmental Accounting Standards Board Statement 10 (GASB 10), Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, Governmental Accounting Standards Board Statement 30 (GASB 30), Risk Financing Omnibus - An Amendment of GASB Statement No. 10, Governmental Accounting Standards Board Statement 54 (GASB 54) Fund Balance Reporting and Governmental Fund Type Definitions, and Financial Accounting Standards Codification 944 (ASC 944), Accounting and Reporting for Insurance Enterprises. An enterprise fund is used to account for the operations of state agencies providing goods or services to the general public on a user-charge basis, or for any activity, whose principal revenue sources meet any of the following criteria: debt backed solely by fees and charges; legal requirement to recover cost; or policy decision to recover cost. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The West Virginia Offices of the Insurance Commissioner is also subject to GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62), which incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and the AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

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

The West Virginia Offices of the Insurance Commissioner is also subject to GASB Statement 40, Deposits and Investment Risk Disclosures - an amendment of GASB 3 (GASB 40), and GASB Statement 46, Net Assets Restricted by Enabling Legislation - an amendment to GASB 34 (GASB 46), and GASB Statement 45 Other Post-Employment Benefits (GASB 45), GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 (GASB 67), GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68), and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68 (GASB 71).

Use of Estimates

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

Basis of Accounting

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

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

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

Budgetary Data

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

Cash and Cash Equivalents

Cash on hand and held by the West Virginia State Treasurer for the benefit of the West Virginia Offices of the Insurance Commissioner on June 30, 2017, totaled \$35,463. 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 \$1,610,460, and cash pooled with funds of other state agencies and invested by the Board of Treasury Investments (BTI) was \$11,126. For purposes of the statement of cash flows, the West Virginia Offices of the Insurance Commissioner considers its share of the pooled deposits to be cash equivalents in accordance with GASB 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

Loss Reserve Fund

The Loss Reserve Fund consists of money on deposit with Zurich that is utilized to pay claims and claims adjustment expenses of the SEWC up to the retention level established by the insurance contract.

Receivables

Net receivables at the date of the statement of net position represent management's best estimate of the net realizable value of taxes, fees, assessments, premiums and related revenue due as of June 30, 2017. All premiums receivable balances due to the West Virginia Offices of the Insurance Commissioner consist of past premiums due from defaulted employers for periods of coverage prior to June 30, 2005, from the former Workers' Compensation Commission. Due to the age of these remaining premium receivables, only the actual subsequent receipts are recognized in the financial statements unless the employer has entered into a bona fide repayment agreement with the State or if the employer is subject to a court ordered restitution agreement. The West Virginia Offices of the Insurance Commissioner also recognizes a receivable for fines assessed against and claims reimbursements amounts billed to uninsured employers.

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

Capital Assets

Capital assets are stated at cost. Depreciation for office equipment and furniture are computed using the straight-line method over the estimated economic useful lives, which typically range from 10 to 20 years. At June 30, 2017, cost of capital assets was \$2,804 with \$69 current depreciation expense and \$2,564 accumulated depreciation.

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Balances of deferred outflows of resources may be presented in the statement of net position or governmental fund balance sheet as aggregations of different types of deferred amounts. At June 30, 2017 deferred outflows in the statement of net position were composed of \$4,617 related to Employer contributions to the Public Employees Retirement System (PERS) made during the current fiscal year and differences between expected and actual experience.

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

Estimated Liability for Unpaid Claims and Claim Adjustment Expense

The liability for unpaid claims and claim adjustment expense represents management's estimate, developed in conjunction and with the assistance of the West Virginia Offices of the Insurance Commissioner's consulting actuary, of the ultimate net cost of all unpaid claims and claim adjustment expenses incurred as of the date of the statement of net position (deficit). Changes in estimates of such costs are recognized in results of operations in the period in which the changes in estimates are made.

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

Compensated Absences and Other Post-Employment Benefits

Employees fully vest in all earned but unused vacation, and the West Virginia Offices of the Insurance Commissioner accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. Under the provision of §5-16-13 of the Code, West Virginia Offices of the Insurance Commissioner employees, upon retirement, may apply their accumulated annual and/or sick leave toward extending their health care insurance coverage. Under the provisions of the same statute, employees may alternatively choose to apply their accumulated annual and/or sick leave toward additional credited service in the computation of their retirement benefits. The West Virginia Offices of the Insurance Commissioner accounts for compensated absences by accruing for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for other postemployment benefits for the State. Effective July 1, 2007, the West Virginia Offices of the Insurance Commissioner was required to participate in this multiple employer cost-sharing plan, the Retiree Health Benefit Trust Fund, sponsored by the State. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710, or <http://www.wvpeia.com/>.

The West Virginia Offices of the Insurance Commissioner's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1½ sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. For employees hired prior to July 1, 1988, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50 percent of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. The liability is now provided for under the multiple employer cost-sharing plan sponsored by the State.

OPEB costs are accrued based upon invoices received from PEIA based upon actuarial required contribution amounts. The actuarial required contributions were \$821, \$1,102, and \$1,051 for the years ended June 30, 2017, 2016, and 2015 respectively. The actuarial amounts contributed were \$471, \$478, and \$501 for the years ended June 30, 2017, 2016, and 2015 respectively. At June 30, 2017, the estimated current liability related to OPEB costs was \$10,296.

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

Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. Balances of deferred inflows of resources may be presented in the statement of net position or governmental fund balance sheet as aggregations of different types of deferred amounts. At June 30, 2017 deferred inflows in the statement of net position were composed of \$786 related to the difference between projected and actual earnings on pension plan investments, differences in assumptions, and changes in proportion, and differences between employer contributions and the proportionate share of contributions.

Other Operating Revenue

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

Statutory Allocations Proceeds

The West Virginia Offices of the Insurance Commissioner recognized \$8,231 of revenues allocated to Old Fund Debt Reduction during fiscal year 2017. The allocations are comprised of \$2,731 in severance tax proceeds, and \$5,500 from West Virginia Lottery proceeds.

Re-appropriation to the State's General Revenue Fund

During fiscal year 2017, legislation was passed requiring a re-appropriation or redirection of \$46,942 from the West Virginia Offices of the Insurance Commissioner various agency funds to the State of West Virginia General Fund.

Fund Transferred From	Fund Name Transferred From	Amount Transferred	Transfer Date	Related Legislation
7168	Unfair Claims	\$ 1,000	7/12/2016	SB 1013
7168	Unfair Claims	2,000	9/26/2016	Code 11B-2-32
7169	Debt Reduction Fund	8,365	11/29/2016	SB 419
7169	Debt Reduction Fund	366	1/17/2017	SB 419
7169	Debt Reduction Fund	88	1/31/2017	SB 419
7169	Debt Reduction Fund	1,196	2/27/2017	SB 419
7169	Debt Reduction Fund	2,972	3/29/2017	SB 419
7169	Debt Reduction Fund	932	4/27/2017	SB 419
7169	Debt Reduction Fund	457	4/28/2017	SB 419
7152	OIC Operating Fund	20,000	4/28/2017	HB 2801
7169	Debt Reduction Fund	2,409	5/4/2017	SB 419
7169	Debt Reduction Fund	247	5/25/2017	SB 419
7152	OIC Operating Fund	1,250	6/26/2017	Code 11B-2-32
7169	Debt Reduction Fund	40	6/28/2017	SB 419
7169	Debt Reduction Fund	31	6/30/2017	SB 419
7169	Debt Reduction Fund	<u>5,589</u>	8/9/2017	EO 6-17
Total transferred to the State of West Virginia General Fund		<u>\$ 46,942</u>		

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

Net Position (Deficit)

The West Virginia Offices of the Insurance Commissioner displays net position (deficit) in three components, if applicable: invested in capital assets, net of related debt; restricted, and unrestricted.

- Invested in capital assets, net of related debt - This component of net position consists of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Restricted net position should be reported when constraints placed on the net position use are either externally imposed (for instance, by creditors, laws or grantors) or imposed by law through constitutional provisions or enabling legislation. Such constraints limit the West Virginia Offices of the Insurance Commissioner's ability to use the resources to pay current liabilities. In accordance with the respective enabling legislation, net assets accumulated for Old Fund, CWPF, Uninsured Employers' Fund, Self-Insured Employers' Funds, AccessWV and the SEWC are restricted for payment of related expenses.
- Unrestricted net position (deficit) - Unrestricted net position (deficit) consist of net positions that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." In the governmental environment, net positions are often designated to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statement of net position.

Fund Balance

Fund balance classifications are based primarily on the extent to which the West Virginia Offices of the Insurance Commissioner is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. Fund balances may be categorized as follows:

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

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

Newly Adopted Statements Issued by the GASB

The Governmental Accounting Standards Board has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after June 15, 2016. The requirements of this Statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The adoption of GASB Statement No. 74 had no impact on the June 30, 2017 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 77, *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015. The requirements of this Statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The adoption of GASB Statement No. 77 had no impact on the June 30, 2017 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*, effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The adoption of GASB Statement No. 80 had no impact on the June 30, 2017 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for fiscal years beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption of GASB Statement No. 81 had no impact on the June 30, 2017 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. The adoption of GASB Statement No. 86 had no impact on the June 30, 2017 financial statements.

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

Recent Statements Issued by the Governmental Accounting Standards Board

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

The Governmental Accounting Standards Board has also issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for fiscal years beginning after June 15, 2018. The requirements of this Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs), including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. OIC Management has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. OIC Management has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 85, *Omnibus 2017*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. OIC Management has not yet determined the effect that the adoption of GASB Statement No. 85 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The requirements of this Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. OIC Management has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

Subsequent Events

In preparing these financial statements, the West Virginia Offices of the Insurance Commissioner has evaluated events and transactions for potential recognition or disclosure through October 10, 2017, the date the financial statements were available for issuance. On September 29, 2017, the Offices of the Insurance Commissioner transferred \$3,750 from the Operating fund to the Public Employees Insurance Agency Financial Stability fund as required by West Virginia Code §11B-2-32.

West Virginia Offices of the Insurance Commissioner
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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 2017, stock holdings were limited to 30 percent of the Old Fund portfolio. The equity allocation was also limited to 30 percent of the Coal Worker's Pneumoconiosis Fund. Because the assets are held in the pools, no other disclosure related to credit or market risk is required. However, market risk exists as the assets of the pools may decline in value because of an increase in interest rates or a decline in stock prices. Such market risk is borne by the participants in the pools.

Invested assets of the Worker's Compensation Uninsured Employers' Fund, the Self-Insured Security Risk Pool and the Self-Insured Guaranty Risk Pool were invested 30 percent in equity securities and 70 percent in fixed income like securities and cash during fiscal year 2017.

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, 2017.

<u>Investment Pool</u>	<u>WC Old Fund</u>	<u>CWPF</u>	<u>Uninsured</u>	<u>Self Insured Guaranty</u>	<u>Self Insured Security</u>
Large Cap Domestic	\$ 153,984	\$ 30,559	\$ 1,465	\$ 4,089	\$ 6,589
Non-Large Cap					
Domestic	31,555	6,222	288	834	1,351
International					
Nonqualified	63,909	13,303	626	1,536	2,244
International Equity	144,587	27,462	1,296	3,992	6,715
Short-Term Fixed					
Income	46,301	9,532	1,172	822	1,771
Total Return Fixed					
Income	356,840	62,436	2,492	8,387	13,463
Core Fixed Income	151,713	26,502	1,058	3,560	5,721
TIPS	125,406	24,710	1,127	3,325	5,353
Hedge Fund	186,618	49,905	2,274	6,666	10,700
Total by Pool	<u>\$ 1,260,913</u>	<u>\$ 250,631</u>	<u>\$ 11,798</u>	<u>\$ 33,211</u>	<u>\$ 53,907</u>

West Virginia Offices of the Insurance Commissioner
Notes to Financial Statements

Large Cap Domestic

Credit Risk and Interest Rate Risk - The Pool is exposed to credit risk from certain investments made with cash collateral for securities loaned. This risk is limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase. The Pool is exposed to interest rate risk from certain investments made with cash collateral for securities loaned. The weighted average maturity for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the weighted average credit ratings and weighted average maturities (WAM) as of June 30, 2017.

Investment Type	Moody's	S&P	WAM (Days)	Fair Value	Percent of Total Investments
Common stock	N/A	N/A	N/A	\$ 3,490,823	94.0%
Money market mutual fund	Aaa	AAA	N/A	34,740	0.9
Repurchase agreements	Aaa	AA	3	110,335	3.0
Time deposits	A-1	P-1	3	76,236	2.1
Total investments				<u>\$ 3,712,134</u>	<u>100.0%</u>

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one company. At June 30, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2017, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

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

Non-Large Cap Domestic

Credit Risk and Interest Rate Risk - The Pool is exposed to credit risk from certain investments made with cash collateral for securities loaned. This risk is limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase. The Pool is exposed to interest rate risk from certain investments made with cash collateral for securities loaned. The weighted average maturity for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the weighted average credit ratings and weighted average maturities (WAM) as of June 30, 2017.

Investment Type	Moody's	S&P	WAM (Days)	Fair Value	Percent of Total Investments
Common stock	N/A	N/A	N/A	\$ 717,579	76.1%
Money market mutual fund	Aaa	AAA	N/A	13,317	1.4
Repurchase agreements	Aaa	AA	3	125,660	13.3
Time deposits	A-1	P-1	3	86,826	9.2
Total investments				<u>\$ 943,382</u>	<u>100.0%</u>

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Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one company. At June 30, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2017, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

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

International Nonqualified

The Pool invests in a collective trust fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2017, was \$201,808. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. The Pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

International Equity

Credit Risk and Interest Rate Risk - The Pool is exposed to credit risk from investments made with cash collateral for securities loaned. This risk is limited by requiring minimum ratings on debt instruments. Long-term debt instruments must be rated A or better by Moody's or Standard & Poor's at the time of purchase. Short-term debt instruments must be rated P-1 by Moody's or A-1 by Standard & Poor's at the time of purchase. The Pool is exposed to interest rate risk from certain investments made with cash collateral for securities loaned. The weighted average maturity for investments made with cash collateral for securities loaned is not to exceed 90 days. The following table provides the weighted average credit ratings and weighted average maturities (WAM) as of June 30, 2017.

Investment Type	Moody's	S&P	WAM (Days)	Fair Value	Percent of Total Investments
Common stock	N/A	N/A	N/A	\$ 2,958,970	93.2%
Money market mutual fund	Aaa	AAA	N/A	38,306	1.2
Preferred stock	N/A	N/A	N/A	67,086	2.1
Repurchase agreements	Aaa	AA	3	63,972	2.0
Rights	N/A	N/A	N/A	2,562	0.1
Time deposits	A-1	P-1	3	44,201	1.4
Total investments				\$ 3,175,097	100.0%

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one company. At June 30, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2017, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

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Notes to Financial Statements

Foreign Currency Risk - The Pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. The amounts at fair value (in U.S. dollars) of investments and cash denominated in foreign currencies as of June 30, 2017, are as follows:

Currency	Investments	Cash	Total	Percent of Total Investments and Cash
Australian Dollar	\$ 86,903	\$ 3,905	\$ 90,808	2.8%
Brazil Real	107,336	1,305	108,641	3.4
British Pound	268,603	8,426	277,029	8.6
Canadian Dollar	114,239	77	114,316	3.6
Chilean Peso	14,919	-	14,919	0.5
Czech Koruna	7,352	108	7,460	0.2
Danish Krone	11,750	(1)	11,749	0.4
Egyptian Pound	1,605	-	1,605	0.0
Emirati Dirham	6,060	10	6,070	0.2
Euro Currency Unit	463,410	6,309	469,719	14.6
Hong Kong Dollar	332,332	9,785	342,117	10.6
Hungarian Forint	6,749	58	6,807	0.2
Indian Rupee	93,581	1,604	95,185	3.0
Indonesian Rupiah	33,767	59	33,826	1.1
Israeli Shekel	13,482	35	13,517	0.4
Japanese Yen	371,110	2,302	373,412	11.6
Malaysian Ringgit	26,081	508	26,589	0.8
Mexican Peso	47,583	263	47,846	1.5
New Taiwan Dollar	75,661	2,418	78,079	2.4
New Zealand Dollar	6,060	7	6,067	0.2
Norwegian Krone	19,812	598	20,410	0.6
Pakistan Rupee	3,848	-	3,848	0.1
Philippine Peso	10,603	2	10,605	0.3
Polish Zloty	13,957	-	13,957	0.4
Qatari Riyal	99	32	131	0.0
Singapore Dollar	18,722	445	19,167	0.6
South African Rand	56,807	30	56,837	1.8
South Korean Won	218,894	1,856	220,750	6.9
Swedish Krona	37,428	(1)	37,427	1.2
Swiss Franc	109,989	1,566	111,555	3.5
Thailand Baht	54,069	(6)	54,063	1.7
Turkish Lira	55,190	96	55,286	1.7
Total	<u>\$ 2,688,001</u>	<u>\$ 41,796</u>	<u>\$ 2,729,797</u>	<u>84.9%</u>

This table excludes investments and cash held by the Pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated investments and cash is \$487,320 or 15.1 percent.

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Notes to Financial Statements

Short-Term Fixed Income

Credit Risk and Interest Rate Risk - The IMB limits the exposure to credit risk in the Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor's and P-1 by Moody's. Additionally, the Pool must have at least 15 percent of its assets in United States Treasury issues. The 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 information on the weighted average credit ratings and the weighted average maturities (WAM) of the Pool's investments as of June 30, 2017.

Investment Type	Moody's	S&P	WAM (days)	Carrying Value	Percent of Total Investments
Commercial paper	P-1	A-1	23	\$ 36,775	16.8%
Repurchase agreements	Aaa	A	3	50,000	22.9
U.S. Government agency bonds	P-1	A-1	9	88,415	40.5
U.S. Treasury bonds	P-1	A-1	60	42,873	19.7
Total investments			20	\$ 218,063	100.0%

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2017, 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.

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

Total Return Fixed Income

Credit Risk and Interest Rate Risk -The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The IMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1 percent change in interest rates. The effective duration calculation takes into account the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds, commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations.

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2017, the Pool held \$463,424 of these securities. This represents approximately 18 percent of the value of the Pool's securities.

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The following table provides the weighted average credit ratings and the weighted average effective duration for the various asset types in the Pool as of June 30, 2017.

Investment Type	Moody's	S&P	Effective Duration (Years)	Fair Value	Percent of Total Investments
Common stock	A	N/A	N/A	\$ 14	0.0%
Corporate asset backed issues	Ba	AA	2.0	32,078	1.3
Corporate ABS residual	N/A	N/A	N/A	5,034	0.2
Corporate CMO	Baa	BB	0.9	46,766	1.9
Corporate preferred security	Ba	BB	0.1	10,436	0.4
Foreign asset backed issues	Baa	BBB	0.5	17,436	0.7
Foreign corporate bonds	Baa	BBB	6.6	285,298	11.3
Foreign government bonds	Baa	BBB	5.3	244,812	9.7
Investments in other funds	N/A	N/A	2.4	319,061	12.7
Money market mutual fund	Aaa	AAA	N/A	63,965	2.5
Municipal bonds	A	A	9.0	47,351	1.9
Options contracts purchased	N/A	N/A	N/A	2,098	0.1
Repurchase agreements	Aaa	AA	0.0	119,844	4.8
Time deposits	P-1	A-1	0.0	82,806	3.3
U.S. corporate bonds	Baa	BBB	7.0	460,676	18.1
U.S. Government agency bonds	Aaa	AA	0.7	11,630	0.5
U.S. Government agency CMO	Aaa	AA	1.4	51,865	2.1
U.S. Government agency CMO interest-only	Aaa	AA	1.8	3,796	0.2
U.S. Government agency MBS	Aaa	AA	3.0	289,155	11.5
U.S. Government agency TBAs	Aaa	AA	5.4	17,294	0.7
U.S. Treasury bonds	Aaa	AA	7.8	361,886	14.4
U.S. Treasury inflation protected securities	Aaa	AA	13.9	42,269	1.7
Total Investments			5.0	<u>\$ 2,515,570</u>	<u>100.0%</u>

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2017, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian 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.

Foreign Currency Risk - The Pool has foreign government bonds and foreign corporate bonds that are denominated in foreign currencies and are exposed to foreign currency risks. The Pool also has foreign denominated futures contracts and foreign exchange forward contracts. Additionally, the Pool has indirect exposure to foreign currency risk through its ownership interests in certain of the commingled investment pools. Approximately \$87,411, or 27 percent, of the commingled investment pools hold substantially all of their investments in securities denominated in foreign currencies. This represents approximately 3 percent of the value of the Pool's securities. The amounts at

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fair value (in U.S. dollars) of investments and cash denominated in foreign currencies as of June 30, 2017, are as follows:

Currency	Investments	Cash	Total	Percent of Total Investments and Cash
Argentine Peso	\$ 10,274	\$ 455	\$ 10,729	0.4%
Australian Dollar	-	1,207	1,207	0.0
Azerbaijani Manat	652	-	652	0.0
Brazil Real	22,496	1	22,497	0.9
Canadian Dollar	7,653	-	7,653	0.3
Colombian Peso	5,003	-	5,003	0.2
Deutsche Mark	1,932	-	1,932	0.1
Euro Currency Unit	-	7,865	7,865	0.3
British Pound	4,800	61	4,861	0.2
Georgian Lari	1,678	-	1,678	0.1
Ghana Cedi	2,791	-	2,791	0.1
Indian Rupee	620	-	620	0.0
Japanese Yen	49,484	921	50,405	2.0
Kenyan Shilling	2,338	40	2,378	0.1
Mexican Peso	39,783	1,014	40,797	1.6
New Zealand Dollar	-	1,251	1,251	0.0
Peruvian Nuevo Sol	1,440	-	1,440	0.1
Russian Ruble	3,637	861	4,498	0.2
Swedish Krona	-	704	704	0.0
Turkish Lira	4,445	-	4,445	0.2
Ugandan Shilling	1,907	-	1,907	0.1
Uruguayan Peso	7,767	-	7,767	0.3
South African Rand	5,882	-	5,882	0.2
Total	\$ 174,582	\$ 14,380	\$ 188,962	7.4%

This table excludes investments and cash held by the Pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated investments and cash is \$2,346,267. This represents approximately 93 percent of the value of the Pool's investments and cash.

Core Fixed Income

Credit Risk and Interest Rate Risk - The IMB limits the exposure to credit risk in the Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The IMB monitors interest rate risk of the Pool by evaluating the effective duration of the investments in the Pool. Effective duration is a method of disclosing interest rate risk that measures the expected change in the price of a fixed income security for a 1 percent change in interest rates. The effective duration calculation takes into account the most likely timing of variable cash flows, which is particularly useful for measuring interest rate risk of callable bonds, commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations.

The Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual

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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, 2017, the Pool held \$440,253 of these securities. This represents approximately 40 percent of the value of the Pool's securities.

The following table provides the weighted average credit ratings and the weighted average effective duration for the various asset types in the Pool as of June 30, 2017.

Investment Type	Moody's	S&P	Effective Duration (Years)	Fair Value	Percent of Total Investments
Corporate asset backed issues	Aa	A	2.5	\$ 102,422	9.3%
Corporate CMO	A	A	2.6	41,600	3.8
Corporate CMO interest-only	B	Not Rated	(11.6)	599	0.1
Corporate CMO principal-only	Not Rated	AA	6.8	129	0.0
Foreign asset backed issues	Aaa	AAA	2.5	3,446	0.3
Foreign corporate bonds	A	A	5.3	52,706	4.8
Foreign government bonds	Aa	A	8.5	7,218	0.7
Money market mutual fund	Aaa	AAA	N/A	18,950	1.7
Municipal bonds	Aa	AA	13.6	9,013	0.8
Repurchase agreements	Aaa	AA	0.0	60,406	5.5
Time deposits	P-1	A-1	0.0	41,738	3.8
U.S. corporate bonds	A	A	6.1	226,894	20.7
U.S. Government agency bonds	Aaa	AA	2.8	22,596	2.1
U.S. Government agency CMO	Aaa	AA	3.8	114,552	10.5
U.S. Government agency CMO interest-only	Aaa	AA	11.2	3,635	0.3
U.S. Government agency CMO principal-only	Aaa	AA	6.8	7,159	0.7
U.S. Government agency MBS	Aaa	AA	4.2	166,711	15.2
U.S. Treasury bonds	Aaa	AA	9.0	215,469	19.7
U.S. Treasury inflation protected security	Aaa	AA	3.3	432	0.0
Total Investments			5.0	<u>\$ 1,095,675</u>	<u>100.0%</u>

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2017, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

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

TIPS

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Credit Risk and Interest Rate Risk - The IMB limits the exposure to credit risk in the Pool by primarily investing in U.S. Treasury inflation protected securities. The IMB monitors interest rate risk of the Pool by evaluating the real modified duration of the investments in the Pool. The following table provides the weighted average credit ratings and weighted average real modified duration as of June 30, 2017.

Investment Type	Moody's / S&P	Real Modified Duration (years)	Fair Value	Percent of Total Investments
Money market mutual fund	Aaa / AAA	N/A	\$ 128	0.0%
Repurchase agreements	Aaa / AA	0.0	6,314	1.9
Time deposits	A-1 / P-1	0.0	4,363	1.3
U.S. Treasury inflation-protected securities	Aaa / AA	7.9	326,866	96.8
Total investments		7.6	\$ 337,671	100.0%

Concentration of Credit Risk - The Pool is restricted from investing more than 5 percent of the value of the Pool in any one corporate name. At June 30, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Custodial Credit Risk - At June 30, 2017, the Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized to a minimum of 102 percent and the collateral is held in the name of the IMB. Securities on loan are collateralized to a minimum of 102 percent and the collateral is held by the IMB's custodian in the name of the IMB. All remaining securities are held by the IMB's custodian in the name of the IMB.

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

Hedge Fund

The Pool holds shares in hedge funds and shares of a money market fund with the highest credit rating. The investments in hedge funds might be indirectly exposed to foreign currency risk, credit risk, interest rate risk, and/or custodial credit risk. The Pool is restricted from investing more than 10 percent of the value of the Pool with any single manager. At June 30, 2017, the Pool was in compliance with this restriction and is not exposed to concentration of credit risk.

Board of Treasury (BTI) Investments

The West Virginia Offices of the Insurance Commissioner is a participant in the BTI WV Money Market Pool. At June 30, 2017, the Operating Fund has \$11,126 in this pool. The following footnote information pertains to the pool as a whole.

The BTI is charged with managing the individual investment pools and accounts of the Consolidated Fund under authority of West Virginia State Code Chapter 12, Article 6C, West Virginia Treasury Investments Act. The West Virginia Legislature established the BTI as a public corporation of the State of West Virginia, to make short-term operating funds of the State more accessible to state government and to allow the IMB, which had managed the Consolidated Fund, to focus on the State's long-term trust investments. The BTI operates on a fiscal year that begins July 1 and ends June 30. The Consolidated Fund provides for the investment of monies not currently needed to fund state governmental operations, as well as providing the opportunity for local governments to participate in large investment pools, and for those funds statutorily required to be invested in the Consolidated Fund. The West Virginia State Treasurer's Office provides direct administrative and management services to the BTI. The BTI does not employ a staff, but reimburses the Treasurer's Office for all personnel expenses of Treasury employees assigned to administer and manage the BTI.

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

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The WV Money Market Pool has been rated AAAM by Standard & Poor’s. A fund rated “AAAM” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. “AAAM” is the highest principal stability fund rating assigned by Standard & Poor’s. Neither the BTI itself nor any of the other Consolidated Fund pools or accounts has been rated for credit risk by any organization. The WV Money Market Pool is subject to credit risk.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated A+ by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor’s and P1 by Moody’s. The pool must have at least 15 percent of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America.

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

Security Type	Credit Rate		Carrying Value	Percent of Total Investments
	Moody’s	S&P		
Commercial Paper	P-1	A-1+	\$ 358,377	20.10%
	P-1	A-1	706,150	39.60
Corporate Bonds and Notes	Aa3	AA-	6,285	0.35
	A1	A	3,200	0.18
U.S. Treasury notes*	Aaa	AA+	97,823	5.49
U.S. Treasury bills*	P-1	A-1+	69,837	3.92
Negotiable certificates of deposit	P-1	A-1+	174,000	9.76

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Security Type	Credit Rate		Carrying Value	Percent of Total Investments
	Moody's	S&P		
Money market funds	P-1	A-1	156,476	8.78
Repurchase Agreements (underlying securities):	Aaa	AAAm	100,005	5.61
U.S. Treasury notes*	P-1	A-1	50,000	2.80
U.S. Treasury notes*	NR	A-1	60,800	3.41
			<u>\$ 1,782,953</u>	<u>100.00%</u>

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

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 110,800	3
U.S. Treasury notes	97,823	44
U.S. Treasury bills	69,837	88
Commercial paper	1,064,527	36
Certificates of deposit	330,476	41
Corporate bonds and notes	9,485	79
Money market funds	100,005	3
	<u>\$ 1,782,953</u>	36

Other risks of investing can include concentration of credit risk, custodial credit risk, and foreign currency risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of a Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

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Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

4. Leases

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

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

Future minimum scheduled rentals under operating leases at June 30, 2017, were as follows:

2018	\$	1,465
2019		611
2020		445
2021		396
2022		159
Thereafter		<u>-</u>
Total minimum lease payments	\$	<u>3,076</u>

Rental expense was \$1,518 for the year ended June 30, 2017.

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 have been discounted using a rate of 4.5 percent at June 30, 2017. The claims liability for the CWPF has been discounted using a rate of 4.0 percent at June 30, 2017. The claims liabilities of the Uninsured Employers' Fund and the Self-Insured Employers' Funds have been discounted at 3 percent at June 30, 2017. The impact of discounting on the stated value of the liabilities is significant. The half percent decrease in the discount rate increased the estimated value of the June 30, 2017 Coal Worker's Pneumoconiosis Fund liabilities by approximately \$7 million.

Based on the composition and characteristics of the SEWC Fund, the claim liabilities for this proprietary fund are presented on an undiscounted basis.

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At June 30, 2017, the total undiscounted claim liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds approximated \$2.27 billion, and the undiscounted claims liability for the Old Fund approximated \$1.95 billion. The total discounted claims liability for the West Virginia Offices of the Insurance Commissioner's Workers' Compensation Funds approximated \$1.52 billion, and the discounted claims liability for the Old Fund approximated \$1.30 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 \$418 million to a claims liability of approximately \$1.94 billion and the Old Fund's discounted claims liability would have increased to a claims liability of approximately \$1.72 billion. The West Virginia Offices of the Insurance Commissioner's Workers Compensation Funds total deficit would increase to approximately \$315 million and the Old Funds' deficit would increase to approximately \$447 million at June 30, 2017.

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, 2017, including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the year then ended. Losses include claim adjustment expenses. Discounting has been applied at 4.5 percent for the Old Fund, 4.0 percent for the CWPf and 3 percent for the UEF and SI Funds.

Unpaid claims and claim adjustment expenses at beginning of year	\$ 1,573,300
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	463
Changes in provision for insured events of prior fiscal years	58,509
Amortization of discount	<u>65,197</u>
Total claims and claim adjustment expenses	<u>124,169</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(30)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(179,439)</u>
Total payments	<u>(179,469)</u>
Unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,518,000</u>

The following schedule represents the reconciliation of the unpaid claims liability for SEWC at June 30, 2017, 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	\$ 15,900
Commuted Liabilities	<u>(2,600)</u>
Unpaid Claims and Claims Adjustment Expense adjusted for Commuted Liabilities	<u>13,300</u>
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	10,897
Changes in provision for insured events of prior fiscal years	<u>(1,128)</u>
Subtotal claims and claim adjustment expenses	9,769
Commuted liabilities expense	<u>2,600</u>

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Total claims and claim adjustment expenses	<u>12,369</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(3,181)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(5,658)</u>
Subtotal incremental claim payments	(8,839)
Commuted Loss Reserve Fund Value	<u>(2,130)</u>
Total Claim Payments and Commuted Loss Reserve Fund	<u>(10,969)</u>
Unpaid claims and claim adjustment expenses at end of the year	<u>\$ 14,700</u>

6. Deficit Funding Plan

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

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

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

Senate Bill 1004 also established a workers' compensation debt reduction fund in the State treasury for the deposit of monies received after June 30, 2005, including certain funds designated in Code §4-11a-2(d): \$30 million to be received annually until 2025 from the tobacco master settlement agreement. On March 10, 2007, Senate Bill 185 ceased the tobacco settlement payments to the debt reduction fund and replaced those revenues with \$50.4 million dollars in annual personal income tax proceeds. The personal income tax proceeds dedicated in §4-11A-18 were in addition to the income tax proceeds already dedicated to the debt reduction fund. Other Old Fund revenue sources currently included: 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 \$100 million annually, Code §11-21-96: personal income tax proceeds of approximately \$45 million annually, and Code §23-2C-3(f)(3): monthly premium surcharges to be collected for all West Virginia employers expected to yield approximately \$43 million annually. The net proceeds from collection of these monies were to be dedicated to paying the unfunded liability in the workers' compensation fund until fully paid or paying debt service on bonds sold to raise funds to pay the unfunded liability in the workers' compensation fund.

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

West Virginia Offices of the Insurance Commissioner Notes to Financial Statements

On April 8, 2017, Senate Bill 362 was passed which authorized redirection by Executive Order of seventy-five percent of the amounts collected from employer surcharges and assessments on worker's compensation insurance policies for periods prior to June 30, 2018 and authorized redirection of seventy-five percent of the amounts collected from certain deposits of revenues derived from net terminal income for periods prior to June 30, 2018. The Governor may, by Executive Order, redirect seventy-five percent of the deposits of the amount collected from premium surcharges, self-insured assessments and net terminal income deposits for any period commencing after June 30, 2017 and ending before July 1, 2018 (fiscal year 2018) to the General Revenue Fund. Subsequent to fiscal year 2018, the employer surcharges and lottery revenues, estimated to yield approximately \$44 million annually, will remain statutorily dedicated to the Old Fund until the deficit is eliminated. On August 7, 2017, the Governor issued Executive order 6-17, thereby redirecting seventy-five percent of Old Fund fiscal year 2018 deficit reduction revenues to the State's General Revenue 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). Chapter 5, Article 10 of the West Virginia Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. CPRB issues a publicly available financial report that includes financial statements and required supplemental information for PERS. That report can be obtained by writing to CPRB, Capitol Complex, Building 5 Room 1000, Charleston, West Virginia 25305.

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

Contributions - While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. Current funding policy requires employer contributions of 12.0%, 13.5%, and 14.0% for the years ended June 30, 2017, 2016, and 2015, respectively. For periods prior to July 1, 2015, the employee contribution rate was 4.5%. Effective July 1, 2015 the employee contribution increases to 6.0% for those hired for the first time who have never been a member of PERS. The West Virginia Offices of the Insurance Commissioner's contribution to the Plan, excluding the employee's contribution paid by the West Virginia Offices of the Insurance Commissioner, approximated \$1,420, \$1,636, and \$1,741 for the fiscal years ended June 30, 2017, 2016, and 2015, respectively.

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

At June 30, 2017, the West Virginia Offices of the Insurance Commissioner reported a liability of \$8,042 for its proportionate share of the net pension liability. The net pension liability, deferred inflows of resources, deferred outflows of resources, and pension expense were determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016, which is the measurement date. The West Virginia Offices of the Insurance Commissioner's proportion of the net pension liability was based on the West Virginia Offices of the Insurance Commissioner's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2016. At June 30, 2016, the West Virginia Offices of the Insurance

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Commissioner's proportionate share was 0.87%, which was a decrease of .05% from its proportionate share measured as of June 30, 2015.

For the year ended June 30, 2017, the West Virginia Offices of the Insurance Commissioner recognized pension expense of \$1,138. At June 30, 2017, the West Virginia Offices of the Insurance Commissioner reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 2,527	\$ -
Differences between expected and actual experience	670	-
Deferred difference in assumptions	-	392
Changes in proportion and differences between West Virginia Offices of the Insurance Commissioner contributions and proportionate share of contributions	-	394
West Virginia Offices of the Insurance Commissioner contributions subsequent to the measurement date	1,420	-
Total	<u>\$ 4,617</u>	<u>\$ 786</u>

\$1,420 reported as deferred outflows of resources related to pensions resulting from West Virginia Offices of the Insurance Commissioner contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as credits to pension expense as follows:

<u>Year ended June 30:</u>	
2018	\$ 213
2019	291
2020	1,123
2021	784
2022	-

Actuarial assumptions and methods - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

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

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

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

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighted Average Expected Real Rate of Return
US Equity	27.5%	7.0%	1.92%
International Equity	27.5%	7.7%	2.12%
Core Fixed Income	7.5%	2.7%	0.20%
High Yield Fixed Income	7.5%	5.5%	0.41%
Real Estate	10.0%	7.0%	0.70%
Private Equity	10.0%	9.4%	0.94%
Hedge Funds	10.0%	4.7%	0.47%
TIPS	0.0%	2.7%	0.00%
Total	100.0%		6.76%
Inflation (CPI)			1.90%
			8.66%

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

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

	Total Net Pension Liability		
	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
PERS	<u>\$ 14,558</u>	<u>\$ 8,042</u>	<u>\$ 2,509</u>

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

8. Commitments and Contingencies

Contingent Liability for Self-Insured Employers

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

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

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

Risk Management

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

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

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

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

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

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

Premium Advance Deposits

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

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the West Virginia Offices of the Insurance Commissioner ninety days after the West Virginia State Treasurer's Office has advertised the property and they remain unclaimed.

9. State Entities Workers' Compensation Program Fund

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

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

In fiscal year 2012, pursuant to the provisions of HB 3163, the enabling legislation for the SEWC, the West Virginia Offices of the Insurance Commissioner's Operating Fund transferred \$21,655 to the SEWC. The transfer was made in order to provide the initial funding for the program. The amount transferred may be repaid over time. In September 2015, the first repayment of the loan was made and \$5,000 was transferred back to the Operating Fund. In July 2016, the second repayment of the loan was made and \$5,000 was transferred back to the Operating Fund. In March 2017, the third repayment of the loan was made and \$4,000 was transferred back to the Operating Fund.

From July 1, 2011 through September 30, 2011, the SEWC purchased workers' compensation insurance from BrickStreet Mutual Insurance Company on a guaranteed cost basis. On October 1, 2011, the SEWC entered into a high deductible insurance coverage policy with Zurich. Pursuant to the policy provisions in the insurance arrangement, the SEWC has transferred the risk for losses in excess of a two hundred fifty thousand dollar deductible to Zurich and the SEWC retains the loss exposure up to the two hundred fifty thousand dollar per occurrence deductible limit. The SEWC has provided for these losses by establishing a Loss Reserve Fund with Zurich. Zurich will pay statutory benefits for all losses incurred by the SEWC up to the deductible limit from the Loss Reserve Fund. Zurich will provide claims management services for claims incurred prior to June 30, 2017.

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 2017, the SEWC made a deposit of \$867 into the Loss Reserve Fund in accordance with the adjustment formula. After the fourth and final valuation and adjustment to the Loss Reserve Fund for each policy period, the transfer of risk to Zurich is complete. Accordingly, the liabilities and Loss Reserve Fund amounts associated with the finalized policy period are then commuted to Zurich. At June 30, 2017, the OIC commuted \$2,130 from the Loss Reserve Fund to Zurich.

Premiums received from pool participants were \$18,356, while premiums paid for insurance coverage were \$5,455, during the year ended June 30, 2017, resulting in net premiums of \$12,901. The Loss Reserve Fund balance at June 30, 2017 was \$18,023.

Beginning July 1, 2017, the SEWC entered into a high deductible insurance coverage policy with BrickStreet Mutual Insurance Company (BSI). 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 BSI 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 BSI. BrickStreet will pay statutory benefits for all losses incurred by the SEWC up to the deductible limit from the Loss Reserve Fund. BSI will also provide claims management services for claims incurred on or after July 1, 2017.

Required Supplemental Information - Unaudited

Supplemental Revenue And Reserve Development Information (Unaudited)

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

The rows of the table are defined as follows:

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

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

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

West Virginia Offices of the Insurance Commissioner
Supplemental Revenue and Reserve Development Information
Workers' Compensation Fund, Coal Workers' Pneumoconiosis Fund, Self Insured Funds, Uninsured Fund
(Unaudited)
(In Millions)

	Fiscal and Policy Year Ended June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating Revenues	\$ 271.7	\$ 50.0	\$ 50.7	\$ 52.1	\$ 54.5	\$ 54.9	\$ 45.2	\$ 46.0	\$ 106.0	\$ 35.8
Statutory Allocations	11.0	229.8	198.4	200.8	199.0	203.6	215.9	231.3	122.2	8.2
Investment Income (Loss)	(5.2)	(89.2)	129.9	109.0	39.5	65.4	125.0	14.9	19.9	135.0
Total Income (1)	277.5	190.6	379.0	361.9	293.0	323.9	386.1	292.2	248.1	179.0
Other expenses (2)	24.6	20.0	20.2	20.0	18.4	15.3	12.2	11.2	11.0	10.3
Original Incurred Loss (3)	0.7	1.0	1.5	0.4	0.8	0.8	0.7	0.3	1.3	0.5
Cumulative Payments (4):										
Year 1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.4	0.0
Year 2	0.3	0.2	0.4	0.1	0.2	0.3	0.2	0.6	0.9	
Year 3	0.4	0.3	0.6	0.2	0.3	0.7	0.5	1.3		
Year 4	0.4	0.3	0.6	0.2	0.3	0.8	1.0			
Year 5	0.4	0.3	0.7	0.3	0.6	0.9				
Year 6	0.4	0.4	0.8	0.3	0.8					
Year 7	0.5	0.4	0.9	0.4						
Year 8	0.6	0.4	1.1							
Year 9	0.7	0.5								
Year 10	0.8									
Re-estimated Incurred Claims and Expenses (5):										
Year 1	0.7	1.0	1.5	0.4	0.8	0.8	0.7	0.3	1.3	0.5
Year 2	0.6	0.6	0.9	0.6	0.3	1.0	0.4	2.1	1.4	
Year 3	0.5	0.6	1.6	0.6	0.5	1.0	2.2	2.1		
Year 4	0.5	0.4	1.8	0.7	0.4	1.5	2.6			
Year 5	0.9	0.5	1.8	0.7	1.4	1.5				
Year 6	0.7	0.4	1.7	0.8	1.6					
Year 7	0.7	0.4	3.8	0.9						
Year 8	1.0	1.1	3.8							
Year 9	2.5	1.8								
Year 10	3.1									
(Decrease) Increase in Estimated Incurred Claims and Expense from end of Policy Year (6)	2.4	0.8	2.3	0.5	0.8	0.7	1.9	1.8	0.1	0.0

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 changes in claims liabilities discounted at 4.5 percent. The CWPF is discounted at 4 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, 2017				
	WC Old Fund	CWPF	UEF	Funds	Total
Unpaid claims and claim adjustment expenses at beginning of year	\$ 1,359,400	\$ 151,000	\$ 1,500	\$ 61,400	\$ 1,573,300
Claims and claim adjustment expenses					
Provision for insured events of the current fiscal year	-	-	463	-	463
Changes in provision for insured events of prior fiscal years	37,028	19,739	(16)	1,758	58,509
Amortization of discount	57,684	5,726	40	1,747	65,197
Total claims and claim adjustment expenses	94,712	25,465	487	3,505	124,169
Payments					
Claims and claim adjustment expenses attributable to insured events of current fiscal year	-	-	(30)	-	(30)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(156,812)	(15,865)	(357)	(6,405)	(179,439)
Total payments	(156,812)	(15,865)	(387)	(6,405)	(179,469)
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 1,297,300</u>	<u>\$ 160,600</u>	<u>\$ 1,600</u>	<u>\$ 58,500</u>	<u>\$ 1,518,000</u>

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

	Fiscal and Policy Years Ended June 30			
	2014	2015	2016	2017
Premium Revenue Earned	\$ 20,691	\$ 18,747	\$ 18,490	\$ 18,356
Premiums Paid to Insurance Companies	(4,989)	(5,247)	(4,860)	(5,455)
Total Income/Net Premiums (1)	15,702	13,500	13,630	12,901
Other Expenses (2)	1,390	1,836	1,455	1,535
Original Incurred Loss (3)	10,198	10,641	11,785	10,897
Cumulative Payments (4)				
Year 1	3,568	3,547	4,286	3,181
Year 2	7,881	7,669	8,383	
Year 3	9,499	8,560		
Year 4	10,169			
Re-estimated Incurred Claims and Expenses (5)				
Year 1	10,198	10,641	11,785	10,897
Year 2	11,383	11,094	11,822	
Year 3	11,826	10,456		
Year 4	11,300			
(Decrease) Increase in Estimated Incurred Claims and Expense from End of Policy Year (6)	1,102	(185)	37	-

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, 2017
Unpaid claims and claim adjustment expenses at beginning of year	\$ 15,900
Commuted Liabilities	<u>(2,600)</u>
Unpaid Claims and Claims Adjustment Expense adjusted for Commuted Liabilities	<u>13,300</u>
Claims and claim adjustment expenses	
Provision for insured events of the current fiscal year	10,897
Changes in provision for insured events of prior fiscal years	<u>(1,128)</u>
Subtotal claims and claim adjustment expenses	9,769
Commuted liabilities expense	<u>2,600</u>
Total claims and claim adjustment expenses	<u>12,369</u>
Payments	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(3,181)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(5,658)</u>
Subtotal incremental claim payments	(8,839)
Commuted Loss Reserve Fund Value	<u>(2,130)</u>
Total Claim Payments and Commuted Loss Reserve Fund	<u>(10,969)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u><u>\$ 14,700</u></u>

West Virginia Offices of the Insurance Commissioner
Required Supplemental Information - Budgetary Comparison Schedule - Operating Fund
(Unaudited)
For the Fiscal Year Ended June 30, 2017
(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:				
2017 Revenue	\$ 39,995	\$ 39,995	\$ 34,635	\$ (5,360)
Total Revenue Available for Appropriation	<u>39,995</u>	<u>39,995</u>	<u>34,635</u>	<u>(5,360)</u>
Expenditures:				
Personal Services	17,929	17,929	12,498	5,431
Employee Benefits	8,384	8,384	4,469	3,915
Contractual and Professional	5,655	5,655	1,180	4,475
Other Expenditures	<u>10,032</u>	<u>10,032</u>	<u>5,135</u>	<u>4,897</u>
Total Expenditures Charged to Appropriation	<u>42,000</u>	<u>42,000</u>	<u>23,282</u>	<u>18,718</u>
Excess of Revenue Over Expenditures	(2,005)	(2,005)	11,353	13,358
Reappropriation to the State of WV General Fund	-	-	(24,250)	(24,250)
Interfund Transfer	-	-	9,000	9,000
Budgetary Fund Balance, Beginning of Year	<u>90,135</u>	<u>69,984</u>	<u>30,301</u>	<u>(39,683)</u>
Budgetary Fund Balance, June 30, 2017	<u>\$ 88,130</u>	<u>\$ 67,979</u>	<u>\$ 26,404</u>	<u>\$ (41,575)</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, 2017, to comparable amounts presented in conformity with accounting principles generally accepted in the United States is set forth in the schedule on page 49.

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, 2017
(In Thousands)

	<u>Operating Funds</u>
SOURCES/INFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total revenue available for appropriation" from the budgetary comparison schedule	\$ 34,635
Differences-Budget to GAAP:	
Reversal of prior year accruals	(3,971)
Accruals booked for current year	<u>4,140</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental fund	<u>\$ 34,804</u>
USES/OUTFLOWS OF RESOURCES	
Actual amounts (budgetary basis) "total expenditures charged to appropriations" from the budgetary comparison schedule	\$ 23,282
Differences-Budget to GAAP:	
Reversal of prior year accruals	(1,939)
Accruals booked for current year	<u>2,112</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance governmental fund	<u>\$ 23,455</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)(percentage)	0.8749%	0.9164%	0.9440%
Employer's proportionate share of the net pension liability (asset)	\$ 8,042	\$ 5,118	\$ 3,484
Employer's covered-employee payroll	\$ 12,110	\$ 12,429	\$ 12,641
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	66.41%	41.18%	27.56%
Plan fiduciary net position as a percentage of the total pension liability **	86.11%	91.29%	93.98%

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,420	\$ 1,636	\$ 1,740	\$ 1,833	\$ 1,832
Contributions in relation to the contractually required contribution	<u>(1,420)</u>	<u>(1,636)</u>	<u>(1,740)</u>	<u>(1,833)</u>	<u>(1,832)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 11,781	\$ 12,110	\$ 12,429	\$ 12,641	\$ 13,086
Contributions as a percentage of covered-employee payroll	12.00%	13.50%	14.00%	14.50%	14.00%

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

Amounts reported during the year ended June 30, 2017 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 2017, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 2016. Amounts reported in 2017 also reflect a change in salary increase assumptions to more closely reflect actual experience.

There were no other factors that affected trends in the amounts reported. Additional information can be obtained from the CPRB Comprehensive Annual Financial Report for the year ended June 30, 2016.

Other Financial Information

West Virginia Offices of the Insurance Commissioner
Schedule of Net Position (Deficit) - Workers' Compensation Information
June 30, 2017 (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	\$ 1,266,457	\$ 251,789	\$ 12,786	\$ 88,455	\$ 1,619,487
Receivables, Net:					
Statutory Allocations	99	-	-	-	99
Assessments	-	-	44	-	44
Employer Surcharge	7,452	-	-	-	7,452
Premiums	84	-	-	-	84
Total Current Assets	<u>1,274,092</u>	<u>251,789</u>	<u>12,830</u>	<u>88,455</u>	<u>1,627,166</u>
Total Assets	<u>1,274,092</u>	<u>251,789</u>	<u>12,830</u>	<u>88,455</u>	<u>1,627,166</u>
LIABILITIES					
Current Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	145,900	16,000	400	7,800	170,100
Accrued Expenses and Other Liabilities	5,798	69	-	-	5,867
Total Current Liabilities	<u>151,698</u>	<u>16,069</u>	<u>400</u>	<u>7,800</u>	<u>175,967</u>
Noncurrent Liabilities:					
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	1,151,400	144,600	1,200	50,700	1,347,900
Total Noncurrent Liabilities	<u>1,151,400</u>	<u>144,600</u>	<u>1,200</u>	<u>50,700</u>	<u>1,347,900</u>
Total Liabilities	<u>1,303,098</u>	<u>160,669</u>	<u>1,600</u>	<u>58,500</u>	<u>1,523,867</u>
Net position:					
Restricted for:					
Coal Workers' Pneumoconiosis	-	91,120	-	-	91,120
Uninsured Fund	-	-	11,230	-	11,230
Self-Insured Fund	-	-	-	29,955	29,955
Unrestricted (Deficit)	<u>(29,006)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,006)</u>
Total Net Position (Deficit)	<u>\$ (29,006)</u>	<u>\$ 91,120</u>	<u>\$ 11,230</u>	<u>\$ 29,955</u>	<u>\$ 103,299</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, 2017
(In Thousands)

	WC Old Fund Debt Reduction	Coal Workers' Pneumoconiosis	Uninsured Fund	Self-Insured Funds	Total
Operating Revenues					
Assessments	\$ -	\$ -	\$ 569	\$ -	\$ 569
Employer Surcharge	34,702	-	-	-	34,702
Premium Revenue, Net	464	-	-	-	464
Other Operating Revenue	23	-	-	-	23
Total Operating Revenue	<u>35,189</u>	<u>-</u>	<u>569</u>	<u>-</u>	<u>35,758</u>
Operating Expenses and Claims Provision					
Claims and Claim Adjustment Provision (See Note 5)	94,712	25,465	487	3,505	124,169
General and Administration	8,625	862	275	512	10,274
Total Operating Expenses and Claims Provision	<u>103,337</u>	<u>26,327</u>	<u>762</u>	<u>4,017</u>	<u>134,443</u>
Operating (Loss) Income	<u>(68,148)</u>	<u>(26,327)</u>	<u>(193)</u>	<u>(4,017)</u>	<u>(98,685)</u>
Nonoperating Revenues					
Investment Earnings	104,694	21,664	956	7,705	135,019
Lottery Revenue	5,500	-	-	-	5,500
Severance Tax	2,731	-	-	-	2,731
Total Nonoperating Revenues	<u>112,925</u>	<u>21,664</u>	<u>956</u>	<u>7,705</u>	<u>143,250</u>
Change in Net Position (Deficit)	44,777	(4,663)	763	3,688	44,565
Reappropriation to State of WV General Revenue	(22,692)	-	-	-	(22,692)
Total Net Position (Deficit) - Beginning of Year	<u>(51,091)</u>	<u>95,783</u>	<u>10,467</u>	<u>26,267</u>	<u>81,426</u>
Total Net Position (Deficit) - End of Year	<u>\$ (29,006)</u>	<u>\$ 91,120</u>	<u>\$ 11,230</u>	<u>\$ 29,955</u>	<u>\$ 103,299</u>

West Virginia Offices of the Insurance Commissioner
Schedule of Cash Flows - Workers' Compensation Information
For the Fiscal Year Ended June 30, 2017
(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	\$ 34,207	\$ -	\$ 30	\$ -	\$ 34,237
Receipts from Employers	394	-	570	-	964
Receipts from Other Operating Revenue	23	-	-	-	23
Payments to Claimants and Providers	(156,812)	(15,865)	(387)	(6,405)	(179,469)
Payments to Employees	(20)	-	-	-	(20)
Payments to Suppliers	(9,047)	(867)	(275)	(559)	(10,748)
Net Cash (Used in) Provided by Operating Activities	<u>(131,255)</u>	<u>(16,732)</u>	<u>(62)</u>	<u>(6,964)</u>	<u>(155,013)</u>
Cash Flows from Noncapital Financing Activities					
Statutory Allocations	19,083	-	-	-	19,083
Transfers to General Revenue	(17,103)	-	-	-	(17,103)
Net Cash Provided by Noncapital Financing Activities	<u>1,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,980</u>
Cash Flows from Investing Activities					
Investment Earnings	104,694	21,664	956	7,705	135,019
Net Cash Provided by (Used in) Investing Activities	<u>104,694</u>	<u>21,664</u>	<u>956</u>	<u>7,705</u>	<u>135,019</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(24,581)	4,932	894	741	(18,014)
Cash and Cash Equivalents - Beginning of Year	1,291,038	246,857	11,892	87,714	1,637,501
Cash and Cash Equivalents - End of Year	<u>\$ 1,266,457</u>	<u>\$ 251,789</u>	<u>\$ 12,786</u>	<u>\$ 88,455</u>	<u>\$ 1,619,487</u>
Reconciliation of Operating (Loss) Income to Net Cash provided by (used in) Operating Activities:					
Operating Income (Loss)	\$ (68,148)	\$ (26,327)	\$ (193)	\$ (4,017)	\$ (98,685)
Adjustments to Reconcile Operating (Loss) Income to Net Cash provided by (used in) Operating Activities:					
Net Change in Assets and Liabilities					
Receivables, Net	(565)	-	31	-	(534)
Estimated Liability for Claims and Claim Adjustment Expenses	(62,100)	9,600	100	(2,900)	(55,300)
Accrued Expenses and Other Liabilities	(442)	(5)	-	(47)	(494)
Net Cash (Used in) Provided by Operating Activities	<u>\$ (131,255)</u>	<u>\$ (16,732)</u>	<u>\$ (62)</u>	<u>\$ (6,964)</u>	<u>\$ (155,013)</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, 2017 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, 2017.

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

**Charleston, West Virginia
October 10, 2017**