West Virginia Public Employees Insurance Agency

Financial Statements

Years Ended June 30, 2015 and 2014

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Report of Independent Auditors

Finance Board and Management
West Virginia Public Employees Insurance Agency
Charleston, West Virginia

We have audited the accompanying financial statements of West Virginia Public Employees Insurance Agency (PEIA), an enterprise fund of the State of West Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the PEIA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion
In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of PEIA, an enterprise fund of the State of West Virginia, as of June 30, 2015, and the revenues, expenses, and changes in its net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

New Accounting Pronouncements
As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the Board adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68*, Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result of adopting these standards, the Board restated net position as of July 1, 2014, to record the net pension liability. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements
The financial statements of PEIA as of and for the year ended June 30, 2014, were audited by other auditors whose report dated October 15, 2014, expressed an unmodified opinion on those statements.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the required supplementary information on pages 36 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the PEIA's basic financial statements as a whole. The accompany schedules on pages 39 through 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

DIXON HUGHES GOODMAN LLP

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PEIA's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Charleston, West Virginia
October 29, 2015

Management's Discussion and Analysis

Management's Discussion and Analysis

This section of the West Virginia Public Employees Insurance Agency's (PEIA) annual financial report presents management's discussion and analysis of its financial performance for the fiscal years ended June 30, 2015 and June 30, 2014. 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 accounting principles generally accepted in the United States of America 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 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 Position – This statement presents information reflecting PEIA's assets, liabilities, and net position. Net position represents the amount of total assets less total liabilities. The statement of net position 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 are collectible or become due within 12 months of the statement date.
>
> Statement of Revenues, Expenses, and Changes in Net Position – 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 position 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 noncapital financing, 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.

Financial Highlights

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

				Change 2015 – 2014		Change 2014 – 2013	
	2015	2014	2013	Amount	Percent	Amount	Percent
Cash and cash equivalents	$ 7,152,758	$ 3,858,856	$ 7,374,892	$ 3,293,902	85.4%	$ (3,516,036)	(47.7)%
Equity position in internal investment pool	31,197,718	75,704,197	81,982,762	(44,506,479)	(58.8)	(6,278,565)	(7.7)
Premium receivable	12,491,116	7,238,434	12,747,620	5,252,682	72.6	(5,509,186)	(43.2)
Other current assets	12,853,424	7,741,080	11,046,823	5,112,344	66.0	(3,305,743)	(29.9)
Total current assets	63,695,016	94,542,567	113,152,097	(30,847,551)	(32.6)	(18,609,530)	(16.4)
Equity position in internal investment pools	218,201,828	214,210,345	194,215,043	3,991,483	1.9	19,995,302	10.3
Equity position in internal investment pool-restricted	24,949,553	24,563,998	20,916,258	385,555	1.6	3,647,740	17.4
Capital assets, net	65,523	141,038	529,804	(75,515)	(53.5)	(388,766)	(73.4)
Total assets	306,911,920	333,457,948	328,813,202	(26,546,028)	(8.0)	4,644,746	1.4
Deferred outflows of resources related to pension	189,943	-	-	189,943	100.0	-	100.0%
Claims payable	78,076,675	53,230,000	62,615,423	24,846,675	46.7	(9,385,423)	(15.0)
Other current liabilities	73,340,195	74,275,767	46,933,519	(935,572)	(1.3)	27,342,248	58.3
Total current liabilities	151,416,870	127,505,767	109,548,942	23,911,103	18.8	17,956,825	16.4
Noncurrent liabilities:							
Other noncurrent liabilities	366,700	-	-	366,700	100.0	-	0.0
Premium stabilization fund	24,949,549	24,563,994	20,916,258	385,555	1.6	3,647,736	17.4
Total liabilities	176,733,119	152,069,761	130,465,200	24,663,358	16.2	21,604,561	16.6
Deferred inflows of resources related to pension	390,502	-	-	390,502	100.0	-	100.0%
Net position-invested in capital assets	65,523	141,038	529,804	(75,515)	(53.5)	(388,766)	(73.4)
Net position-unrestricted	129,912,719	181,247,149	197,818,198	(51,334,430)	(28.3)	(16,571,049)	(8.4)
Total net position	$ 129,978,242	$ 181,388,187	$ 198,348,002	$ (51,409,945)	(28.3)%	$ (16,959,815)	(8.6)%
Premium revenue	$ 568,350,029	$ 566,668,522	$ 566,860,386	$ 1,681,507	0.3%	$ (191,864)	0.0%
Less payments to managed care organizations and life reinsurance premiums	(51,598,616)	(50,623,350)	(52,720,180)	(975,266)	1.9	2,096,830	(4.0)
Net premium revenue	516,751,413	516,045,172	514,140,206	706,241	0.1	1,904,966	0.4
Administrative fees, net	4,927,666	4,890,300	4,889,300	37,366	0.8	1,000	0.0
Total operating revenues	521,679,079	520,935,472	519,029,506	743,607	0.1	1,905,966	0.4
Claims expense, net	548,891,664	547,766,960	468,373,297	1,124,704	0.2	79,393,663	17.0
Administrative service fees	13,448,211	13,327,807	13,264,405	120,404	0.9	63,402	0.5
Other expenses	15,104,815	11,922,359	9,219,439	3,182,456	26.7	2,702,920	29.4
Total operating expenses	577,444,690	573,017,126	490,857,141	4,427,564	0.8	82,159,985	16.7
Operating income (loss)	(55,765,611)	(52,081,654)	28,172,365	(3,683,957)	(7.1)	(80,254,019)	(284.9)
Transfer in	-	4,000,000	-	(4,000,000)	100.0	4,000,000	100.0
Litigation settlement	777,473	10,563,633	-	(9,786,160)	(92.6)	10,563,633	100.0
Net investment income	4,294,430	20,558,206	10,932,844	(16,263,776)	(79.1)	9,625,362	88.0
Total non-operating income	5,071,903	35,121,839	10,932,844	(30,049,936)	(85.6)	24,188,995	221.3
Change in net position	(50,693,708)	(16,959,815)	39,105,209	(33,733,893)	198.9	(56,065,024)	(143.4)
Net assets, beginning of year	180,671,950	198,348,002	159,242,793	(17,676,052)	(0.1)	39,105,209	24.6
Net assets, end of year	$ 129,978,242	$ 181,388,187	$ 198,348,002	$ (51,409,945)	(28.3)%	$ (16,959,815)	(8.6)%

As of the end of the current year, cash and cash equivalents and the current portion of equity position in internal investment pool decreased $41.2 million as the result of the $44.6 million used in operations less, $0.4 million increase in the premium stabilization fund and $3.0 million provided from capital and noncapital financing activities.

Last year, the current portion of equity position in internal investment pool and cash and cash equivalents decreased $9.8 million as the result of $17.1 million used in operations, less $3.6 million increase in the premium stabilization fund, $10.4 million provided from capital and noncapital financing activities and $0.6 million provided in investing activities.

As of the current year-end, premiums receivable was up $5.3 million from the prior year due to loss of an experienced staff member, which resulted in a build-up of receivables at the end of fiscal year 2015.

Premiums receivable at June 30, 2014 was $5.5 million less than the prior year due to increased collection efforts.

As of the end of the current year, other current assets are up $5.1 million because of an increase in prescription rebates receivable by $5.6 million and net provider refunds receivable is down $0.9 million, while other accounts receivable are up $0.4 million.

For year-end 2014, other current assets are down due to the decrease in the prescription rebates receivable by $3.7 million because the Prescription Benefits Manager is more current with remittance. Net provider refund receivables are up $0.4 million. These two items make up most of the $3.3 million reduction of the other current assets for the previous year-end.

Total noncurrent assets increased $4.3 million as the result of reinvestment of investment earnings in the amount of $4.0 million and $0.4 million profit sharing from out life insurance products, less $0.1 million net reduction of capital assets principally due to current year depreciation.

Last year, noncurrent assets were up $23.3 million from the year-end 2013 level due to $20.0 million reinvestment of investment earnings, $3.7 million life insurance profit sharing, less $0.4 million decrease in capital assets due to depreciation.

The increase of $0.2 million from 2014 to 2015 in deferred outflows was due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in fiscal year 2015.

Current claims payable were up $24.8 million over year-end 2014 due to a number of large claims that were incurred in the last month of year end 2015.

Special efforts were made at the end of the 2014 year to pay all claims on hand before computer systems were shut down for the installation of the new software. These early payments resulted in a $9.4 million reduction in the year-end claims payable liability from year-end 2013.

Other current liabilities are down $0.9 million from 2014. Due to the premium deficiency reserve declining $7.2 million from anticipated better underwriting results for the upcoming New Year. An increase of $0.2 million was seen on accounts payable. Employer prepayment of premiums resulted in an increase of $3.2 million in unearned revenue and the amounts due to RHBT increased $2.7 million.

Last year, other current liabilities were up $27.3 million over 2013. The premium deficiency reserve increased $32.7 million because premium rates were reduced $6.6 million and plan year 2015 medical and drug trends are forecasted at 5.0% and 8.0%, respectively. Accounts payable rose $0.7 million. Unearned revenue liability declined $10.7 million because more than half of the funds were used by employers in the year. In addition, the liability for fees imposed by the federal government under the Affordable Care Act (ACA) increased $5.4 million, unpaid third-party administration fees increased $1.4 million, the life insurance liability increased $0.9 million, the liability to RHBT was paid down $4.1 million, and the liability for flexible spending accounts rose $1.0 million.

The current year saw an increase of $0.4 million in other noncurrent liabilities related to the recognition of the pension obligation related to the adoption of the GASB Statement No. 68, *Accounting and Financial Reporting of Pensions*.

Premium stabilization fund liability increased $0.4 million in 2015 as a result of life insurance profit sharing of $1.8 million, less $1.4 million used to lower life insurance premium rates.

Life insurance profit sharing for the year 2014 was $5.0 million, of which $1.4 million was used to reduce life insurance premium rates resulting in an increase of $3.6 million in the premium stabilization fund.

Deferred inflows of resources increased $0.4 million from 2014 to 2015 due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015.

For the year 2015, the change in the net position fell $33.7 million below the 2014 level. Life insurance and managed care expenses decreased $1.0 million, claims expensed increased $1.1 million, administrative service fees increased $0.1 million, other operating expenses increased $3.2 million, mainly due to an increase of $3.4 million in ACA fees, and a $0.2 million reduction of depreciation expense as asset became fully depreciated. Non-operating revenue fell $30.0 million due to a reduction of $16.3 million in investment earnings, litigation settlement was down by $9.8 million and direct transfer of $4.0 million in year 2014 was not repeated in 2015 and premium revenue increased $1.7 million.

For the year 2014, the change in net position fell $56.1 million below the prior year. Payments to managed care and life insurance decreased $2.1 million, claim expense increased $79.4 million, administrative service fees increased $0.1 million, other operating expenses increased $2.7 million, including a $5.2 million increase in ACA fees, a decrease in wellness expenses of $1.4 million, a decrease of $0.7 million in depreciation and other expenses decrease of $0.4 million. Non-operating revenue increased $24.2 million and premium revenue decreased $0.2 million.

Year-to-year operating revenue increased $0.7 million in 2015 as premium revenue increased $1.7 million, managed care cost increased $1.0 million and small increases elsewhere.

Last year, operating revenue increased $1.9 million also due to lower managed care and life insurance cost.

Year end 2015 medical and prescription drug claims expenses were up $1.1 million, including a $2.6 million decrease in medical claims, which included $7.2 million premium deficiency reserve credit and a $3.7 million increase in drug claims. After adjusting for the Premium Deficiency Reserve (PDR) decrease in 2015 and increase in 2014, medical claims rose 9.6% and drug claims rose 3.0%. The year end 2015 claims costs also included an increase of benefits totaling $2.1 million for medical benefits and $0.5 million reduction of prescription drug benefits.

Year end 2014 medical and prescription drug claims expenses were up $79.4 million, including a $70.2 million increase in medical claims, which included $32.7 million premium deficiency reserve charge and a $9.2 million increase in drug claims. After adjusting for the Premium Deficiency Reserve (PDR) increase in 2014 and the decrease in 2013, medical claims rose 6.1% and drug claims rose 7.8%. There were no benefit changes in the year end 2014.

Current year administrative service fees expense increased $.1 million due to the addition of additional TPA services, which took effect at the beginning of the current year. Other expenses increased $3.2 million due to an increase of $3.4 million ACA reinsurance fees and $0.2 million reduction in depreciation.

During fiscal year 2015, investment income was down $16.3 million from last year due to a smaller amount of portfolio appreciation and flat interest and dividend earnings. For the previous year, investment income was up $9.6 million because the market value of the portfolio rose at a higher rate.

In addition, a $4.0 million transfer was received in 2014 but not provided in 2015.

Current year-end change in net position amounted to a decline of $50.7 million versus a decline of $17.0 million for year 2014 for a negative difference between the two years of $33.7 million. As previously discussed, this difference resulted principally from a $30.0 million decline in non-operating revenue. The financial plan for 2015 indicated a decrease in total net position of $35.8 million. However, it did not include the $7.2 million reduction of the premium deficiency reserve. Total claim costs without the deficiency were $7.4 million more than plan. Non-operating revenue was $3.3 million less than plan. Premium revenues were $10.2 million more than plan. Managed care capitations and life insurance expenses were $8.7 million less than plan and admin fee revenue was $0.3 more than plan.

Year end 2014 change in net position amounted to a decline of $17.0 million versus an increase of $39.1 million for the prior year for a negative difference between the two years of $56.1 million. As previously discussed, this difference resulted principally from the large increase in claims expenses, which were mitigated somewhat by the non-operating revenue increase. The financial plan for 2014 indicated a decrease in total net assets of $45.3 million. However, it did not include the $32.7 million increase of claims expense related to the premium deficiency reserve. Total claims costs without the deficiency were $42.8 million less than plan. Non-operating revenue was at $15.1 million above plan. Premium revenues were $2.1 million above plan, managed care capitations and life insurance expenses were $4.4 million less than plan, ACA fees were $5.4 million more than plan and wellness and other expenses were $2.0 million below plan.

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 $890 compared to the national average cost of $1,539. It should be noted that PEIA incurred a decrease in plan assets of $57.9 million excluding the effect of the current year premium deficiency reserve.

Medical news reports that in the near future the delivery of medical services will change radically through innovative technologies, cloud computing, and machine learning. These new technologies will allow for remote diagnosis of diseases by computer algorithms with recommended treatment, monitoring of various health conditions, completion of labs and allow for a secure video consultation with a doctor or other healthcare professional. Remote sensors will provide the equivalent of hospital intensive care unit monitoring from our bedrooms. As a result, except for ICUs, operating rooms and emergency rooms and hospitals of the future are likely to be roomless data surveillance centers for remote patient monitoring. These new technologies will cut costs, reduce the use of doctors and hospitals, speed up the pace of care and give more power to the patients.

In 2015, PEIA's claims costs declined 2.7%.

Premium decreases totaling $6.6 million were placed into effect in 2015.

Capital Asset and Long-Term Debt Activity

Capital asset activity was not significant in 2015, and PEIA has no long-term debt.

Pension Liability

Effective July 1, 2014, PEIA adopted the provisions of GASB Statement No.68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27, and GASB Statement No. 71*, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*. Statement 68 requires PEIA to recognize a liability equal to its proportionate share of the net pension liability of the State's Public Employees' Retirement System (PERS). PEIA determined that it was not practical to restate all periods presented and has recorded a cumulative effect adjustment of $0.7 million as of July 1, 2014, to decrease the 2015 beginning net position. The $0.7 million cumulative effect adjustment as of July 1, 2014 is comprised of the net pension liability of $0.9 million less deferred outflows of resources related to pension plan contributions of $0.2 million as of that date. Decisions regarding the allocations are made by the administrators of the pension plan, not by the PEIA management. Further, as a result of the adoption, the Statements of Plan Net Position as of June 30, 2015, reflect a net pension liability of $0.4 million, and related deferred outflows of resources of $0.2 million and deferred inflows of resources of $0.4 million related to pension.

WV OASIS

On July 1, 2014, PEIA, as well as all other State government agencies transitioned to a new statewide accounting system. The WV Our Advanced Solution with Integrated System (wvOASIS) is an enterprise resource planning (ERP) system offering full double entry accounting capabilities. The wvOASIS replaces the WV Financial Information Management System (WVFIMS), which served as the State's accounting system from October 1, 1993 through June 30, 2014. The fiscal year 2015 financial statements are the first statements prepared since the transition of accounting systems.

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.

Financial Statements

West Virginia Public Employees Insurance Agency
Statements of Net Position
June 30

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,152,758	$ 3,858,856
Equity position in internal investment pool	31,197,718	75,704,197
Premiums receivable:		
Due from State of West Virginia	410,888	387,138
Other, less allowance for doubtful accounts of $310,610 and $385,078, respectively	12,080,228	6,851,296
Accounts receivable:		
Provider refunds, less allowance for doubtful accounts of $1,163,530 and $1,182,357, respectively	399,049	1,268,810
Prescription rebates	11,407,317	5,774,209
Other	1,047,058	698,061
Total current assets	63,695,016	94,542,567
Noncurrent assets:		
Equity position in internal investment pools	218,201,828	214,210,345
Equity position in internal investment pool – restricted	24,949,553	24,563,998
Capital assets, net of accumulated depreciation of $9,975,937 and $9,899,185, respectively	65,523	141,038
Total noncurrent assets	243,216,904	238,915,381
Total assets	306,911,920	333,457,948
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension	189,943	-
Total deferred outflows of resources	189,943	-
LIABILITIES		
Current liabilities:		
Claims payable	78,076,675	53,230,000
Premium deficiency reserve	41,528,490	48,707,630
Accounts payable	3,366,959	1,293,696
Unearned revenue	13,169,828	9,953,340
Other accrued liabilities	11,489,979	13,267,157
Due to RHBT	3,784,939	1,053,940
Total current liabilities	151,416,870	127,505,763
Noncurrent liabilities:		
Other accrued liabilities:		
Other noncurrent liabilities	366,700	-
Premium stabilization fund	24,949,549	24,563,998
Total noncurrent liabilities	25,316,249	24,563,998
Total liabilities	176,733,119	152,069,761
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension	390,502	-
Total deferred inflows of resources	390,502	-
NET POSITION		
Invested in capital assets	65,523	141,038
Unrestricted	129,912,719	181,247,149
Total net position	$ 129,978,242	$ 181,388,187

See accompanying notes.

West Virginia Public Employees Insurance Agency
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30

	2015	2014
Operating revenues:		
Premiums net of provisions for bad debts of		
$(74,468) and $(12,877), respectively	**$ 568,350,029**	$ 566,668,522
Less:		
Payments to managed care organizations	**(39,185,862)**	(38,099,538)
Basic life insurance premiums ceded	**(2,134,865)**	(2,133,350)
Optional life insurance premiums ceded	**(10,277,889)**	(10,390,462)
Net premium revenue	**516,751,413**	516,045,172
Administrative fees, net of refunds	**4,927,666**	4,890,300
Total operating revenues	**521,679,079**	520,935,472
Operating expenses:		
Claims expense, net	**548,891,664**	547,766,960
Administrative service fees	**13,448,211**	13,327,807
Other expenses	**15,104,815**	11,922,359
Total operating expenses	**577,444,690**	573,017,126
Operating loss	**(55,765,611)**	(52,081,654)
Nonoperating revenues:		
Investment income, net of fees	**4,294,430**	20,558,206
Litigation settlement	**777,473**	10,563,633
Transfer in from the State	**-**	4,000,000
Total nonoperating income	**5,071,903**	35,121,839
Change in net position	**(50,693,708)**	(16,959,815)
Net Position:		
Net position, beginning of year	**181,388,187**	198,348,002
Cumulative effect of adoption of accounting principle	**(716,237)**	-
Net position, beginning of year, as restated	**180,671,950**	198,348,002
Net position, end of year	**$ 129,978,242**	$ 181,388,187

See accompanying notes.

West Virginia Public Employees Insurance Agency
Statements of Cash Flows
Years Ended June 30

	2015	2014
Operating activities		
Cash received from participants	**$ 511,239,585**	$ 529,737,524
Cash received from pharmacy rebates	**11,988,950**	14,224,853
Cash paid to employees	**(1,357,165)**	(1,400,909)
Cash paid to suppliers and others	**(23,295,488)**	(21,004,312)
Cash paid for claims	**(543,213,079)**	(538,659,159)
Net cash used in operating activities	**(44,637,197)**	(17,102,003)
Noncapital financing activities		
Advances from RHBT	**2,730,998**	(4,125,584)
Transfer in	**-**	4,000,000
Litigation Settlement	**777,473**	10,563,633
Net cash provided by noncapital financing activities	**3,508,471**	10,438,049
Capital and related financing activities		
Purchases of capital assets	**(1,236)**	(45,810)
Net cash used in capital and related financing activities	**(1,236)**	(45,810)
Investing activities		
Purchases of investments	**(10,527,540)**	(34,804,486)
Sale of investments	**7,686,950**	32,272,760
Investment earnings	**3,143,530**	3,094,629
Net cash provided by investing activities	**302,940**	562,903
Net decrease in cash and cash equivalents	**(40,827,022)**	(6,146,861)
Cash and cash equivalents at beginning of year	**104,127,051**	110,273,912
Cash and cash equivalents at end of year	**63,300,029**	104,127,051
Cash and cash equivalents consist of:		
Cash and cash equivalents	**7,152,758**	3,858,856
Equity position in internal investment pool – current	**31,197,718**	75,704,197
Equity position in internal investment pool – restricted	**24,949,553**	24,563,998
	$ 63,300,029	$ 104,127,051
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (55,765,611)**	$ (52,081,654)
Adjustments		
Depreciation	**76,751**	434,574
Provision for uncollectible accounts	**74,468**	12,877
Pension Expense	**40,965**	-
(Increase) decrease in operating assets:		
Premiums receivable	**(5,303,400)**	4,765,928
Due from State of West Virginia	**(23,750)**	730,376
Provider refunds receivable	**869,761**	(375,516)
Prescription refunds receivable	**(5,633,108)**	3,739,446
Other	**(348,997)**	(58,183)
Increase (decrease) in operating liabilities:		
Claims payable	**24,846,675**	(9,385,423)
Accounts payable	**2,073,263**	725,180
Premium deficiency	**(7,179,140)**	32,718,073
Unearned revenue	**3,216,488**	(10,659,257)
Other accrued liabilities	**(1,777,178)**	8,683,836
Premium stabilization fund	**385,559**	3,647,740
Deferred outflows of resources	**(189,943)**	-
Total adjustments	**11,128,414**	34,979,651
Net cash used in operating activities	**$ (44,637,197)**	$ (17,102,003)
Noncash activities		
Increase in fair value of investments	**$ 1,150,899**	$ 17,463,577

See accompanying notes.

Notes to Financial Statements

Notes to Financial Statements

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 (State) 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 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 "Annual Financial Plan" for further discussion of this process. PEIA's enrollment consists of approximately 77,000 health and basic life insurance policyholders, and 13,000 policyholders with life insurance only. PEIA insures approximately 173,000 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 42,000 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 that is attributable to the transactions of PEIA. They do not purport to, and do not, present fairly the net position of the State as of June 30, 2015 and 2014, and the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America (GAAP).

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). Operating revenues are derived mainly from premiums earned net of related reinsurance premiums, plus administrative fees billed. Operating expenses consist primarily of claims, administrative service fees, and various general and administrative costs. All other items are considered nonoperating.

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.

The 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.

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 the 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.

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 State 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 $76,751 and $434,574 for the years ended June 30, 2015 and 2014, respectively.

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Balances of deferred outflows of resources may be presented in the Statements of Plan Net Position as aggregations of different types of deferred amounts. At June 30, 2015, deferred outflows in the Statements of Plan Net Position were composed of $189,943 related to employer contributions to the Public Employees Retirement System (PERS) made during the current fiscal year subsequent to the measurement date.

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 position 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 8). 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 $17,622,057 and $10,485,407 for the years ended June 30, 2015 and 2014, 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 $41,528,490 and $48,707,630 as of June 30, 2015 and 2014, respectively. 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.

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 expenses to MCOs on the financial statements.

As of the June 2015 coverage month, PEIA provided health coverage to 123 State agency divisions with approximately 21,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 543 local government entities with approximately 13,000 primary participants, and 25 college and university entities with approximately 11,000 primary participants. Approximately 96,000 dependents participated in PEIA health plans as well.

As of the June 2014 coverage month, PEIA provided health coverage to 128 State agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 543 local government entities with approximately 12,000 primary participants, and 25 college and university entities with approximately 11,000 primary participants. Approximately 96,000 dependents participated in PEIA health plans as well.

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 $2,250 to $500,000 that decreases with age. Active employees may also elect dependent optional life coverage and AD&D at a level up to $40,000 per spouse and $15,000 per child. Retirees may obtain optional life insurance coverage from $2,500 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 $40,000 for a spouse and $15,000 per child. Amounts collected by PEIA from employees for optional coverage totaled $10,579,202 and $10,739,674 during the fiscal years ended June 30, 2015 and 2014, respectively, and were remitted directly to the carrier.

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.

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. Employees hired after July 1, 2001, are not eligible to convert unused time to employer paid premiums.

Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. Balances of deferred inflows of resources may be presented in the Statements of Plan Net Position as aggregations of different types of deferred amounts. At June 30, 2015, deferred inflows in the Statements of Plan Net Position were composed of $387,915 related to investment earnings in excess of actuarial assumptions for the net pension liability and $2,587 related to changes in proportion and differences between PEIA contributions and proportionate share of contributions.

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 Position

As required by GASB Statement 34, PEIA displays net position in three components, if applicable: net investment in capital assets, restricted; and unrestricted.

> Net Investment in Capital Assets – This component of net position 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 Assets – Unrestricted assets consist of assets that do not meet the definition of "restricted" or "net investment in capital assets." In the governmental environment, 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 position.

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. In the event the reserve fund exceeds 15% of the actuarial recommended reserve of 20% to 25% of total projected costs, the excess is required to be transferred to RHBT. There were no excess reserves to be transferred for the years ended June 30, 2015 or 2014.

Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has also issued Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. Management has not yet determined the effect that the adoption of GASB Statement No. 72 may have on its financial statements.

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

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

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

Subsequent Events

In preparing these financial statements, PEIA has evaluated events and transactions for potential recognition or disclosure through October 29, 2015, the date the financial statements were available for issuance. No items were noted that merit recognition or disclosure in the financial statements.

3. Adoption of New Accounting Pronouncements and Restatement of Beginning Net Position

Effective July 1, 2014, the West Virginia Public Employees Insurance Agency adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. As summarized below, a cumulative effect adjustment of $716,237 has been recorded to decrease net position previously reported at the beginning of fiscal year 2015. PEIA determined that it was not practical to restate the prior year financial statements as the information was not provided by the

West Virginia Consolidated Public Retirement Board (WVCPRB), which administers this cost-sharing multiple-employer plan. These statements reclassified some items previously reported as expenses as deferred outflows and now requires PEIA to record the net pension liability and a more comprehensive measure of pension expense.

Net Position at the Beginning of the Year Required Statement:

Net Position beginning of year, as previously reported	$ 181,388,187
Total cumulative effect adjustment	(716,237)
Net Position at June 30, 2014, restated	$ 180,671,950

Employer contributions to the Public Employees Retirement System (PERS) made during the current fiscal year subsequent to the pension liability measurement date are recorded as deferred outflows of resources. For the fiscal year ended June 30, 2015, PEIA reported deferred outflows of resources relating to these payments of $189,943. Additionally, investment earnings in excess of actuarial assumptions and changes in proportionate share of contributions are required to be recorded as deferred inflows and amortized over the average remaining service lives of 5 and 4.27 years, respectively. For the fiscal year ended June 30, 2015, the PEIA reported deferred inflows of resources relating to these earnings and contribution changes of $387,915 and $2,587, respectively.

See Note 10 for additional pension disclosures.

4. Cash and Cash Equivalents

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

	2015	2014
Cash and cash equivalents on deposit with State Treasurer	**$ 4,896,287**	$ 1,374,619
Deposits with outside financial institutions	**2,256,471**	2,484,237
Cash and cash equivalents reported on statement of net assets	**7,152,758**	3,858,852
Equity position in internal investment pool with BTI – current-unrestricted	**31,197,718**	75,704,197
Equity position in internal investment pool with BTI – noncurrent-restricted	**4,275,682**	5,689,431
Equity position in internal investment pool with Minnesota Life – noncurrent-restricted	**20,673,871**	18,874,557
Total cash and cash equivalents	**$ 63,300,029**	$ 104,127,051

5. 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, 2015 and 2014, the carrying amount of PEIA's bank deposits was $2,256,471 and $2,484,233, respectively, and the bank balances totaled $2,406,104 and $2,885,679, respectively.

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 P-1 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 credit ratings of the West Virginia Money Market Pool's investments (in thousands).

		June 30, 2015		
			(In Thousands)	
Investment Type	Moody's	Credit Rating S&P	Carrying Value	Percent of Pool Assets
Commercial paper	P-1	A-1+	$ 186,737	9.88%
	P-1	A-1	660,027	34.91
Corporate bonds and notes	Aa3	A+	10,005	0.53
	Aa3	AA-	10,000	0.53
	Aa3	NR	10,000	0.53
U.S. agency bonds	Aaa	AA+	81,994	4.34
U.S. Treasury notes*	Aaa	AA+	229,760	12.15
U.S. Treasury bills*	P-1	A-1+	92,059	4.87
Negotiable certificates of deposit	Aa2	AA-	10,000	0.53
	P-1	A-1+	51,000	2.70
	P-1	A-1	142,000	7.51
U.S. agency discount notes	P-1	A-1+	304,342	16.10
Money market funds	Aaa	AAAm	90,017	4.76
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AA+	1,323	0.07
U.S. agency notes	Aaa	AA+	11,200	0.59
			$ 1,890,464	100.00%

*NR = Not Rated

*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.

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.

Investment Type	**(In Thousands) Carrying Value**	**WAM (Days)**
Repurchase agreements	$ 12,523	1
U.S. Treasury notes	229,760	75
U.S. Treasury bills	92,059	123
Commercial paper	846,764	30
Certificates of deposit	203,005	51
U.S. agency discount notes	304,342	60
Corporate bonds and notes	30,000	75
U.S. agency bonds	81,994	58
Money market funds	90,017	1
	$ 1,890,464	47

PEIA's investment in the BTI West Virginia Money Market Pool of $29,796,000 and $30,987,000 at June 30, 2015 and 2014, respectively, represents approximately 1.7% and 1.6% of total investments in this pool and is reported as part of current equity position in internal investment pools and part of noncurrent – restricted equity position in internal investment pools on the statement of net position.

PEIA's investment in the BTI West Virginia Short Term Bond Pool of $5,677,000 and $50,406,000 at June 30, 2015 and 2014, respectively, represents approximately 0.75% and 2.0% of total investments in this pool and is reported as part of current equity position in internal investment pools and part of noncurrent – restricted equity position in internal investment pools on the statement of net position.

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.

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 2015	Policy Target 2014	Strategic Allocation 2015	Strategic Allocation 2014
Domestic equity	**10.0%**	10.0%	**15.0%**	10.0%
International equity	**10.0**	10.0	**15.0**	10.0
Total equity	**20.0%**	20.0%	**30.0%**	20.0%
Fixed income	**80.0%**	80.0%	**40.0%**	50.0%
TIPS	**-**	-	**10.0%**	10.0%
Hedge fund	**-**	-	**20.0%**	20.0%
Cash	**-**	-	**-**	-

*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.

	(In Thousands) Asset Value at June 30 2015	2014
Asset allocation (actual)		
TIPS pool	**$ 21,676**	$ 21,473
Large cap domestic equity pool	**26,318**	24,196
Non-large cap domestic equity pool	**6,274**	8,411
International nonqualified pool	**10,752**	10,743
International equity pool	**21,547**	22,061
Short-term fixed income pool	**36**	4
Total return fixed income	**61,282**	59,333
Core fixed income	**26,285**	25,380
Hedge fund	**44,032**	42,609
Total	**$ 218,202**	$ 214,210

Asset Class Risk Disclosures

U.S. Treasury Inflation Protected Securities (TIPS)

Credit Risk

The WVIMB limits the exposure to credit risk in the pool by primarily investing in U.S. Treasury inflation-protected securities (TIPS). The following table provides the weighted-average credit ratings of the rated assets in the pool as of June 30, 2015.

Investment Type	Moody's	S&P	(In Thousands) Fair Value	Percent of Assets
Short-term issue	Aaa	AAA	$ 228	0.1%
U.S. Treasury inflation-protected securities	Aaa	AA	427,774	99.9
Total rated investments			$ 428,002	100.0%

Interest Rate Risk

The WVIMB monitors interest rate risk of the pool by evaluating the real modified duration of the investments in the pool. The following table provides the weighted-average real modified duration for the various asset types in the pool as of June 30, 2015.

Investment Type	(In Thousands) Fair Value	Real Modified Duration (Years)
Short-term issue	$ 228	0.0
U.S. Treasury inflation-protected securities	427,774	7.9
Total investments	$ 428,002	7.9

The pool invests in 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 $21,676,000 and $21,473,000 at June 30, 2015 and 2014, respectively, represented approximately 5.0% and 3.6% respectively, of total investments in this pool.

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 $26,318,000 and $24,196,000 at June 30, 2015 and 2014, respectively, represents approximately 0.77% and 0.78%, 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 $6,274,000 and $8,411,000 at June 30, 2015 and 2014, respectively, represents approximately 0.77% and 0.78%, respectively, of total investments in this pool.

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 $153,549,000 and $153,086,000 at June 30, 2015 and 2014, 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 $10,752,000 and $10,743,000 at June 30, 2015 and 2014, respectively, represents approximately 7.0% and 7.0%, respectively, of total investments in this pool.

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 $21,547,000 and $22,061,000 at June 30, 2015 and 2014, respectively, represents approximately 0.78% and 0.80%, 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, 2015, were as follows:

Currency	(In Thousands) Equity Securities	Cash	Total
Australian Dollar	$ 71,411	$ 21	$ 71,432
Brazil Real	113,460	829	114,289
British Pound	272,285	1,049	273,334
Canadian Dollar	130,182	62	130,244
Czech Koruna	11,113	-	11,113
Danish Krone	24,755	1	24,756
Egyptian Pound	3,762	-	3,762
Emirati Dirham	3,773	-	3,773
Euro Currency Unit	410,970	(51)	410,919
Hong Kong Dollar	267,032	979	268,011
Hungarian Forint	9,379	106	9,485
Indian Rupee	49,212	1,019	50,231
Indonesian Rupiah	19,720	39	19,759
Israeli Shekel	19,243	3	19,246
Japanese Yen	401,766	2,410	404,176
Malaysian Ringgit	12,366	252	12,618
Mexican Peso	35,498	5	35,503
New Taiwan Dollar	70,408	2,623	73,031
New Zealand Dollar	1,056	57	1,113
Norwegian Krone	26,742	34	26,776
Pakistan Rupee	5,610	-	5,610
Philippine Peso	8,810	-	8,810
Polish Zloty	10,753	71	10,824
Qatari Riyal	300	9	309
Singapore Dollar	13,923	151	14,074
South African Rand	48,901	551	49,452
South Korean Won	174,570	1,238	175,808
Swedish Krona	48,637	1	48,638
Swiss Franc	97,333	14	97,347
Thailand Baht	25,382	29	25,411
Turkish Lira	45,967	-	45,967
Total	$ 2,434,319	$ 11,502	$ 2,445,821

This table excludes cash and securities held by the pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated investments and cash is $527,419,000, or 17.7%.

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 A-1 by Standard & Poor's and P-1 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, 2015.

Investment Type	Moody's	S&P	(In Thousands) Carrying Value	Percent
Commercial paper	Aaa	AA	$ 22,999	8.5%
U.S. government agency issues	Aaa	AA	136,763	50.5
U.S. Treasury issues	Aaa	AA	110,922	41.0
Total rated investments			$ 270,684	100.0%

This table includes securities received as collateral for repurchase agreements with a fair value of $65,365,000 as compared to the amortized cost of the repurchase agreements of $64,341,000.

Custodial Credit Risk

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

Interest Rate Risk

The weighted-average maturity (WAM) 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 WAM for the various asset types in the Short-Term Fixed Income Pool as of June 30, 2015.

Investment Type	(In Thousands) Carrying Value	WAM (days)
Commercial paper	$ 22,999	19
Repurchase agreements	64,341	1
U.S. government agency issues	136,763	52
U.S. Treasury issues	45,557	70
Total investments	$ 269,660	40

PEIA's amount invested in the Short-Term Fixed Income Pool at June 30, 2015, was $36,000, which represents approximately 0.01% of total investments in this pool. At June 30, 2014, PEIA's amount invested in the Short-Term Fixed Income Pool was $4,000, which represents approximately 0.001% of total investments in this pool.

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, 2015.

Investment Type	Moody's	S&P	(In Thousands) Fair Value	Percent of Assets
Corporate asset backed issues	A	AA	$ 116,267	4.8%
Corporate CMO	B	B	101,927	4.2
Corporate CMO interest-only	C	Not Rated	7,706	0.3
Corporate preferred security	Ba	BB	10,430	0.4
Foreign asset backed issues	A	A	20,876	0.9
Foreign corporate bonds	Baa	BB	286,053	11.9
Foreign government bond	Baa	BBB	212,335	8.8
Municipal bonds	A	A	51,734	2.2
Short-term issue	Aaa	AAA	102,153	4.3
Time deposits	P-1	A-1	7,174	0.3
U.S. corporate bonds	Baa	BBB	578,292	24.2
U.S. Government agency bonds	Aaa	AA	2,579	0.1
U.S. Government agency CMO	Aaa	AA	80,795	3.4
U.S. Government agency CMO interest-only	Aaa	AA	3,819	0.2
U.S. Government agency MBS	Aaa	AA	298,744	12.4
U.S. Government agency TBA	Aaa	AA	884	0.0
U.S. Treasury bonds	Aaa	AA	113,459	4.7
U.S. Treasury inflation-protected securities	Aaa	AA	20,616	0.9
Total rated investments			$ 2,015,843	84.0%

Unrated investments include investments in other funds valued at $356,277,000, investments in common stock at $7,266, investments in corporate collateralized mortgage obligations (CMO) residuals at $21,983 and option contracts purchased valued at $1,114,000. These unrated investments represent 16.0% of the fair value of the pool's investments.

Custodial Credit Risk

At June 30, 2015, 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.

Interest Rate Risk

The WVIMB monitors interest rate risk of the Total Return Fixed Income Pool by evaluating the effective duration of the investments in the pool. The following table provides the weighted-average effective duration for the various asset types in the Total Return Fixed Income Pool as of June 30, 2015.

Investment Type	(In Thousands) Fair Value	Effective Duration (Years)
Corporate asset backed issues	$ 115,952	2.2
Corporate CMO	101,802	1.8
Corporate CMO interest-only	7,706	18.8
Corporate preferred security	10,428	0.3
Foreign asset backed issues	20,849	1.6
Foreign corporate bonds	285,960	6.0
Foreign government bonds	212,324	6.3
Investments in other funds	356,277	3.2
Municipal bonds	51,734	8.4
Repurchase agreements	14,948	0.0
Short-term issues	102,153	0.0
Time deposits	7,173	0.0
U.S. corporate bonds	578,249	6.6
U.S. Government agency bonds	2,566	4.3
U.S Government agency CMO	80,795	2.1
U.S. Government agency CMO interest-only	3,816	2.2
U.S. Government agency MBS	292,921	2.6
U.S. Government agency TBAs	884	2.1
U.S. Treasury bonds	111,398	4.2
U.S. Treasury inflation-protected securities	20,616	14.0
Total investments	$ 2,378,551	4.5

The Total Return Fixed Income Pool invests in commercial and residential mortgage-backed, asset-backed securities and CMOs. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. The Total Return Fixed Income Pool held $623,846,000 and $462,892,000 of these securities at June 30, 2015 and 2014, respectively, which represented approximately 26.0% and 20.0%, respectively, of the value of the Total Return Fixed Income Pool.

PEIA's amount invested in the Total Return Fixed Income Pool of $61,282,000 and $59,333,000 at June 30, 2015 and 2014, respectively, represented approximately 2.6% and 2.6%, 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, 2015.

Investment Type	Moody's	S&P	(In Thousands) Fair Value	Percent of Assets
Corporate asset backed issues	A	A	$ 76,880	7.0%
Corporate CMO	A	A	87,661	8.0
Corporate CMO interest-only	Ba	AAA	1,198	0.1
Corporate CMO principal-only	B	AA	278	0.0
Foreign asset backed issues	Aa	AA	2,813	0.3
Foreign corporate bonds	A	A	46,435	4.3
Foreign government bonds	Aa	A	7,814	0.7
Municipal bonds	Aa	AA	8,646	0.8
Preferred stock	A	A	2	0.0
Short-term issue	Aaa	AAA	41,293	3.8
Time deposits	P-1	A-1	7,044	0.6
U.S. corporate bonds	A	A	222,329	20.4
U.S. Government agency bonds	Aaa	AA	21,742	2.0
U.S. Government agency CMO	Aaa	AA	144,364	13.2
U.S. Government agency CMO interest-only	Aaa	AA	6,921	0.6
U.S. Government agency CMO principal-only	Aaa	AA	10,501	1.0
U.S. Government agency MBS	Aaa	AA	194,546	17.8
U.S. Treasury bonds	Aaa	AA	204,400	18.7
U.S. Treasury inflation protected security	Aaa	AA	415	0.0
Total investments			$ 1,085,282	99.3%

Unrated securities include investments in common stock valued at $7,134,000, or 0.7% of the fair value of the pool's investments.

Interest Rate Risk

The WVIMB monitors interest rate risk of the Core Fixed Income Pool by evaluating the effective duration of the investments in the pool. The following table provides the weighted-average effective duration for the various asset types in the Core Fixed Income Pool as of June 30, 2015.

Investment Type	(In Thousands) Fair Value	Modified Duration (Years)
Corporate asset backed issues	$ 76,574	2.0
Corporate CMO	87,539	2.0
Corporate CMO interest-only	1,198	(8.5)
Corporate CMO principal-only	278	3.2
Foreign asset backed issues	2,786	0.1
Foreign corporate bonds	46,346	5.7
Foreign government bonds	7,800	8.7
Municipal bonds	8,646	13.9
Repurchase agreements	14,676	0.0
Short-term issue	41,293	0.0
Time deposits	7,044	0.0
U.S. Corporate bonds	222,273	6.1
U.S. Government agency bonds	21,730	4.7
U.S. Government agency CMO	144,364	3.7
U.S. Government agency CMO interest-only	6,919	7.6
U.S. Government agency CMO principal-only	10,501	7.4
U.S. Government agency MBS	188,831	4.8
U.S. Treasury bonds	202,383	7.2
U.S. Treasury inflation protected security	415	5.4
Total investments	$ 1,091,596	4.8

The Core Fixed Income Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and CMOs. 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, 2015, the Core Fixed Income Pool held $518,979,000 of these securities. This represents approximately 48.0% of the value of the pool's securities.

PEIA's amount invested in the Core Fixed Income Pool of $26,285,000 at June 30, 2015, represented approximately 2.5% of total investments in this pool. At June 30, 2014, PEIA had $25,380,000, which represented approximately 2.5% of total investments in this pool.

Hedge Fund Pool

The pool holds shares in hedge funds and shares of a money market fund with the highest credit rating. The investments in hedge funds might be indirectly exposed to foreign currency risk, credit risk, interest rate risk, and/or custodial credit risk. At June 30, 2015, the pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 10% of the value of the pool and is not exposed to concentration of credit risk.

PEIA's amount invested in the Hedge Fund Pool of $44,032,000 and $42,609,000 at June 30, 2015 and 2014, respectively, represented approximately 2.6% and 2.7%, respectively, of total investments in this pool.

6. Equity Position in Internal Investment Pool – Restricted (Premium Stabilization Fund) Managed by BTI and Minnesota Life

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 19 to 20 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. Noncurrent assets include $24,949,553 and $24,563,998 as of June 30, 2015 and 2014, respectively, restricted to meet this obligation.

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

	2015	2014
Premium stabilization fund – beginning of the year	**$ 24,563,998**	$ 20,916,258
Life insurance dividends and interest received	**385,555**	3,647,740
Premium stabilization fund – end of year	**$ 24,949,553**	$ 24,563,998

7. Capital Assets

Capital asset activity for the years ended June 30, 2015 and 2014, was as follows:

	(In Thousands)			
	2014	Additions	Disposals	2015
Intangible assets	$ 8,730	$ -	$ -	**$ 8,730**
Equipment	1,310	1	-	**1,311**
Total capital assets	10,040	1	-	**10,041**
Intangible assets	(8,619)	(59)	-	**(8,677)**
Equipment	(1,280)	(17)	-	**(1,298)**
Total accumulated depreciation	(9,899)	(76)	-	**(9,975)**
Total capital assets, net	$ 141	$ (75)	$ -	**$ 66**

	(In Thousands)			
	2013	Additions	Disposals	2014
Intangible assets	$ 8,730	$ -	$ -	$ 8,730
Equipment	1,264	46	-	1,310
Total capital assets	9,994	46	-	10,040
Intangible assets	(8,206)	(413)	-	(8,619)
Equipment	(1,258)	(22)	-	(1,280)
Total accumulated depreciation	(9,464)	(435)	-	(9,899)
Total capital assets, net	$ 530	$ (389)	$ -	$ 141

8. 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:

	(In Thousands)		
	2015	2014	2013
Claims payable, beginning of year	**$ 53,230**	$ 62,615	$ 62,778
Incurred claims expenses:			
Provision for insured events of the current year	**555,751**	515,769	478,869
Increase (decrease) in provision for insured events of prior years	**320**	(720)	4,750
Total incurred claims expense	**556,071**	515,049	483,619
Payments:			
Claim payments attributable to insured events of:			
Current year	**474,120**	471,415	436,560
Prior years	**57,104**	53,019	47,222
Total payments	**531,224**	524,434	483,782
Claims payable, end of year	**$ 78,077**	$ 53,230	$ 62,615

The above payments are net of pharmacy rebates earned of $17,622,057, $10,485,407, and $10,906,578, for the years ended June 30, 2015, 2014, and 2013, respectively.

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, 2015, 2014, and 2013. PEIA's contributions to the RHBT were $65,044, $69,622, and $70,415 for fiscal years 2015, 2014, and 2013, respectively, which represent 47.0%, 75.0%, and 88.0%, respectively, of the contractually required contributions. The cumulative unpaid balances of $1,009,719, $936,472, and $913,210 for fiscal years 2015, 2014, and 2013, respectively, are recorded in other accrued liabilities in the statements of net assets.

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 contribute monthly premiums ranging from $264 to $845 per month for retiree-only coverage, and from $529 to $2,009 per month for retiree and spouse coverage. Medicare-covered retirees are charged premiums ranging from $84 to $398 per month for retiree-only coverage, and from $342 to $1,331 per month for retiree and spouse coverage. Monthly premiums vary based on years of service and choice of coverage.

10. Pension Plan

Plan Description

All full-time PEIA employees are eligible to participate in the State's Public Employees' Retirement System (PERS), a multiple-employer defined benefit cost-sharing public employee retirement system administered by the West Virginia Consolidated Public Retirement Board (CPRB). Chapter 5, Article 10 of the West Virginia Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Benefits under PERS include deferred retirement, early retirement, death and disability benefits, and have been established and may be amended by action of the State Legislature. The CPRB issues a publicly available financial report that includes financial statements for PERS that may be obtained at www.wvretirement.com.

Benefits Provided

Employees who retire at or after age 60 with 5 or more years of credited service, or at least age 55 with age and service equal to 80 or greater, are entitled to a retirement benefit established by State statue, payable monthly for life, in the form of a straight-line annuity equal to 2% of the employees' final average salary. Final average salary is the average of the highest annual compensation received by an employee during any period of three consecutive years of credited service included within 15 years of credited service immediately preceding the termination date of employment with a participating public employer or, if the employee has less than three years of credited service, the average of the annual rate of compensation received by the employee during the total years of credited service.

Terminated members with at least five years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62.

Contributions

Per Chapter 5, Article 10, members contribute 4.5% of annual earnings. Effective July 1, 2015, the employee contribution increases to 6.0% for new hires. Current funding policy requires Employer contributions of 14.0%, 14.5% and 14.0% for the three years ended June 30, 2015, 2014 and 2013, respectively. Contributions as a percentage of payroll for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contributions as a percentage of payroll for employers are established by the CPRB. PEIA's contribution to the Plan approximated $189,943, $192,924 and $186,871 for the fiscal years ended June 30, 2015, 2014 and 2013, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows/Inflows Related to Pensions

At June 30, 2015, PEIA reported a liability of $366,700 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to the measurement date of June 30, 2014. PEIA's proportion of the net pension liability was based on PEIA's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2014. At June 30, 2014, PEIA's proportionate share was 0.0994%, which was a decrease of 0.0003% for its proportionate share measured as of June 30, 2013.

For the year ended June 30, 2015, PEIA recognized pension expense of $40,965. At June 30, 2015, the PEIA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ -	$ 387,915
Changes in proportion and differences between PEIA contributions and proportionate share of contributions	-	$2,587
PEIA's contributions made subsequent to the measurement date	189,943	-
Total	$ 189,943	$ 390,502

The amount of $189,943 was reported as deferred outflows of resources related to pensions resulting from PEIA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2016	$ 91,452
2017	$ 91,452
2018	$ 91,452
2019	$ 91,452
2020	$ 24,694

Actuarial Assumptions and Methods

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.2%
Salary increase	4.25 – 6.0%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense

Mortality rates were based on the 1983 Group Annuity Mortality (GAM) for healthy males, 1971 GAM for healthy females, 1971 GAM for disabled males, and Revenue Ruling 96-7 for disabled females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results from an actual experience study for the period July 1, 2004 through June 30, 2009.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	15.0%	2.9-4.8%
Domestic equity	27.5%	7.6%
International equity	27.5%	8.5%
Real estate	10.0%	6.8%
Private equity	10.0%	9.9%
Hedge funds	10.0%	5.0%
Total	100.0%	

Discount rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will continue to be made at statutorily required rates, which are determined by actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

Sensitivity of PEIA's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability of the PEIA, calculated using the discount rate of 7.5%, as well as what the PEIA's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

Net Pension Liability		
1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$ 1,036,157	$ 366,700	$ (203,746)

11. 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
Year Ended June 30

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 costs, 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 re-estimation 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 re-estimated 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 re-estimated 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.

(In Thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1) Premiums, investment, and other revenues:										
Earned	$ 678,478	$ 523,611	$ 453,269	$ 474,209	$ 576,693	$ 576,731	$ 570,677	$ 582,682	$ 606,681	$ 578,350
Ceded	83,087	80,174	79,906	73,640	74,643	54,298	54,952	52,720	50,623	51,599
Net earned	595,391	443,437	373,363	400,569	502,050	522,433	515,725	529,962	556,058	526,751
2) Unallocated expenses	26,036	20,231	25,038	24,179	25,344	24,472	22,560	22,484	25,253	28,553
3) Estimated incurred claims and allocated claims adjustment expense, end of accident year:										
Incurred	601,181	440,016	457,004	473,929	502,035	526,299	556,025	531,589	566,392	607,350
Ceded	83,087	80,174	79,906	73,640	74,643	54,298	54,952	52,720	50,623	51,599
Net incurred	518,094	359,842	377,098	400,289	427,392	472,001	501,073	478,869	515,769	555,751
4) Paid (cumulative) claims and allocated claims adjustment expense as of:										
End of accident year	460,973	320,480	335,380	354,773	375,571	420,768	444,524	436,560	471,415	474,120
One year later	507,194	362,605	373,609	398,798	429,976	475,499	491,427	489,742	528,128	
Two years later	507,479	363,147	373,942	400,059	430,219	475,818	491,264	490,133		
Three years later	507,479	363,147	373,942	400,059	430,219	475,818	491,264			
Four years later	507,479	363,147	373,942	400,059	430,219	475,818				
Five years later	507,479	363,147	373,942	400,059	430,219					
Six years later	507,479	363,147	373,942	400,059						
Seven years later	507,479	363,147	373,943							
Eight years later	507,479	363,147								
Nine years later	507,479									
5) Re-estimated ceded claims and expenses	80,174	79,906	73,640	74,643	54,298	54,952	52,720	52,720	50,623	-
6) Re-estimated net incurred claims and allocated claims adjustment expense:										
End of accident year	518,094	359,842	377,099	400,289	427,392	472,001	501,073	478,869	515,769	555,751
One year later	517,884	358,832	374,948	401,109	426,794	472,471	496,773	479,329	515,689	
Two years later	517,854	359,112	374,778	400,879	426,814	472,101	496,913	479,339		
Three years later	518,154	359,002	374,878	400,669	426,734	472,221	496,743			
Four years later	518,144	359,002	374,878	400,669	426,734	472,221				
Five years later	518,144	359,002	374,878	400,669	426,734					
Six years later	518,144	359,002	374,878	400,669						
Seven years later	518,144	359,002	374,878							
Eight years later	518,144	359,002								
Nine years later	518,144									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of accident year	50	(840)	(2,220)	380	658	220	(4,330)	470	(80)	-

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.

West Virginia Public Employees Insurance Agency
Supplementary Schedule of Proportionate Share of the Net Pension Liability - PERS
June 30

		2015
PEIA's proportionate (percentage) of the net pension liability		0.0994%
PEIA's proportionate share of the net pension liability	$	366,700
PEIA's covered-employee payroll	$	1,357,667
PEIA's proportionate share of the net pension's liability as a percentage of its covered-employee payroll		27.01%
Plan fiduciary net position as a percentage of the total pension liability *		93.98%

* This is the same percentage for all participant employers in the PERS plan.

NOTE A - Trend Information Presented

The accompanying schedule of the PEIA's proportionate share of the net pension liability is required supplementary information to be presented for 10 years. However, until a full 10 year trend is compiled, information is presented in the schedule for those years for which information is available.

West Virginia Public Employees Insurance Agency
Supplementary Schedule of Contributions - PERS
Last Three Fiscal Years
Year Ended June 30

	2015	2014	2013
Statutorily required contribution	$ 189,943	$ 192,924	$ 186,871
Contributions in relation to the statutorily required contribution	(189,943)	(192,924)	(186,871)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 1,357,667	$ 1,394,470	$ 1,483,266
Contributions as a percentage of covered-employee payroll	14.00%	14.50%	14.00%

NOTE A - Trend Information Presented

The accompanying schedules of the PEIA's proportionate share of the contributions to PERS is required supplementary information to be presented for 10 years. However, until a full 10 year trend is compiled, information is presented in the schedule for those years for which information is available.

Other Financial Information

West Virginia Public Employees Insurance Agency
Form 7, Deposits Disclosure
June 30, 2015

		Carrying Amount	
Cash with Treasurer	$	4,896,287	
Deposit in transit		-	
Cash in outside bank accounts		2,256,471	
Total carrying amount of deposits		7,152,758	
Cash equivalents (with BTI and Minnesota Life)		56,147,271	
Total cash		63,300,029	(1)

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

Cash and cash equivalents		7,152,758	(2)
Equity position in internal investment pool – current		31,197,718	(2)
Equity position in internal investment pool – noncurrent and restricted		24,949,553	(2)
Total cash equivalents	$	63,300,029	(2)

(2) Agrees to audited statement of cash flows.

West Virginia Public Employees Insurance Agency
Form 8, Investments Disclosure
June 30, 2015

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value
West Virginia Board of Treasury Investments (BTI):				
WV Money Market Pool	$ 25,520,737	$ 5,676,981	$ 31,197,718	$ 31,197,718
Total equity position in internal investment pool with BTI	$ 25,520,737	$ 5,676,981	$ 31,197,718	$ 31,197,718 [2]
Minnesota Life Insurance:				
Cash and cash equivalents	$ -	$ 24,949,553	$ 24,949,553	$ 24,949,553 [1]
West Virginia Investment Management Board (IMB) Investment Pools:				
Short-term fixed income	36,427	-	36,427	36,427
Total return fixed income	61,281,989	-	61,281,989	61,281,989
Core fixed income	26,285,092	-	26,285,092	26,285,092
TIPS	21,675,977	-	21,675,977	21,675,977
Large cap domestic	26,318,211	-	26,318,211	26,318,211
Non-large cap domestic	6,273,647	-	6,273,647	6,273,647
International nonqualified	10,751,411	-	10,751,411	10,751,411
Hedge fund	44,032,100	-	44,032,100	44,032,100
International equity	21,546,974	-	21,546,974	21,546,974
Total equity position in internal investment pools with IMB	$ 218,201,828	$ -	$ 218,201,828	$ 218,201,828 [1]

[1] Agrees to the audited statement of net position

[2] Agrees to audited statement of net position as follows:

Equity position in internal investment pool – current	$ 31,197,718 [1]
Equity position in internal investment pool – noncurrent and restricted	243,151,381 [1]
Total	$ 274,349,099 [3]

[3] Agrees to Form 8a.

West Virginia Public Employees Insurance Agency
Form 8-A, Deposits and Investments Disclosure
June 30, 2015

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	$ 7,152,758	[1]
Equity position in internal investment pools as reported	$ 274,349,099	[2]

[1] Agrees to audited statement of net position.

[2] Agrees to Form 8.

West Virginia Public Employees Insurance Agency
Form 9, Accounts Receivable
June 30, 2015

Total accounts receivable	$	26,818,680	[1]
Less allowance for doubtful accounts		(1,474,140)	[1]
Net receivable	$	25,344,540	

[1] Agrees to audited statement of net position as follows:

Premium receivable:			
Due from State of West Virginia	$	410,888	[2]
Other		12,080,228	[2]
Add allowance for doubtful accounts		310,610	[2]
Accounts receivable:			
Provider refunds, net		399,049	[2]
Add allowance for doubtful accounts		1,163,530	[2]
Prescription rebates		11,407,317	[2]
Due from RHBT		-	[2]
Other		1,047,058	[2]
Total accounts receivable	$	26,818,680	
Allowance for doubtful accounts:			
Premium receivable – other	$	310,610	[2]
Provider refunds		1,163,530	[2]
	$	1,474,140	

[2] Agrees to the audited statement of net position.

West Virginia Public Employees Insurance Agency
Form 10, Due (To) From Primary Government
June 30, 2015

(In Thousands)

Agency	Total
West Virginia Lottery Commission	$ -
Workforce WV/Payroll-05303	(5)
Workers' Compensation Commission	-
	(5)
WV Public Employees Retirement Board	194
WV Public Employees Retirement Board	(132)
WV Teachers Retirement Board	(317)
Consolidated Retirement Bd/Judges Ret.	(7)
Deputy Sheriffs Retirement	(120)
Public Safety/Con.Pub.Emp.Ret.Bd.	(14)
	(396)
Senate	-
House of Delegates	(1)
Joint Comm on Govt and Finance	5
Supreme Court/Judicial	2
Governors Office	-
Homeland Security – Emergency Management	3
Auditors Office	-
Treasurer of State's Office	(1)
Tax Department	31
Tax Department – Budget Office	-
WV Office of Tax Appeals	-
Attorney General	-
Secretary of State	(2)
Department of Education	(7)
Division of Forestry	(5)
Library Commission	-
Culture and History	-
Department of Corrections	(2)
Anthony Correctional Center	1
Huttonsville Correctional Center	-
Pruntytown Correctional Center	(4)
Northern Correctional Facility	8
Mt Olive Correctional Facility	(1)
Department of Corrections/St. Marys Corr	3
Department of Corrections/Denmar Facility	(1)
Deptment of Corrections/Salem	6
WV Division of Juvenile Services	5
Ohio County Correctional Center	3
Health Department	5
Veterans Affairs	(98)
Jackie Withrow Hospital	2

(In Thousands)

Agency	Total
Welch Emergency Hospital	(2)
William R Sharpe Jr Hospital	3
Mildred Mitchell-Bateman Hospital	2
Lakin State Hospital	2
Lakin Correctional Facility	-
John Manchin Sr. Health Care	1
Hopemont State Hospital	14
Division of Rehabilitation Services	-
Department of Labor	-
Office of Miners Health, Safety and Training	(2)
Division of Environmental Protection	2
WV Division of Energy	-
Agriculture	-
Geological Survey	-
Department of Education and Arts	-
Military Affairs and Public Safety	-
Division of Protective Services	(2)
Environmental Quality Board	-
Public Port Authority	(3)
Public Safety	-
Adjutant General	-
Human Rights Commission	-
Fire Commission	-
Department of Highways	42
Motor Vehicles	(128)
Bureau of Senior Services	(1)
Criminal Justice/Highway Safety	-
Public Transit	(3)
Real Estate Commission	-
Insurance Commission	(1)
WV Board of Accountancy	-
WV Board of Dental Examiners	(1)
WV Board of Pharmacy	-
WV Engineers Registration Board	-
WV Bd of Examiners/Registered Nurses	(1)
Department of Administration	1
WV Barbers and Beauticians Commission	10
Public Service Commission	(18)
WV Economic Development Authority	-
Natural Resources	129
Municipal Bond Commission	-
Board of Examiners In Counseling	-
WV Board of Social Worker Examiners	-
ABC Commission	4

West Virginia Public Employees Insurance Agency

Form 10, Due (To) From Primary Government

June 30, 2015

(In Thousands)

Agency	Total
Board of Respiratory Care	-
Department of Human Services	23
Division of Tourism	2
Martinsburg Correctional Center	1
WV Armory Board	-
Board of Medicine	(2)
Medical Imaging Board	-
WV Secondary Schools Activity Commission	-
Division of Financial Institution	-
PEIA - Retirees State	28
Dept of Commerce, Office of Secretary	-
WV Center for Nursing	(3)
WV DOT Office of Administrative Hearings	-
WV Military Authority	(9)
WV School for the Deaf and Blind	1
WV Real Estate Appraiser/Lic Cert Bd	1
	42
Total primary government	(359)
Total component units	770
	$ 411

West Virginia Public Employees Insurance Agency

Form 11, Component Unit - A/R Balances

June 30, 2015

(In Thousands)

Unit		Amount
Higher Education	$	741
Parkways, EDA, and Tourism		(34)
Regional Jail and Correction Facility Authority		11
Public Defender Corporation		64
WV EDA		-
Educational Broadcasting		(2)
School Building Authority		-
Racing Commission		-
WV Jobs Investment Trust		-
Housing Development Corporation		-
Water Development Authority		(6)
Dept of Transportation-Rail		(4)
SWMB		-
WSWP - TV		-
	$	770

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*

Finance Board and Management
West Virginia Public Employees Insurance Agency

We have audited, 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, the financial statements of the West Virginia Public Employees Insurance Agency (PEIA), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Purpose of This Report

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

Dixon Hughes Goodman LLP

Charleston, West Virginia
October 29, 2015

DHG