



**BASIC FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION, AND
OTHER FINANCIAL INFORMATION**

**West Virginia Public Employees Insurance Agency
Years Ended June 30, 2011 and 2010
With Report of Independent Auditors**

Ernst & Young LLP

 **ERNST & YOUNG**

West Virginia Public Employees Insurance Agency

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

Years Ended June 30, 2011 and 2010

Table of Contents

Report of Independent Auditors.....1

Management’s Discussion and Analysis3

Basic Financial Statements

Statements of Net Assets10

Statements of Revenues, Expenses, and Changes in Net Assets11

Statements of Cash Flows.....12

Notes to Financial Statements.....13

Required Supplementary Information

Ten-Year Claims Development Information42

Other Financial Information

Form 7, Deposits Disclosure.....43

Form 8, Investments Disclosure44

Form 8-A, Deposits and Investments Disclosure45

Form 9, Accounts Receivable.....46

Form 10, Due (To) From Primary Government.....47

Form 11, Component Unit – A/R Balances50

Form 15, Transfers In/Out51

Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards.....52

Report of Independent Auditors

The Finance Board
West Virginia Public Employees Insurance Agency

We have audited the accompanying basic financial statements of the West Virginia Public Employees Insurance Agency (PEIA), an enterprise fund of the State of West Virginia, as of June 30, 2011 and 2010, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of PEIA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 financial statements are free of material misstatement. We were not engaged to perform an audit of PEIA's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PEIA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of PEIA are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of PEIA. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2011 and 2010, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PEIA, an enterprise fund of the State of West Virginia, as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, on our consideration of PEIA'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2011 audit.

Management's discussion and analysis on pages 3 through 9 and the supplemental schedule of Ten-Year Claims Development Information on page 42 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of PEIA, taken as a whole. Other financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of PEIA. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

October 26, 2011

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year Ended June 30, 2011

This section of the annual financial report of the West Virginia Public Employees Insurance Agency (PEIA) presents a discussion and analysis of the financial performance of PEIA for the year ended June 30, 2011. Please read it in conjunction with the basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

PEIA's basic financial statements are prepared in accordance with U.S. generally accepted accounting principles for governmental entities. The primary purpose of PEIA is to provide group health and prescription drug insurance for the employees of state agencies, colleges and universities, county school boards, and other governmental units as set forth in the West Virginia Public Employees Insurance Act of 1971 as amended. PEIA operates in a manner similar to any other insurance company. PEIA is an enterprise fund of the State of West Virginia and is combined with other similar funds to comprise the enterprise funds of the State of West Virginia. The basic financial statements are presented on the accrual basis of accounting. The three basic financial statements presented within the financial statements are as follows:

Statement of Net Assets – This statement presents information reflecting PEIA's assets, liabilities, and net assets. Net assets represent the amount of total assets less total liabilities. The statement of net assets is categorized as to current and noncurrent assets and liabilities. For purposes of the basic financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or become due within 12 months of the statement date.

Statement of Revenues, Expenses, and Changes in Net Assets – This statement reflects PEIA's operating revenues and expenses, as well as nonoperating revenues during the fiscal year. The major source of operating revenues is premium income, while major expense areas include medical and prescription drug claims costs. The change in net assets for an enterprise fund is similar to net profit or loss for any other insurance company.

Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, capital, and investing activities. Cash collections and payments are reflected in this statement to arrive at net increase or decrease in cash for the fiscal year.

West Virginia Public Employees Insurance Agency
Management's Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

The following tables summarize the financial position and the changes in financial position as of and for the years ended June 30:

	2011	2010	2009	Change 2011 – 2010		Change 2010 – 2009	
				Amount	Percent	Amount	Percent
Cash and cash equivalents	\$ 3,933,752	\$ 5,045,348	\$ 2,700,245	\$ (1,111,596)	(22.0)%	\$ 2,345,103	86.8%
Equity position in internal investment pool	48,979,905	53,584,267	33,294,218	(4,604,362)	(8.6)	20,290,049	60.9
Premium receivable	14,565,470	16,339,136	26,466,755	(1,773,666)	(10.9)	(10,127,619)	(38.3)
Other current assets	27,742,455	30,682,749	6,682,408	(2,940,294)	(9.6)	24,000,341	359.2
Total current assets	95,221,582	105,651,500	69,143,626	(10,429,918)	(9.9)	36,507,874	52.8
Equity position in internal investment pools	175,170,539	131,127,040	115,072,492	44,043,499	33.6	16,054,548	14.0
Equity position in internal investment pool – restricted	7,738,713	7,738,706	7,738,658	7	–	48	–
Capital assets, net	3,901,098	5,760,478	6,495,407	(1,859,380)	(32.3)	(734,929)	(11.3)
Total assets	282,031,932	250,277,724	198,450,183	31,754,208	12.7	51,827,541	26.1
Claims payable	58,772,975	64,455,468	56,461,892	(5,682,493)	(8.8)	7,993,576	14.2
Other current liabilities	47,193,076	4,479,415	25,017,598	42,713,661	953.6	(20,538,183)	(82.1)
Total current liabilities	105,966,051	68,934,883	81,479,490	37,031,168	53.7	(12,544,607)	(15.4)
Noncurrent liabilities:							
Premium stabilization fund	7,738,658	7,738,658	7,738,658	–	–	–	–
Total liabilities	113,704,709	76,673,541	89,218,148	37,031,168	48.3	(12,544,607)	(14.1)
Net assets – invested in capital assets	3,901,098	5,760,478	6,495,407	(1,859,380)	(32.3)	(734,929)	(11.3)
Net assets – unrestricted	164,426,125	167,843,705	102,736,628	(3,417,580)	(2.0)	65,107,077	63.4
Total net assets	\$ 168,327,223	\$ 173,604,183	\$ 109,232,035	\$ (5,276,960)	(3.0)%	\$ 64,372,148	58.9%
Premium revenue	\$ 541,966,054	\$ 542,095,539	\$ 464,263,863	\$ (129,485)	–	\$ 77,831,676	16.8%
Less: Payments to managed care organizations and life reinsurance premiums	(41,969,998)	(60,911,524)	(60,186,506)	18,941,526	31.1	(725,018)	(1.2)
Net premium revenue	499,996,056	481,184,015	404,077,357	18,812,041	3.9	77,106,658	19.1
Administrative fees, net	4,810,001	4,742,682	4,693,824	67,319	1.4	48,858	1.0
Total operating revenues	504,806,057	485,926,697	408,771,181	18,879,360	3.9	77,155,516	18.9
Claims expense, net	503,238,688	412,334,128	371,015,676	90,904,560	22.0	41,318,452	11.1
Administrative service fees	16,360,840	15,971,306	14,810,235	389,534	2.4	1,161,071	7.8
Other expenses	8,110,696	9,372,861	10,107,845	(1,262,165)	(13.5)	(734,984)	(7.3)
Total operating expenses	527,710,224	437,678,295	395,933,756	90,031,929	20.6	41,744,539	10.5
Operating income	(22,904,167)	48,248,402	12,837,425	(71,152,569)	(147.5)	35,410,977	275.8
Transfer in (out)	3,500,000	(262)	(7,320)	3,500,262	1,335,977.9	7,058	96.4
Net investment income (loss)	14,127,207	16,124,008	(6,903,009)	(1,996,801)	(12.4)	23,027,017	333.6
Total nonoperating income (loss)	17,627,207	16,123,746	(6,910,329)	1,503,461	9.3	23,034,075	333.3
Change in net assets	(5,276,960)	64,372,148	5,927,096	(69,649,108)	(108.2)	58,445,052	986.1
Net assets, beginning of year	173,604,183	109,232,035	103,304,939	64,372,148	58.9	5,927,096	5.7
Change in accounting principle for other postemployment benefits	–	–	–	–	–	–	–
Net assets, end of year	\$ 168,327,223	\$ 173,604,183	\$ 109,232,035	\$ (5,276,960)	(3.0)%	\$ 64,372,148	58.9%

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

The current portion of equity position in internal investment pool and cash and cash equivalents decreased \$5.7 million as the result of \$18.9 million produced from operations less \$29.9 million used in investment activities, and \$5.3 million provided from noncapital financing activities.

In the previous year, the current portion of equity position in internal investment pool and cash and cash equivalents increased \$22.6 million as a result of \$47.3 million produced from operations less \$23.6 million advanced to the Retiree Health Benefit Trust (RHBT), and \$1.1 million used for the purchase of capital assets.

Premium receivable at June 30, 2011, was \$1.8 million less than the prior year due to increased collection efforts.

As of the previous year-end, premiums receivable were \$10.1 million less than the prior year because several large employers did not remit their premium until after year-end.

Other current assets were down \$2.9 million as of the end of this year because of a \$1.8 million decrease in the amount due from RHBT and a small prescription rebate receivable due to a change in the drug formulary.

At year-end 2010, other current assets were up \$24.0 million because \$22.1 million was advanced to RHBT, prescription receivable increased \$1.1 million because the Pharmacy Benefit Manager began quarterly remittance rather than monthly remittance, provider refunds receivable was up \$.4 million and other increases of \$.4 million

Claims payable decreased \$5.7 million due to final year-end claims payments which included later incurred dates.

As of year-end 2010, claims payable had increased \$8.0 million due to increased enrollment and medical cost inflation.

At year-end 2011, other current liabilities increased \$42.7 million mainly resulting from an increase in premium deficiency reserve of \$32.5 million, \$7.0 million increase in unearned revenue and \$3.2 million increase in accounts payable and contracted liabilities.

As of year-end 2010, other current liabilities decreased \$20.5 million mainly resulting from the elimination of the \$15.6 million deficiency reserve, repayments of \$1.5 million to RHBT, and a \$3.4 million reduction of accounts payable and other current liabilities.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

For the 2011 year, net assets declined \$5.3 million as opposed to the prior year increase of \$64.4 million, producing a \$69.7 million decrease between the two years. Major reasons for the \$69.7 million decline include a decrease of \$18.9 million in payments to managed care and life insurance premiums, an increase in claims expense of \$90.9 million, a decrease in administrative services fees and other expenses of \$0.8 million, decreased investment income of \$2.0 million and a \$3.5 million transfer from the State.

In 2010, the increase in net assets resulted from an increase in premium of \$77.8 million, primarily achieved through increased policy premium rates, recovery of market value of investments producing an improvement of \$23.0 million, and a reduction of \$.7 million of other operating expenses. These improvements were offset by increased claim costs of \$41.3 million, increased administrative service fees of \$1.2 million, and an increase of \$.7 million in payments to managed care organizations.

Net premiums increased \$18.8 million mainly due to premium increases of \$20.2 million, an increase of paygo pass-through to RHBT of \$20.3 million, and a decrease of \$18.9 million in managed care and life insurance expenses.

In the prior year, net premiums increased \$77.1 million mainly due to premium increases and reduction of paygo pass-through to RHBT, a further reduction of \$0.8 million in provision for uncollectible accounts offset by an increase of \$0.7 million in managed care and life insurance expenses.

Medical and prescription drug claims were 94% of total plan operating expenses for the three-year period. In the current year, claims expense was increased by \$32.5 million to recognize the premium deficiency reserve. Additionally, claims experience indicates a 8.4% increase in medical claims and a 15.0% increase in drug claims, net of premium deficiency. In fiscal year 2010, claims expense was reduced by \$15.6 million to write-off the premium deficiency reserve. Additionally, claims experience indicates a 5.7% increase in medical claims and a 13.6% increase in drug claims, net of premium deficiency.

Administrative service fees and other expenses have averaged approximately 5% to 6% of plan operating expenses for the three-year period. Administrative service fees expense increased 2.4% due to a slight increase in enrollment. Other expenses decreased 13.5% primarily due to \$.6 million decrease in wellness spending and \$.7 reduction of professional fees and computer services. In the prior year, administrative service fees expense increased 7.8% due to expanded services written into new contracts, which became effective in 2010. Other expenses decreased 7.3% primarily due to \$0.7 million decrease in wellness spending, \$0.4 increase in depreciation, and \$0.3 reduction of professional fees and computer services.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

During fiscal year 2011, investment income was down \$2.0 million due to a smaller portfolio appreciation somewhat offset by larger interest and dividend earnings. For the previous year, an increase of \$23.0 million was achieved as markets recovered some of previous losses.

Also, a \$3.5 million transfer was received in year 2011.

Year-end 2011 change in net assets amounted to a decline of \$5.3 million versus an improvement of \$64.4 million for the prior year for a negative difference between the two years of \$69.7 million. Compared to the 2010 year, premiums increased \$20.2 million, the paygo pass-through increased \$20.3 million and managed care and life insurance expenses were down \$18.9 million. The effect of the reversal of the 2009 premium deficiency in year 2010 and the recognition of the 2011 deficiency resulted in a \$48.1 million increase in claims expense between the two years. In addition, claims expense increased \$42.8 million, of which approximately \$20.0 million was due to former managed care members who moved into the indemnity plan for fiscal year 2011. Investment income was down \$2.0 million, other expenses were down \$1.2 million, and a direct transfer of \$3.5 million was received from the State. The financial plan for 2011 indicated a decrease in total net assets of \$11.7 million. However, it did not include the \$32.5 million increase of claims expense related to the premium deficiency reserve. Total claims costs for the current year were \$34.9 million more than plan; however, the plan did not include the \$32.5 million premium deficiency or the \$20.0 million increase due to the movement of former managed care members. Investment income was \$0.5 million above plan, premium revenues were \$16.2 million above plan, managed care capitations were \$22.9 million below plan, due to withdrawal of one provider and nonclaim expenses were \$1.7 million less than plan.

Net assets increased \$64.4 million in fiscal year 2010. The 2010 increase resulted primarily from a \$45.8 million increase produced by rate increases, \$18.0 million reduction in the pass-through of post-employment benefit funding to RHBT, reduction of claims expense of \$15.6 million to adjust the year-end premium deficiency reserve, \$29.7 million increase in claims incurred, and improved investment income. The financial plan for 2010 indicated a decrease in total net assets of \$13.5 million. However, it did not include the \$15.6 million reduction of expense related to the premium deficiency reserve. Total claim costs were \$40.2 million less, investment income was \$8.9 million above plan, premium revenues were \$19.0 million more, managed care capitations were \$10.2 million less than plan and other nonclaim expenses were \$0.4 million more than plan.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

ECONOMIC CONDITIONS

After allowing for the contribution to help fund retiree health care costs, which is included in the active policyholder premium amount, PEIA's average active employee family monthly premium cost is \$850.00 compared to the national average cost of \$1,283.67. It should be noted that PEIA achieved an increase in plan assets of \$27.2 million, excluding the effect of the current year premium deficiency reserve.

Actuaries have estimated that the new federal Patient Protection and Affordable Care Act will cost PEIA policyholders and employers an additional \$9.0 million per year beginning with fiscal year 2012. It has been reported, based on inescapable relevant science, that many high-ticket medical interventions, which account for the majority of the direct cost of health care, either do not advantage patients at all or do so minimally. New U.S. Department of Health and Human Services rules are expected to be completed in 2013, which aim to improve quality of care. The rules require the exchange of patient data in structured formats, the use of "evidence-based medicine," and the use of standards and best practices for treating patients. It is hoped that the new evidence-based medicine requirement will significantly reduce health care costs and provide better medical outcomes for all.

In 2011, PEIA's claims costs rose 10.0%. State employee premium rates were increased 5.0%, state employer premium rates were increased 5.0%, and local employer premium rates were not increased. No pay increases were granted to the state employees. The 2011 premium increases have reduced disposable incomes of policyholders and stressed the operations of their employers.

Premium increases totaling \$22.5 million were placed into effect for the year that began July 1, 2010.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During fiscal year 2008, PEIA adopted Governmental Accounting Standard Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in conjunction with our implementation of new computer software. Following the provisions of Statement No. 51, we capitalized computer software costs of \$1.0 million, and \$2.7 million in fiscal years ended 2010, and 2009, respectively. No computer software costs were capitalized in fiscal year 2011. These additions are expected to result in additional annual depreciation over the next five years of \$210,000 and \$540,000, respectively (see Note 6).

PEIA has no long-term debt.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

REQUEST FOR INFORMATION

This financial report is designed to provide PEIA's customers, governing officials, legislators, citizens, and taxpayers with a general overview of PEIA's accountability for the money it receives. If you have questions about this report or need additional information, contact the Chief Financial Officer at (304) 558-7850.

West Virginia Public Employees Insurance Agency

Statements of Net Assets

	June 30	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,933,752	\$ 5,045,348
Equity position in internal investment pool	48,979,905	53,584,267
Premiums receivable:		
Due from State of West Virginia	3,238,681	2,010,784
Other, less allowance for doubtful accounts of \$2,251,000 and \$4,025,000, respectively	11,326,789	14,328,352
Accounts receivable:		
Provider refunds, less allowance for doubtful accounts of \$310,000 and \$635,000, respectively	950,999	828,917
Prescription rebates	5,926,543	7,091,216
Due from RHBT	20,307,548	22,105,569
Other	557,365	657,047
Total current assets	95,221,582	105,651,500
Noncurrent assets:		
Equity position in internal investment pools	175,170,539	131,127,040
Equity position in internal investment pool – restricted	7,738,713	7,738,706
Capital assets, net of accumulated depreciation of \$6,067,260 and \$4,199,981, respectively	3,901,098	5,760,478
Total noncurrent assets	186,810,350	144,626,224
Total assets	282,031,932	250,277,724
Liabilities		
Current liabilities:		
Claims payable	58,772,975	64,455,468
Premium deficiency reserve	32,487,530	–
Accounts payable	654,605	1,475,560
Unearned revenue	7,555,457	583,523
Other accrued liabilities	6,495,484	2,420,332
Due to RHBT	–	–
Total current liabilities	105,966,051	68,934,883
Noncurrent liabilities:		
Other accrued liabilities: Premium stabilization fund	7,738,658	7,738,658
Total liabilities	113,704,709	76,673,541
Net assets		
Invested in capital assets	3,901,098	5,760,478
Unrestricted	164,426,125	167,843,705
Total net assets	\$ 168,327,223	\$ 173,604,183

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2011	2010
Operating revenues:		
Premiums net of provisions for bad debts of \$(2,098,000) and \$(762,000), respectively	\$ 541,966,054	\$ 542,095,539
Less:		
Payments to managed care organizations	(36,616,340)	(55,278,092)
Life insurance premiums ceded	(5,353,658)	(5,633,432)
Net premium revenue	499,996,056	481,184,015
Administrative fees, net of refunds	4,810,001	4,742,682
Total operating revenues	504,806,057	485,926,697
Operating expenses:		
Claims expense, net	503,238,688	412,334,128
Administrative service fees	16,360,840	15,971,306
Other expenses	8,110,696	9,372,861
Total operating expenses	527,710,224	437,678,295
Operating (loss) income	(22,904,167)	48,248,402
Nonoperating revenues (expenses):		
Investment income, net of fees	14,127,207	16,124,008
Transfer in (out)	3,500,000	(262)
Total nonoperating income (loss)	17,627,207	16,123,746
Change in net assets	(5,276,960)	64,372,148
Total net assets, beginning of year	173,604,183	109,232,035
Total net assets, end of year	\$ 168,327,223	\$ 173,604,183

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Cash Flows

	Year Ended June 30	
	2011	2010
Operating activities		
Cash received from participants	\$ 509,820,426	\$ 494,921,545
Cash received from pharmacy rebates	12,306,663	12,607,269
Cash paid to employees	(1,441,867)	(1,497,116)
Cash paid to suppliers and others	(13,034,686)	(26,215,658)
Cash paid for claims	(488,740,314)	(432,536,066)
Net cash provided by operating activities	18,910,222	47,279,974
Noncapital financing activities		
Advances from (to) RHBT	1,798,020	(23,642,768)
Transfer in (out)	3,500,000	(262)
Net cash provided by (used in) noncapital financing activities	5,298,020	(23,643,030)
Capital and related financing activities		
Purchases of capital assets	(7,899)	(1,071,203)
Net cash used in capital and related financing activities	(7,899)	(1,071,203)
Investing activities		
Purchases of investments	(88,192,604)	(41,417,116)
Sale of investments	54,332,702	38,868,421
Investment earnings	3,943,608	2,618,154
Net cash (used in) provided by investing activities	(29,916,294)	69,459
Net (decrease) increase in cash and cash equivalents	(5,715,951)	22,635,200
Cash and cash equivalents at beginning of year	66,368,321	43,733,121
Cash and cash equivalents at end of year	\$ 60,652,370	\$ 66,368,321
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 3,933,752	\$ 5,045,348
Equity position in internal investment pool – current	48,979,905	53,584,267
Equity position in internal investment pool – restricted	7,738,713	7,738,706
	\$ 60,652,370	\$ 66,368,321
Reconciliation of operating (loss) income to net cash provided by operating activities		
Operating (loss) income	\$ (22,904,167)	\$ 48,248,402
Adjustments		
Depreciation	1,867,279	1,806,134
Provision for uncollectible accounts	(2,098,431)	(762,000)
Decrease (increase) in operating assets:		
Premiums receivable	5,099,998	10,575,646
Due from State of West Virginia	(1,227,897)	313,972
Provider refunds receivable	(122,082)	(359,871)
Prescription refunds receivable	1,164,673	(1,130,982)
Other	99,682	(403,919)
Increase (decrease) in operating liabilities:		
Claims payable	(5,682,493)	7,993,576
Accounts payable	(820,955)	(1,602,910)
Premium deficiency	32,487,530	(15,588,245)
Unearned revenue	6,971,934	(746,257)
Other accrued liabilities	4,075,151	(1,063,572)
Total adjustments	41,814,389	(968,428)
Net cash provided by operating activities	\$ 18,910,222	\$ 47,279,974
Noncash activities		
Increase in fair value of investments	\$ 10,183,596	\$ 13,505,854

See accompanying notes.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2011

1. Reporting Entity

The State of West Virginia Public Employees Insurance Agency (PEIA) was established under the Public Employees Insurance Act of 1971 (Act). PEIA is an agency of the State of West Virginia and, accordingly, is reported as an enterprise fund of the primary government in the State's Comprehensive Annual Financial Report (CAFR).

PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active employees of the State of West Virginia (State) and various related State and non-State agencies. Additionally, all participants may elect to purchase additional life insurance under the optional life insurance policy. All premium rates are established based upon projected coverage costs as reviewed and approved by the Finance Board of PEIA. See "Budgetary Requirements" for further discussion of this process. PEIA's enrollment consists of approximately 76,000 health and basic life insurance policyholders, and 14,000 policyholders with life insurance only. PEIA insures approximately 180,000 individuals, including participants and dependents.

During the 2006 Regular Session of the West Virginia Legislature, House Bill 4654 was enacted creating the West Virginia Retiree Health Benefit Trust (RHBT) Fund for the purpose of providing for and administering retiree postemployment health care benefits, and the respective revenues and costs of those benefits as a cost-sharing multiple employer plan. As a consequence of the legislation, health insurance policies covering approximately 36,500 retirees and their dependents, along with the related revenues, claims costs, and expenses were transferred to RHBT effective July 1, 2006. RHBT and PEIA jointly share administrative duties relating to the other postemployment benefit (OPEB) operations. Both entities are housed in the same office space and share expenses. Expenses directly attributable to the OPEB plan are charged to RHBT. Other operating expenses, except personnel, are allocated based on policyholder count between PEIA and RHBT. Personnel expenses attributable to three dedicated employees are charged in full to RHBT; while the balance of the combined expense is allocated between the two entities based on estimated time requirements.

The basic financial statements of PEIA are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of PEIA. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2011 and 2010, and the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Reporting

PEIA operates as an enterprise fund. Accordingly, the financial statements of PEIA have been prepared on the accrual basis in conformity with GAAP for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB). Revenues mainly are derived from premiums earned net of related reinsurance premiums, plus administrative fees billed. Expenses consist primarily of claims, administrative service fees, and various general and administrative costs.

In September 1993, GASB issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. As permitted by the Statement, PEIA has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless GASB specifically adopts such FASB statements or interpretations.

Annual Financial Plan

The Act requires the Finance Board of PEIA to prepare a proposed annual financial plan. The plan must be designed to generate sufficient revenues to meet all expected expenses, including insurance, administrative expenses, and incurred but not reported claims (IBNR) of PEIA. An independent professional actuary must review the plan and give an opinion stating that the plan may be reasonably expected to generate sufficient revenue to meet estimated insurance claims and administrative expenses. The financial plan must be presented to the governor and the legislature no later than January 1, prior to the beginning of the new plan year.

PEIA Finance Board establishes PEIA premiums based upon its approved annual financial plan. The financial plan projects the anticipated costs of the program for each fiscal year and the premium levels necessary to meet these costs. Any variances between projected and incurred costs are incorporated into subsequent financial plans and subsequent premiums are adjusted accordingly on a prospective basis. Premiums assessed by PEIA are not subject to retroactive adjustment based upon actual costs incurred.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit with the West Virginia State Treasurer's office, outside financial institutions, and amounts deposited in an internal investment pool managed by the West Virginia Board of Treasury Investments (BTI) that is reported as part of equity position in internal investment pool – current-unrestricted and noncurrent-restricted, respectively.

Premiums Receivable

All premiums receivable are reported at their gross premium value due from employers and individual subscribers. The gross value is then reduced by the estimated portion that is expected to be uncollectible based upon management's review of the payment status of the underlying accounts and other economic factors that are deemed necessary in the circumstances.

Accounts Receivable

Accounts receivable include overpayments made by third-party administrators that are due to PEIA, estimated prescription refunds, and rebates that are due PEIA from third-party administrators and other drug companies. The estimated prescription refunds/rebate receivable is based upon estimated prescription claim count and historical average rebate per claim.

Equity Position in Internal Investment Pools

PEIA owns equity positions in state government investment pools managed by the West Virginia Investment Management Board (WVIMB) and the BTI. Some investment pool funds are subject to market risk because of changes in interest rates, bond prices, and stock prices. Investment earnings and losses are allocated to PEIA based on the balance of PEIA's investments maintained in relation to the total investments of all state agencies participating in the pool. The equity position in internal investment pools is reported at fair value and changes in fair value are included in investment income.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

A 13-member Board of Trustees governs the WVIMB. Three members of the Board serve by virtue of their office: the Governor, the Auditor, and the Treasurer. The other ten are appointed by the Governor and confirmed by the Senate. All appointees must have experience in pension management, institutional management, or financial markets. In addition, one must be an attorney experienced in finance and investment matters and another must be a certified public accountant. Only six of the ten appointed Trustees may be from the same political party. The Governor serves as Chairman of the Board. A Vice-Chairman is elected by the Trustees. A Secretary, who need not be a member of the Board, is also elected by the Trustees to keep a record of the proceedings of the Board. Details regarding these investment pools and a copy of the WVIMB financial report can be obtained by contacting: West Virginia Investment Management Board, 500 Virginia Street, East, Suite 200, Charleston, West Virginia 25301 or by calling (304) 645-5939.

A five-member Board of Directors governs the BTI. The Governor, Treasurer, and Auditor serve as ex-officio members of the Board. The Governor appoints the two remaining members subject to the advice and consent of the State Senate. Of the two members appointed by the Governor, one shall be a certified public accountant and one shall be an attorney, and both shall have experience in finance, investing, and management. The State Treasurer is Chairman of the Board. The BTI prepares separately issued financial statements covering the pooled fund, which can be obtained from its website or a published copy from the West Virginia Board of Treasury Investments, 1900 Kanawha Boulevard, East, Building 1, Room E-122, Charleston, West Virginia 25305.

Capital Assets

Capital assets with an initial cost of \$1,000 or greater are recorded at cost. PEIA has assigned a useful life of three to five years for capital assets. Depreciation expense computed using the straight-line method was \$1,867,279 and \$1,806,134 for the years ended June 30, 2011 and 2010, respectively.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Claims Payable and Expense

The liability for unpaid claims and claims processing costs is based on an actuarial estimate of the ultimate cost of settling such claims incurred as of the statement of net assets date (including claims reported and in process of settlement, claims reported but not yet processed for settlement, and claims incurred but not yet reported or processed for settlement). The estimated actuarial liability reflects certain assumptions, which include such factors as enrollment, utilization, inflation, and other societal and economic factors. Adjustments to the estimated actuarial liability for the final settlement of claims will be reflected in the year that the actual results of the settlement of the claims are made and are known. The estimated liability is adjusted annually based on the most current claim incurrence and claim settlement history (see Note 7). Year-end claims payable balances are generally liquidated within the next fiscal year. Claims relating to participants in managed care organizations (MCOs) as well as claims relating to participants covered under the optional life insurance plan are not considered in the liability, as PEIA has no liability for the participants who elect such coverage. Additionally, the estimated liability for unpaid claims and claims processing costs is recorded net of amounts ceded to reinsurers for basic life benefits, as management believes these reinsured risks are fully recoverable. However, in the event a reinsurer is unable financially to satisfy an obligation, PEIA is responsible for such liability. Claims expense is reported net of pharmacy rebate income of \$11,141,990 and \$13,738,251 for the years ended June 30, 2011 and 2010, respectively.

Premium Deficiency Reserve

Premium deficiency is required when policies in force as of the financial statement date are expected to produce a loss when claims cost (including IBNR), plus expected claims adjustment expenses, are expected to exceed related premiums. Management has recorded a premium deficiency reserve of \$32,487,530 as of June 30, 2011. No such reserve was required as of the end of fiscal year 2010. In making its determination, management took into consideration anticipated premium revenue and claims costs. PEIA did not include anticipated investment income in determining whether a premium deficiency exists. Adjustments to the estimated premium deficiency liability are reflected as a change in estimate in the year the actual results are known.

PEIA participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to PEIA. If the assets of PEIA were to be exhausted, participants would not be responsible for the liabilities.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Unearned Revenue

Unearned revenue includes premium revenues collected for future contract periods. These revenues will be recognized in the operating periods in which they are earned.

Insurance Programs and Related Premium Revenues

PEIA offers the following types of coverage to its participants: health coverage through a self-insured preferred provider benefit (PPB) plan, health coverage through external MCOs, and life and accidental death and dismemberment (AD&D) insurance benefits under basic and optional plans. PEIA collects premiums for participants in the PPB plan and uses these premiums in the administration of the plan. Additionally, PEIA has the statutory authority to raise additional revenues in the form of premiums without the need for external (legislative) action.

For participants who elect coverage through MCOs, PEIA collects premiums from employers and remits a capitation fee to an MCO carrier. The capitation fees paid by PEIA to each MCO are in accordance with their respective contracts. Benefits are the responsibility of each MCO carrier. The premiums earned by PEIA have been included in gross premium revenue while the capitation fees submitted to each MCO carrier are reflected as payments to MCOs on the financial statements.

As of the June 2011 coverage month, PEIA provided health coverage to 122 state agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 542 local government entities with approximately 12,000 primary participants, and 24 college and university entities with approximately 11,000 primary participants. Approximately 90,000 dependents participated in PEIA health plans as well.

As of the June 2010 coverage month, PEIA provided health coverage to 121 state agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 547 local government entities with approximately 11,000 primary participants, and 23 college and university entities with approximately 10,000 primary participants. Approximately 88,000 dependents participated in PEIA health plans as well.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Employees covered through PEIA are eligible to obtain life insurance coverage under basic and optional life insurance plans. Basic life benefits and AD&D benefits of \$10,000 are provided to active state employees under the age of 65 at no cost to the employee. Coverage amounts decrease with age. No AD&D benefits are available to retirees. Basic life benefits are available to retirees with coverage ranging from \$2,500 to \$5,000 depending on age. For these basic life benefits, PEIA collects premiums and submits them to the insurance carrier. PEIA has reinsured 100% of these basic benefits; however, PEIA remains contingently liable in the event the insurer does not honor its obligation. The premiums earned for basic life insurance are reflected in gross premiums and the related amounts ceded to the reinsurer are reflected as life reinsurance premiums on the financial statements.

Active employees may elect to obtain additional optional coverage for both life and AD&D with coverage from \$5,000 to \$500,000 that decreases with age. Active employees may also elect dependent optional life coverage and AD&D at a level up to \$20,000 per spouse and \$10,000 per child. Retirees may obtain optional life insurance coverage from \$5,000 to \$150,000 depending on age; however, optional AD&D insurance is not available to retirees. Retirees may also elect dependent optional life coverage at levels up to \$20,000 for spouse and \$10,000 per child. Amounts collected by PEIA from employees for optional coverage totaled \$12,318,718 and \$13,707,677 during the fiscal years ended June 30, 2011 and 2010, respectively, and were remitted directly to the carrier. In this instance, PEIA functions as an agent and, accordingly, neither these premiums nor the related costs are reflected in the financial statements.

Revenues include an administrative fee that PEIA charges to all participating entities in the plan. The fee is based on the participating entities' number of employees enrolled in the plan.

Administrative Service Fees

PEIA contracts with and pays administrative service fees to two third-party administrators. Services include processing of insurance claims, precertification reviews, utilization reviews, and various other duties. The majority of related fees are assessed each month based upon the number of covered participants or claims processed at predetermined rates without regard to the period in which a claim is incurred, processed, or settled.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Compensated Absences, Including Postretirement Benefits

Employees fully vest in all earned but unused annual leave and PEIA accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with state personnel policies, employees vest in any remaining unused sick leave only upon retirement, at which time any unused compensated absence time can be converted into employer paid premiums for postretirement health care coverage through RHBT, or be converted into a greater retirement benefit under the state's Public Employees' Retirement System.

Operating Revenues and Expenses

Balances classified as operating revenues and expenses are those that comprise PEIA's ongoing operations. Principal operating revenues include health insurance premiums, life insurance premiums, and insurance administration fees, less amounts paid to managed care organizations and life insurance reinsurers. Operating expenses include the cost of medical claims, drug claims, claims adjudication, administration, and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Net Assets

As required by GASB Statement 34, PEIA displays net assets in three components, if applicable: invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, 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.

Unrestricted Net Assets – Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." In the governmental environment, net assets are often *designated* to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statements of net assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

West Virginia Code Section 5-16-25 requires the Finance Board of PEIA to maintain a reserve of 10% of projected plan costs for general operation purposes and provide future plan stability. As of June 30, 2011 and 2010, PEIA has sufficient net assets to comply with this code section. In the event the reserve fund exceeds 15% of the actuarial recommended reserve of 20% to 25% of total projected costs, the excess was to be remitted to the State of West Virginia Department of Administration. Accordingly, excess reserves of \$80,487,422 and \$27,679,595 were due to be transferred for years ended 2007 and 2006, respectively. Senate Bill 129, which became effective July 1, 2007, amended 5-16-25 indicating that the excess reserve funds shall be transferred to the West Virginia Retiree Health Benefit Trust Fund beginning in fiscal 2008. Accordingly, the monies were transferred to RHBT in fiscal year 2008. There were no excess reserves to be transferred for the years ended June 30, 2011 or 2010.

3. Cash and Cash Equivalents

Following is a summary of PEIA's cash and cash equivalents as of June 30:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents on deposit with State Treasurer	\$ 1,684,268	\$ 3,744,497
Deposits with outside financial institutions	<u>2,249,484</u>	<u>1,300,851</u>
Cash and cash equivalents reported on statement of net assets	3,933,752	5,045,348
Equity position in internal investment pool with BTI – current-unrestricted	48,979,905	53,584,267
Equity position in internal investment pool with BTI – noncurrent-restricted	<u>7,738,713</u>	<u>7,738,706</u>
Total cash and cash equivalents	<u>\$ 60,652,370</u>	<u>\$ 66,368,321</u>

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures

Deposits With Outside Financial Institutions

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, PEIA's deposits might not be recovered. PEIA has no deposit policy for custodial credit risk.

As of June 30, 2011 and 2010, the carrying amount of PEIA's bank deposits was \$2,249,484 and \$1,300,851, respectively, and the respective bank balances totaled \$2,385,503 and \$1,430,000, respectively. Of the total bank balance, \$2,385,379 and \$1,428,856, respectively, were uninsured and collateralized with government-sponsored enterprise securities held by financial institutions. These securities are held in the name of the financial institution and not that of PEIA.

West Virginia Money Market Pool (Formerly Cash Liquidity Pool) – Equity Position in Internal Investment Pool – Current – Managed by BTI

Credit Risk

The BTI administers the pool and limits exposure to credit risk by requiring all corporate bonds held by their West Virginia Money Market Pool to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

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

Security Type	June 30, 2011		Carrying Value	Percent of Pool Assets
	Credit Rating			
	Moody's	S&P		
Commercial paper	P-1	A-1	\$ 1,069,576	35.43%
Corporate bonds and notes	Aa1	AA	10,000	0.33
	Aa2	AA	33,000	1.09
	Aa3	AA	31,000	1.03
	Aa3	A	53,000	1.76
Total corporate bonds and notes			127,000	4.21
U.S. agency bonds	Aaa	AAA	170,788	5.66
U.S. Treasury notes*	Aaa	AAA	298,345	9.88
U.S. Treasury bills*	Aaa	AAA	231,051	7.65
Negotiable certificates of deposit	P-1	A-1	140,000	4.64
U.S. agency discount notes	P-1	A-1	697,164	23.10
Money market funds	Aaa	AAAm	200,279	6.64
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AAA	69,557	2.30
U.S. agency notes	Aaa	AAA	14,800	0.49
Total repurchase agreements			84,357	2.79
			\$ 3,018,560	100.00%

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

Custodial Credit Risk

Repurchase agreements included in BTI's investment portfolio are collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral is invested in the lending agent's money market fund in BTI's name.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

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

The overall weighted-average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted-average maturities (WAM) for the various asset types in the West Virginia Money Market Pool.

Security Type	Carrying Value	WAM (Days)
	<i>(In Thousands)</i>	
Repurchase agreements	\$ 84,357	1
U.S. Treasury notes	298,345	137
U.S. Treasury bills	231,051	34
Commercial paper	1,069,576	35
Certificates of deposit	140,000	58
U.S. agency discount notes	697,164	45
Corporate bonds and notes	127,000	20
U.S. agency bonds and notes	170,788	66
Money market funds	200,279	1
	\$ 3,018,560	46

PEIA's investment in the BTI West Virginia Money Market Pool of \$56,718,618 at June 30, 2011, represents approximately 1.9% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Equity Position in Internal Investment Pools – Noncurrent-Unrestricted Managed by WVIMB

PEIA Fund

This investment fund was specifically designed for PEIA by WVIMB based on PEIA’s unique cash flow needs. PEIA is the only state agency participating in this fund and owns 100% of the total assets. The fund invests in various pools managed by WVIMB.

West Virginia statute mandates that the PEIA Fund shall be managed by WVIMB, a public corporation.

Investment Objectives

This fund’s investment objective is to provide adequate liquidity to meet cash flow requirements and allow for growth of assets in an amount at least equal to inflation.

Asset Allocation

Based upon the WVIMB’s determination of the appropriate risk tolerance for the fund, the WVIMB has adopted the following broad asset allocation guidelines for the assets managed for the PEIA Fund. (Policy targets have been established on a market value basis.) The asset values of the pools below are reported in equity position in internal investment pools – noncurrent-unrestricted on the statement of net assets.

Asset Class	Policy Target		Strategic Allocation	
	2011	2010	2011	2010
Domestic equity	5.0%	7.5%	5.0%	7.5%
International equity	5.0	7.5	5.0	7.5
Total equity	10.0%	15.0%	10.0%	15.0%
Fixed income	90.0%	85.0%	75.0%	65.0%
Hedge fund	–	–	10.0%	20.0%
Cash	–*	–*	5.0%	–

*WVIMB staff has authority to change the cash allocation plus or minus 10%, as necessary, in consultation with the appropriate representative(s) from PEIA. Not all cash is invested with the WVIMB.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

	Asset Value at June 30	
	2011	2010
	<i>(In Thousands)</i>	
Asset allocation (actual)		
TIPS pool	\$ 26,563	\$ –
Large cap domestic equity pool	6,386	7,297
Non-large cap domestic equity pool	2,284	1,383
International non-qualified pool	2,993	3,282
International equity pool	5,639	6,204
Short-term fixed income pool	8,793	1
Total return fixed income	68,367	42,750
Core fixed income	37,181	44,179
Hedge fund	16,965	26,031
Total	\$ 175,171	\$ 131,127

Asset Class Risk Disclosures

Large Cap Domestic Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. PEIA's amount invested in the Large Cap Domestic Equity Pool of \$6,386,000 and \$7,297,000 at June 30, 2011 and 2010, respectively, represents approximately 0.31% and 0.43%, respectively, of total investments in this pool.

Non-Large Cap Domestic Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. PEIA's amount invested in the Non-Large Cap Domestic Equity Pool of \$2,284,000 and \$1,383,000 at June 30, 2011 and 2010, respectively, represents approximately 0.31% and 0.40%, respectively, of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

International Non-qualified Pool

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. The value of this investment was \$68,084,000 and \$53,797,000 at June 30, 2011 and 2010, respectively. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through underlying investments. The specific currencies of the underlying investments were not available. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. PEIA's amount invested in the International Non-qualified Pool of \$2,993,000 and \$3,282,000 at June 30, 2011 and 2010, respectively, represents approximately 4.40% and 6.10%, respectively, of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

International Equity Pool

This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risk. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. PEIA's amount invested in the International Equity Pool of \$5,639,000 and \$6,204,000 at June 30, 2011 and 2010, respectively, represents approximately 0.31% and 0.41%, respectively, of total investments in this pool. The amounts (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30 were as follows:

Currency	2011		
	Equity Securities	Cash	Total
	<i>(In Thousands)</i>		
Australian Dollar	\$ 57,707	\$ 4	\$ 57,711
Brazil Cruzeiros Real	113,185	3,157	116,342
British Pound Sterling	185,203	407	185,610
Canadian Dollar	73,646	1,172	74,818
Czech Koruna	14,883	-	14,883
Danish Krone	9,198	4	9,202
Egyptian Pound	-	1	1
Euro Currency Unit	321,019	(24)	320,995
Hong Kong Dollar	145,395	1,722	147,117
Hungarian Forint	13,693	6	13,699
Indian Rupee	15,598	2	15,600
Indonesian Rupiah	7,629	15	7,644
Israeli Shekel	16,949	140	17,089
Japanese Yen	186,089	1,456	187,545
Malaysian Ringitt	8,745	57	8,802
Mexican New Peso	30,641	200	30,841
New Taiwan Dollar	27,520	232	27,752
New Turkish Lira	22,980	449	23,429
Norwegian Krone	20,476	100	20,576
Pakistani Rupee	2,089	-	2,089
Philippine Peso	6,195	2	6,197
Polish Zloty	11,535	7	11,542
Singapore Dollar	21,338	67	21,405
South African Rand	44,669	167	44,836
South Korean Won	134,565	1,474	136,039
Swedish Krona	20,743	52	20,795
Swiss Franc	68,353	40	68,393
Thailand Baht	15,808	428	16,236
UAE Dirham	8,092	-	8,092
Total	<u>\$ 1,603,943</u>	<u>\$ 11,337</u>	<u>\$ 1,615,280</u>

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

This table excludes cash and securities held by the pool that are denominated in U.S. dollars. The fair value of the U.S. dollar denominated cash and securities is \$233,335,000.

Short-Term Fixed Income Pool

Credit Risk

The WVIMB limits the exposure to credit risk in the Short-Term Fixed Income Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted-average credit ratings of the Short-Term Fixed Income Pool's investments as of June 30, 2011.

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u>	<u>Percent</u>
<i>(In Thousands)</i>				
Agency discount notes	P-1	A-1+	\$ 168,860	46.9%
Agency notes	Aaa	AAA	79,856	22.3
U.S. Treasury bills	Aaa	AAA	59,081	16.4
Commercial paper	P-1	A-1	50,493	14.0
U.S. Treasury notes	Aaa	AAA	1,504	0.4
Total rated investments			<u>\$ 359,794</u>	<u>100.0%</u>

This table includes securities received as collateral for repurchase agreements with a fair value of \$69,357,000 as compared to the amortized cost of the repurchase agreements of \$68,362,000.

Custodial Credit Risk

Repurchase agreements are collateralized at 102% and the collateral is held in the name of the WVIMB.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The weighted-average maturity of the investments of the Short-Term Fixed Income Pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted-average maturities (WAM) for the various asset types in the Short-Term Fixed Income Pool as of June 30, 2011.

Security Type	Carrying Value	WAM (days)
	<i>(In Thousands)</i>	
Agency discount notes	\$ 168,860	59
Repurchase agreements	68,362	1
U.S. Treasury bills	59,081	52
Commercial paper	50,493	25
Agency notes	10,499	133
U.S. Treasury notes	1,504	194
Total assets	\$ 358,799	47

PEIA's amount invested in the Short-Term Fixed Income Pool at June 30, 2011 was \$8,793,000, which represents approximately 2.45% of total investments in this pool. Its investment in this pool was nominal at June 30, 2010.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Total Return Fixed Income Pool

Credit Risk

The WVIMB limits the exposure to credit risk in the Total Return Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted-average credit ratings of the asset types in the fixed income pool as of June 30, 2011.

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u>	<u>Percent of Assets</u>
			<i>(In Thousands)</i>	
Corporate bonds and notes	Baa2	BBB	\$ 699,706	29.9%
Agency mortgage-backed securities	Aaa	AAA	443,640	19.0
U.S. Treasury bonds and notes	Aaa	AAA	367,385	15.7
Regulated investment companies	Aaa	AAA	227,854	9.7
Municipal bonds	A1	A	81,354	3.5
Agency collateralized mortgage obligations	Aaa	AAA	37,142	1.6
Corporate asset-backed securities	Aa3	AA	32,194	1.4
Corporate collateralized mortgage obligations	B1	BB	31,137	1.3
Corporate preferred securities	NR	BB+	5,778	0.2
Agency discount notes	P-1	A-1+	3,403	0.1
Total rated investments			<u>\$ 1,929,593</u>	<u>82.4%</u>

Unrated securities include commingled investment pools valued at \$410,007,000 and a contract purchased valued at \$1,891,000. These unrated securities represent 17.6% of the fair value of the pool's investments.

Custodial Credit Risk

At June 30, 2011, the Total Return Fixed Income Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, are collateralized at 102% and the collateral is held in the name of the WVIMB. Investments in commingled funds are held in an account in the name of the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB. Securities lending collateral is invested in the lending agent's money market fund.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The WVIMB monitors interest rate risk of the Total Return Fixed Income Pool by evaluating the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the Total Return Fixed Income Pool as of June 30, 2011.

Security Type	Fair Value	Modified Duration
	<i>(In Thousands)</i>	<i>(Years)</i>
Corporate bonds and notes	\$ 699,706	6.3
Agency mortgage-backed securities	443,640	3.3
Commingled investment pools	410,007	2.0
U.S. Treasury bonds and notes	367,385	5.6
Regulated investment companies	227,854	0.0
Municipal bonds	81,354	14.6
Agency collateralized mortgage obligations	37,142	3.5
Corporate asset-backed securities	32,194	16.2
Corporate collateralized mortgage obligations	31,137	5.4
Agency discount notes	3,403	0.5
Total assets	<u>\$ 2,333,822</u>	<u>4.6</u>

The Total Return Fixed Income Pool invests in commercial and residential mortgage-backed and asset-backed securities. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. The Total Return Fixed Income Pool held \$544,113,000 and \$286,583,000 of these securities at June 30, 2011 and 2010, respectively, which represented approximately 23% and 16%, respectively, of the value of the Total Return Fixed Income Pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

PEIA's amount invested in the Total Return Fixed Income Pool of \$68,367,000 and \$42,750,000 at June 30, 2011 and 2010, respectively, represented approximately 2.93% and 2.38%, respectively, of total investments in the pool.

Core Fixed Income Pool

Credit Risk

The WVIMB limits the exposure to credit risk in the Core Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted-average credit ratings of the rated assets in the Core Fixed Income Pool as of June 30, 2011.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
			<i>(In Thousands)</i>	
U.S. Treasury bonds and notes	Aaa	AAA	\$ 312,308	26.1%
Agency collateralized mortgage obligations	Aaa	AAA	286,297	24.0
Corporate bonds and notes	A2	A	200,540	16.8
Agency mortgage-backed securities	Aaa	AAA	173,704	14.5
Corporate collateralized mortgage obligations	A1	AAA	140,595	11.8
Regulated investment companies	Aaa	AAA	40,883	3.4
Corporate asset-backed securities	Aa1	AAA	24,084	2.0
Agency bonds and notes	Aaa	AAA	14,060	1.2
Municipal bonds	Aa3	AA-	2,201	0.2
Total rated investments			<u>\$ 1,194,672</u>	<u>100.0%</u>

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The WVIMB monitors interest rate risk of the Core Fixed Income Pool by evaluating the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the Core Fixed Income Pool as of June 30, 2011.

Security Type	Fair Value	Modified Duration (Years)
	<i>(In Thousands)</i>	
U.S. Treasury bonds and notes	\$ 312,308	6.1
Agency collateralized mortgage obligations	286,297	3.6
Corporate bonds and notes	200,540	5.6
Agency mortgage-backed securities	173,704	7.1
Corporate collateralized mortgage obligations	140,595	3.6
Regulated investment companies	40,883	0.0
Corporate asset-backed securities	24,084	1.6
Agency bonds and notes	14,060	5.3
Municipal bonds	2,201	14.6
Total assets	<u>\$ 1,194,672</u>	<u>5.0</u>

The Core Fixed Income Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2011, the Core Fixed Income Pool held \$624,680,000 of these securities. This represents approximately 52% of the value of the pool's securities.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

PEIA's amount invested in the Core Fixed Income Pool of \$37,181,000 at June 30, 2011, represented approximately 3.11% of total investments in this pool. At June 30, 2010, PEIA had \$44,179,000, which represented approximately 2.83% of total investments in this pool.

Hedge Fund Pool

The Hedge Fund Pool holds shares in various commingled institutional funds and shares of a money market fund with the highest credit rating. The commingled institutional funds are not rated by any of the nationally recognized statistical rating agencies and thus any credit risk cannot be accurately reported. The pool is indirectly exposed to foreign currency risks as certain of the funds have investments denominated in foreign currencies. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. At June 30, 2011, approximately \$457,406,000 or 46%, of the market value of the funds were held in foreign currencies. PEIA's amount invested in the Hedge Fund Pool of \$16,965,000 and \$26,031,000 at June 30, 2011 and 2010, respectively, represented approximately 1.58% and 2.34%, respectively, of total investments in this pool.

U.S. Treasury Inflation Protection Securities (TIPS)

Credit Risk

The IMB limits the exposure to credit risk in the pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted-average credit ratings of the rated assets in the pool as of June 30, 2011.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
			<i>(In Thousands)</i>	
U.S. Treasury issues	Aaa	AAA	\$ 891,182	100.0%
Money market funds	Aaa	AAA	259	0.0
Total rated investments			\$ 891,441	100.0%

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The IMB monitors interest rate risk of the pool by evaluating the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the pool as of June 30, 2011.

Security Type	Fair Value <i>(In Thousands)</i>	Modified Duration (Years)
U.S. Treasury issues	\$ 891,182	7.6
Money market funds	259	–
Total assets	\$ 891,441	7.6

The pool invests in Treasury Inflation-Protected Securities (TIPS) and its objective is to match the performance of the Barclay’s Capital U.S. TIPS Bond Index on an annualized basis over rolling three-year to five-year periods, gross of fees. Assets are managed by State Street Global Advisors. PEIA’s amount invested in the TIPS Pool of \$26,563,000 at June 30, 2011, represented approximately 3.0% of total investments in this pool.

**5. Equity Position in Internal Investment Pool – Restricted (Premium Stabilization Fund)
Managed by BTI**

Optional life insurance premiums are funded entirely by program participants. The premium stabilization fund consists of accumulated dividends and interest on the participant optional life insurance policies. The premium stabilization fund is invested in the BTI Money Market Pool (see pages 22 to 24 for investment risk disclosures related to this pool). To the extent that these policyholder premiums are refunded to PEIA in the form of dividends and interest by the life insurance company, the funds are refunded to the related optional life policyholders by way of reductions in future premium increases. This account is utilized to track the accumulated balance due to optional life policyholders. Cash and cash equivalents include \$7,738,713 and \$7,738,706 as of June 30, 2011 and 2010, respectively, restricted to meet this obligation.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

**5. Equity Position in Internal Investment Pool – Restricted (Premium Stabilization Fund)
Managed by BTI (continued)**

The following table represents changes in the premium stabilization fund for the years ended June 30:

	2011	2010
Premium stabilization fund – beginning of the year	\$ 7,738,706	\$ 7,738,658
Life insurance dividends and interest refunds received	7	48
Premium stabilization fund – end of year	\$ 7,738,713	\$ 7,738,706

6. Capital Assets

Capital asset activity for the years ended June 30, 2011 and 2010, was as follows:

	June 30 2010	Additions	Disposals	June 30 2011
	<i>(In Thousands)</i>			
Intangible assets	\$ 8,730	\$ –	\$ –	\$ 8,730
Equipment	1,230	8	–	1,238
Total capital assets	9,960	8	–	9,968
Intangible assets	(3,289)	(1,746)	–	(5,035)
Equipment	(911)	(121)	–	(1,032)
Total accumulated depreciation	(4,200)	(1,867)	–	(6,067)
Total capital assets, net	\$ 5,760	\$ (1,859)	\$ –	\$ 3,901

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

6. Capital Assets (continued)

	June 30 2009	Additions	Disposals	June 30 2010
	<i>(In Thousands)</i>			
Intangible assets	\$ 7,670	\$ 1,060	\$ –	\$ 8,730
Equipment	1,219	11	–	1,230
Total capital assets	8,889	1,071	–	9,960
Intangible assets	(1,590)	(1,699)	–	(3,289)
Equipment	(804)	(107)	–	(911)
Total accumulated depreciation	(2,394)	(1,806)	–	(4,200)
Total capital assets, net	\$ 6,495	\$ (735)	\$ –	\$ 5,760

7. Unpaid Claims Liabilities

As discussed in Note 2, PEIA establishes a liability for both reported and unreported insured events, which includes an estimate of future payments of losses. The following represents changes in those aggregate liabilities for PEIA for the years ended June 30:

	2011	2010	2009
	<i>(In Thousands)</i>		
Claims payable, beginning of year	\$ 64,455	\$ 56,462	\$ 51,277
Incurred claims expenses:			
Provision for insured events of the current year	472,001	427,392	400,289
(Decrease) increase in provision for insured events of prior years	(1,250)	530	(1,560)
Total incurred claims expense	470,751	427,922	398,729
Payments:			
Claim payments attributable to insured events of:			
Current year	420,768	375,571	354,773
Prior years	55,665	44,358	38,771
Total payments	476,433	419,929	393,544
Claims payable, end of year	\$ 58,773	\$ 64,455	\$ 56,462

The above payments are net of pharmacy rebates earned of \$11,141,990, \$13,738,251 and \$14,055,101 for the years ended June 30, 2011, 2010, and 2009, respectively.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

8. Employee Benefit Plans

All full-time PEIA employees are eligible to participate in the State of West Virginia Public Employees Retirement System (PERS), a cost-sharing, multiple-employer, public employee retirement system. Employees who retire at or after age 60 with 5 or more years of contributory service or who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by state statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to 2% of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement. PERS also provides deferred retirement, early retirement, and death and disability benefits, and issues an annual report that can be obtained by contacting PERS.

Covered employees are required to contribute 4.5% of their salary to PERS. Effective July 1, 2010, the PEIA contribution rate was increased to 12.5%. PEIA was required to contribute 11.0% of covered employees' salaries to PERS through year-end 2010. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. PEIA and employee contributions, both the statutorily required and actual contributions made, for the three years ended June 30 are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Employer contributions	\$ 181,631	\$ 167,945	\$ 163,469
Employee contributions	65,387	68,705	70,058
Total contributions	<u>\$ 247,018</u>	<u>\$ 236,650</u>	<u>\$ 233,527</u>

PEIA's contributions to the retirement plan for each of the years indicated above were equal to its required contributions. The contributions are included in other operating expenses in the basic financial statements.

The Consolidated Public Retirement Board (CPRB) administers the state's retirement systems. CPRB prepares separately issued financial statements covering the state's retirement systems, including PERS, which can be obtained from the Consolidated Public Retirement Board, 4101 MacCorkle Avenue, S.E., Charleston, West Virginia 25304-1636.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

9. Postemployment Benefits Other Than Pension Benefits

Other Postemployment Benefits

PEIA participates in a cost-sharing, multiemployer, defined benefit other postemployment benefit (OPEB) plan that covers the retirees of state agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code. Financial activities of the OPEB plan are accounted for in the RHBT. The plan provides the following retiree group insurance coverage to participants: medical and prescription drug coverage through a self-insured plan and through external managed care organizations, basic group life, accidental death, and prescription drug coverage for retired employees of the state and various related state and non-state agencies and their dependents. Details regarding this plan and a copy of the RHBT financial report can be obtained by contacting Public Employees Insurance Agency, 601 57th Street SE, Suite 2, Charleston, West Virginia 25304-2345 or by calling (888) 680-7342.

Upon retirement, an employee may apply unused sick leave and/or annual leave to reduce their future insurance premiums paid to RHBT. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for PEIA. According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988 and June 30, 2001, can receive health care credit against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit.

Legislation requires RHBT to determine through an actuarial study, the contractually required contribution (CRC) that shall be sufficient to maintain the RHBT in an actuarially sound manner. The CRC is allocated to respective cost-sharing employers, including PEIA, who are required by law to fund at least the minimum annual premium component of the CRC. Revenues collected by RHBT shall be used to fund current OPEB health care claims and administrative expenses with residual funds held in trust for future OPEB costs. Based on the actuarial studies completed, the contractually required contribution rates were determined for the fiscal years ended June 30, 2011, 2010, and 2009. PEIA's contributions to the RHBT were \$67,006, \$55,596, and \$63,800 for fiscal years 2011, 2010, and 2009, respectively, which represent 20.9%, 16.0%, and 48.5%, respectively, of the contractually required contributions. The cumulative unpaid balances of \$638,504, \$384,690, and \$98,000 for fiscal years 2011, 2010, and 2009, respectively, is recorded in other accrued liabilities in the statements of net assets. The State, on PEIA's behalf, paid \$43,000 toward the annual required contribution for fiscal year 2008.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

9. Postemployment Benefits Other Than Pension Benefits (continued)

The West Virginia State Code provides that contribution requirements of the members and the participating employers are established and may be amended by the RHBT Finance Board. A non-Medicare plan member or beneficiaries receiving benefits contributes monthly premiums ranging from \$235 to \$841 per month for retiree-only coverage, and from \$475 to \$2,005 per month for retiree and spouse coverage. Medicare-covered retirees are charged premiums ranging from \$48 to \$361 per month for retiree-only coverage, and from \$259 to \$1,217 per month for retiree and spouse coverage. Monthly premiums vary based on years of service and choice of coverage.

10. Litigation

PEIA is engaged in various legal actions that it deems to be in the ordinary course of business. PEIA believes that it has adequately provided for probable costs of current litigation. As these legal actions are resolved; however, PEIA could realize positive and/or negative impact to its financial performance in the period in which these legal actions are ultimately decided.

Required Supplementary Information

West Virginia Public Employees Insurance Agency

Ten-Year Claims Development Information (Unaudited)

The table below illustrates how PEIA's earned premiums (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by PEIA as of the end of each of the years presented. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned and ceded premiums, administrative fees, other operating, and investment revenues. (2) This line shows each fiscal year's other operating costs of PEIA including overhead and unallocated claims expense not allocable to individual claims. (3) This line shows PEIA's incurred and ceded claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage occurred (called accident year). (4) These lines show the cumulative amounts paid as of the end of successive years for each accident year. (5) This line shows the most current estimate of losses assumed by reinsurers for each accident year. (6) These lines show how each accident year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual accident years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature accident years. The columns of the table show data for successive accident years.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<i>(In Thousands)</i>										
1) Premiums, investment, and other revenues										
Earned	\$ 432,220	\$ 501,170	\$ 575,420	\$ 591,470	\$ 657,858	\$ 502,666	\$ 433,959	\$ 460,756	\$ 562,962	\$ 564,403
Ceded	51,962	56,730	61,833	55,846	62,467	59,228	60,596	60,187	60,912	41,970
Net earned	380,258	444,440	513,587	535,624	595,391	443,438	373,363	400,569	502,050	522,433
2) Unallocated expenses	16,531	21,195	23,347	23,579	26,036	20,321	25,038	23,627	25,344	24,472
3) Estimated incurred claims and allocated claims adjustment expense, end of accident year:										
Incurred	431,544	450,592	493,230	542,512	580,561	419,070	437,694	460,476	488,304	513,971
Ceded	51,962	56,730	61,833	55,846	62,467	59,228	60,596	60,187	60,912	41,970
Net incurred	379,582	393,862	431,397	486,666	518,094	359,842	377,098	400,289	427,392	472,001
4) Paid (cumulative) claims and allocated claims adjustment expense as of:										
End of accident year	327,451	343,939	379,101	426,562	460,973	320,480	335,380	354,773	375,571	420,768
One year later	374,269	390,420	428,176	487,303	507,194	362,605	373,609	398,798	429,976	
Two years later	374,685	388,999	428,218	487,237	507,479	363,147	373,942	400,059		
Three years later	374,465	388,911	428,218	487,237	507,479	363,147	373,942			
Four years later	374,465	388,911	428,218	487,237	507,479	363,147				
Five years later	374,465	388,911	428,218	487,237	507,479					
Six years later	374,465	388,911	428,218	487,237						
Seven years later	374,465	388,911	428,218							
Eight years later	374,465	388,911								
Nine years later	374,465									
5) Reestimated ceded claims and expenses	51,962	56,730	61,833	55,846	62,467	59,228	60,596	60,187	60,912	—
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of accident year	379,582	393,862	431,397	486,666	518,094	359,842	377,099	400,289	427,392	472,001
One year later	375,350	389,662	428,567	487,656	517,884	358,832	374,948	401,109	426,794	
Two years later	375,050	389,162	428,687	487,536	517,854	359,112	374,778	400,879		
Three years later	374,920	389,352	428,687	487,556	518,154	359,002	374,878			
Four years later	374,920	389,352	428,687	487,556	518,144	359,002				
Five years later	374,920	389,352	428,687	487,556	518,144					
Six years later	374,920	389,352	428,687	487,556						
Seven years later	374,920	389,352	428,687							
Eight years later	374,920	389,352								
Nine years later	374,920									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of accident year	(4,662)	(4,510)	(2,710)	890	50	(840)	(2,220)	590	(598)	—

Note: The above financial data is summarized for individual contract periods. Subsequent premium and related expense adjustments and reserve developments are recorded in the year incurred for fiscal year financial reporting but are included in the applicable contract year for purposes of the above schedule. Accordingly, components of change in net assets as determined on a contract-year basis will differ from that included in PEIA's fiscal year financial statements.

Other Financial Information

West Virginia Public Employees Insurance Agency

Deposits Disclosure

Form 7

June 30, 2011

	<u>Carrying Amount</u>
Cash with Treasurer	\$ 1,684,268
Deposit in transit	
Cash in outside bank accounts	<u>2,249,484</u>
Total carrying amount of deposits	3,933,752
Cash equivalents (with BTI)	<u>56,718,618</u>
Total cash	<u><u>\$ 60,652,370</u></u> (1)

(1) Agrees to audited statement of net assets as follows:

Cash and cash equivalents	\$ 3,933,752
Equity position in internal investment pool – current	48,979,905
Equity position in internal investment pool – noncurrent and restricted	<u>7,738,713</u>
Total cash equivalents	<u><u>\$ 60,652,370</u></u> (2)

(2) Agrees to audited statement of cash flows.

West Virginia Public Employees Insurance Agency

Investments Disclosure

Form 8

June 30, 2011

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value
West Virginia Board of Treasury				
Investments (BTI):				
WV Money Market Pool	\$ 56,718,618	\$ –	\$ 56,718,618	\$ 56,718,618
Total equity position in internal investment pool with BTI	<u>\$ 56,718,618</u>	<u>\$ –</u>	<u>\$ 56,718,618</u>	<u>\$ 56,718,618</u>
West Virginia Investment Management				
Board (IMB) Investment Pools:				
Short-term fixed income	\$ 8,793,040	\$ –	\$ 8,793,040	\$ 8,793,040
Total return fixed income	68,365,489	–	68,365,489	68,365,489
Core fixed income	37,180,900	–	37,180,900	37,180,900
TIPS	26,563,444	–	26,563,444	26,563,444
Large cap domestic	6,386,212	–	6,386,212	6,386,212
Non-large cap domestic	2,284,428	–	2,284,428	2,284,428
International nonqualified	2,992,935	–	2,992,935	2,992,935
Hedge fund	16,964,933	–	16,964,933	16,964,933
International equity	5,639,158	–	5,639,158	5,639,158
Total equity position in internal investment pools with IMB	<u>\$ 175,170,539</u>	<u>\$ –</u>	<u>\$ 175,170,539</u>	<u>\$ 175,170,539</u> (1)
(1) Agrees to audited statement of net assets as follows:				
Equity position in internal investment pool – current	\$ 48,979,905			
Equity position in internal investment pools – noncurrent	175,170,539			
Equity position in internal investment pool – noncurrent and restricted	<u>7,738,713</u>			
Total equity position in internal investment pools	<u>\$ 231,889,157</u>			

West Virginia Public Employees Insurance Agency

Deposits and Investments Disclosure

Form 8-A

June 30, 2011

Reconciliation of cash and cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnotes:

Cash and cash equivalents as reported	<u>\$ 3,933,752</u> (1)
---------------------------------------	-------------------------

Equity position in internal investment pools as reported	<u>\$ 231,889,157</u> (2)
--	---------------------------

(1) Agrees to audited statement of net assets.

(2) Agrees to Form 8.

West Virginia Public Employees Insurance Agency

Accounts Receivable

Form 9

June 30, 2011

Total accounts receivable	\$ 44,869,697 (1)
Less allowance for doubtful accounts	<u>(2,561,772) (1)</u>
Net receivable	<u><u>\$ 42,307,925</u></u>

(1) Agrees to audited statement of net assets as follows:

Premium receivable:

Due from State of West Virginia	\$ 3,238,681 (2)
Other, net	11,326,789 (2)
Add allowance for doubtful accounts	<u>2,251,336 (2)</u>

Accounts receivable:

Provider refunds, net	950,999 (2)
Add allowance for doubtful accounts	310,436 (2)
Prescription rebates	5,926,543 (2)
Due from RHBT	20,307,548 (2)
Other	<u>557,365 (2)</u>
Total accounts receivable	<u><u>\$ 44,869,697</u></u>

Allowance for doubtful accounts:

Premium receivable – other	\$ 2,251,336 (2)
Provider refunds	<u>310,436 (2)</u>
	<u><u>\$ 2,561,772</u></u>

(2) Agrees to the audited statement of net assets.

West Virginia Public Employees Insurance Agency

Due (To) From Primary Government

Form 10

June 30, 2011
(In Thousands)

Agency	Total
West Virginia Lottery Commission	\$ (5)
Workforce WV/Payroll-05303	3
Workers' Compensation Commission	159
	<u>157</u>
WV Public Employees Retirement Board	175
WV Public Employees Retirement Board	(132)
WV Teachers Retirement Board	(323)
Consolidated Retirement Bd/Judges Ret.	(7)
Deputy Sheriffs Retirement	(120)
Public Safety/Con.Pub.Emp.Ret.Bd.	(14)
	<u>(421)</u>
Senate	3
House of Delegates	3
Joint Comm on Govt and Finance	10
Supreme Court/Judicial	(113)
Governors Office	-
Homeland Security – Emergency Management	-
Auditors Office	(3)
Treasurer of State's Office	4
Tax Department	40
Tax Department – Budget Office	(1)
Attorney General	1
Secretary of State	2
Department of Education	(3)
Division of Forestry	19
Library Commission	10
Culture and History	(9)
Department of Corrections	(2)
Anthony Correctional Center	2
Huttonsville Correctional Center	289
Pruntytown Correctional Center	6

West Virginia Public Employees Insurance Agency

Due (To) From Primary Government

Form 10 (continued)
(In Thousands)

Agency	Total
Northern Correctional Facility	\$ 16
Mt Olive Correctional Facility	92
Department of Corrections/St. Marys Corr	84
Department of Corrections/Denmar Facility	1
WV Division of Juvenile Services	77
Ohio County Correctional Center	(13)
Health Department	872
Veterans Affairs	4
Pinecrest Hospital	105
Welch Emergency Hospital	10
William R Sharpe Jr Hospital	29
Mildred Mitchell-Bateman Hospital	273
Lakin State Hospital	21
Lakin Correctional Facility	5
John Manchin Sr. Health Care	9
Hopemont State Hospital	12
Division of Rehabilitation Services	1
Department of Labor	2
Office of Miners Health, Safety and Training	22
Division of Environmental Protection	(18)
WV Division of Energy	-
Agriculture	-
Geological Survey	-
Department of Education and Arts	(6)
Military Affairs and Public Safety	-
Division of Protective Services	-
Environmental Quality Board	(3)
Public Port Authority	(1)
Public Safety	(23)
Adjutant General	(12)
Human Rights Commission	21
Fire Commission	(1)
Department of Highways	(18)
Motor Vehicles	6
Bureau of Senior Services	(1)

West Virginia Public Employees Insurance Agency

Due (To) From Primary Government

Form 10 (continued)
(In Thousands)

Agency	Total
Criminal Justice/Highway Safety	\$ -
Public Transit	(1)
Real Estate Commission	2
Insurance Commission	(84)
WV Board of Accountancy	-
WV Board of Dental Examiners	(1)
WV Board of Pharmacy	(1)
WV Engineers Registration Board	-
WV Bd of Examiners/Registered Nurses	5
Department of Administration	(2)
WV Barbers and Beauticians Commission	5
Public Service Commission	(9)
WV Economic Development Authority	(1)
Natural Resources	1
Municipal Bond Commission	(3)
Board of Examiners In Counseling	(2)
WV Board of Social Worker Examiners	-
ABC Commission	(2)
Board of Respiratory Care	(1)
Department of Human Services	(10)
Division of Tourism	(1)
Martinsburg Correctional Center	16
WV Armory Board	-
Board of Medicine	-
Medical Imaging Board	1
WV Division of Banking	(6)
WV Military Authority	2
WV School for the Deaf and Blind	1
WV Real Estate Appraiser/Lic Cert Bd	-
	1,733
Total primary government	1,469
Total component units	1,770
	\$ 3,239

West Virginia Public Employees Insurance Agency

Component Unit – A/R Balances

Form 11

June 30, 2011
(In Thousands)

Unit	Amount
Higher Education	\$ 1,633
Parkways, EDA, and Tourism	(1)
Regional Jail and Correction Facility Authority	71
Public Defender Corporation	31
WV EDA	–
Educational Broadcasting	(1)
School Building Authority	–
Racing Commission	37
WV Jobs Investment Trust	(1)
Housing Development Corporation	4
Water Development Authority	(2)
SWMB	–
WSWP - TV	(1)
	<u>\$ 1,770</u>

STATE OF WEST VIRGINIA
 DEPARTMENT OF ADMINISTRATION – FINANCE DIVISION
 FINANCIAL ACCOUNTING AND REPORTING SECTION

GAAP REPORTING FORM – TRANSFERS IN/OUT

Audited Agency **Public Employees Insurance Agency**

Indicate amounts transferred from/to your agency as of June 30, 2011.

WVFIMS Doc. ID	Agency Transferring From	WVFIMS FUND	Agency Transferring To	WVFIMS FUND	Amount
1	2	3	4	5	6
E894783	ADMINISTRATION	0200	PEIA	2180	\$ 3,500,000
Total					\$ 3,500,000

*Do not include IGTs, Reimbursements or Expense to Expense transactions.

Explain Transfers In/Out amounts greater than or equal to \$1,000,000. _____

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Finance Board
West Virginia Public Employees Insurance Agency

We have audited the financial statements of the West Virginia Public Employees Insurance Agency (PEIA) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PEIA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PEIA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PEIA's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PEIA'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*.

This report is intended solely for the information and use of management, the Finance Board, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

October 26, 2011

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

