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

West Virginia Public Employees Insurance Agency
Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

West Virginia Public Employees Insurance Agency

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Years Ended June 30, 2013 and 2012

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Report of Independent Auditors

The Finance Board and Management
West Virginia Public Employees Insurance Agency

We have audited the accompanying basic financial statements of West Virginia Public Employees Insurance Agency (PEIA), an enterprise fund of the State of West Virginia, as of and for the years ended June 30, 2013 and 2012, 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 above present fairly, in all material respects, the net position of PEIA, an enterprise fund of the State of West Virginia, as of June 30, 2013 and 2012, and the revenues, expenses, and changes in its net position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1 to the financial statements, the financial statements of PEIA are intended to present the net position, the revenues, expenses, and changes in net position, and the cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of the PEIA. They do not purport to, and do not, present fairly the net position of the State of West Virginia as of June 30, 2013 and 2012, and the changes in its net position or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 through 9 and the supplemental schedule of ten-year claims development information (unaudited) on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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.

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. The Financial Accounting and Reporting section (FARS) closing book forms listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 15, 2013 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PEIA's internal control over financial reporting and compliance.

Ernst & Young LLP

October 15, 2013

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year Ended June 30, 2013

This section of the annual financial report of the West Virginia Public Employees Insurance Agency (PEIA) presents a discussion and analysis of the financial performance of PEIA for the year ended June 30, 2013. Please read it in conjunction with the basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Statement of Net 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 2013 – 2012		Change 2012 – 2011	
	2013	**2012**	**2011**	**Amount**	**Percent**	**Amount**	**Percent**
Cash and cash equivalents	**$ 7,374,892**	$ 2,953,649	$ 3,933,752	**$ 4,421,243**	**149.7%**	$ (980,103)	(24.9)%
Equity position in internal investment pool	**81,982,762**	62,722,985	48,979,905	**19,259,777**	**30.7**	13,743,080	28.1
Premium receivable	**12,747,620**	12,294,357	14,565,470	**453,263**	**3.7**	(2,271,113)	(15.6)
Other current assets	**11,046,823**	11,514,949	27,742,455	**(468,126)**	**(4.1)**	(16,227,506)	(58.5)
Total current assets	**113,152,097**	89,485,940	95,221,582	**23,666,157**	**26.4**	(5,735,642)	(6.0)
Equity position in internal investment pools	**194,215,043**	183,309,385	175,170,539	**10,905,658**	**5.9**	8,138,846	4.6
Equity position in internal investment pool – restricted	**20,916,258**	13,469,234	12,018,629	**7,447,024**	**55.3**	1,450,605	12.1
Capital assets, net	**529,804**	2,055,266	3,901,098	**(1,525,462)**	**(74.2)**	(1,845,832)	(47.3)
Total assets	**328,813,202**	288,319,825	286,311,848	**40,493,377**	**14.0**	2,007,977	0.7
Claims payable	**62,615,423**	62,778,111	58,772,975	**(162,688)**	**(0.3)**	4,005,136	6.8
Other current liabilities	**46,933,519**	52,829,745	47,193,076	**(5,896,226)**	**(11.2)**	5,636,669	11.9
Total current liabilities	**109,548,942**	115,607,856	105,966,051	**(6,058,914)**	**(5.2)**	9,641,805	9.1
Noncurrent liabilities:							
Premium stabilization fund	**20,916,258**	13,469,176	12,018,574	**7,447,082**	**55.3**	1,450,602	12.1
Total liabilities	**130,465,200**	129,077,032	117,984,625	**1,388,168**	**1.1**	11,092,407	9.4
Net position – invested in capital assets	**529,804**	2,055,266	3,901,098	**(1,525,462)**	**(74.2)**	(1,845,832)	(47.3)
Net position – unrestricted	**197,818,198**	157,187,527	164,426,125	**40,630,671**	**25.8**	(7,238,598)	(4.4)
Total net position	**$ 198,348,002**	$ 159,242,793	$ 168,327,223	**$ 39,105,209**	**24.6%**	$ (9,084,430)	(5.4)%
Premium revenue	**$ 566,860,386**	$ 554,131,126	$ 554,294,224	**$ 12,729,260**	**2.3%**	$ (163,098)	– %
Less payments to managed care organizations and life reinsurance premiums	**(52,720,180)**	(54,951,722)	(54,298,168)	**2,231,542**	**4.1**	(653,554)	(1.2)
Net premium revenue	**514,140,206**	499,179,404	499,996,056	**14,960,802**	**3.0**	(816,652)	(0.2)
Administrative fees, net	**4,889,300**	4,846,750	4,810,001	**42,550**	**0.9**	36,749	0.8
Total operating revenues	**519,029,506**	504,026,154	504,806,057	**15,003,352**	**3.0**	(779,903)	(0.2)
Claims expense, net	**468,373,297**	502,250,328	503,238,688	**(33,877,031)**	**(6.7)**	(988,360)	(0.2)
Administrative service fees	**13,264,405**	14,260,655	16,360,840	**(996,250)**	**(7.0)**	(2,100,185)	(12.8)
Other expenses	**9,219,439**	8,298,858	8,110,696	**920,581**	**11.1**	188,162	2.3
Total operating expenses	**490,857,141**	524,809,841	527,710,224	**(33,952,700)**	**(6.5)**	(2,900,383)	(0.5)
Operating income (loss)	**28,172,365**	(20,783,687)	(22,904,167)	**48,956,052**	**235.6**	2,120,480	9.3
Transfer in	**--**	3,500,000	3,500,000	**(3,500,000)**	**(100.0)**	–	–
Net investment income	**10,932,844**	8,199,257	14,127,207	**2,733,587**	**33.3**	(5,927,950)	(42.0)
Total nonoperating income	**10,932,844**	11,699,257	17,627,207	**(766,413)**	**(6.6)**	(5,927,950)	(33.6)
Change in net position	**39,105,209**	(9,084,430)	(5,276,960)	**48,189,639**	**530.5**	(3,807,470)	(72.2)
Net assets, beginning of year	**159,242,793**	168,327,223	173,604,183	**(9,084,430)**	**(5.4)**	(5,276,960)	(3.0)
Net assets, end of year	**$ 198,348,002**	$ 159,242,793	$ 168,327,223	**$ 39,105,209**	**24.6%**	$ (9,084,430)	(5.4)%

The current portion of equity position in internal investment pool and cash and cash equivalents increased $23.7 million as the result of $21.4 million provided from operations less $7.4 million increase in the premium stabilization fund and $9.7 million provided from capital and noncapital financing activities.

In the previous year, the current portion of equity position in internal investment pool and cash and cash equivalents increased $12.8 million as the result of $5.1 million used from operations plus $0.06 million provided in investment activities and $19.3 million provided from noncapital financing activities and a $1.5 million increase in the premium stabilization fund.

Premiums receivable at June 30, 2013, was $.5 million more than the prior year due to a decrease in the allowance for doubtful accounts.

As of the previous year-end, premiums receivable was $2.3 million less than the prior year due to increased collection efforts.

Other current assets were down $.5 million as of the end of this year because of a $4.6 million decrease in the amount due from Retiree Health Benefit Trust (RHBT), a $4.3 million increase on a prescription rebate receivable due to a timing difference and other decreases of $0.2 million.

At June 30, 2012, compared to June 30, 2011, other current assets were down $16.2 million as of the end of this year because of a $15.8 million decrease in the amount due from RHBT, a $0.7 million decrease on a prescription rebate receivable due to a change in the drug formulary, and a $0.3 million increase in provider receivables.

Claims payable did not change significantly from June 30, 2012 to June 30, 2013.

At June 30, 2012, compared to June 30, 2011, claims payable decreased $4.0 million due to power outages caused by a derecho storm on June 29, 2012.

At June 30, 2013, compared to June 30, 2012, other current liabilities decreased $6.1 million mainly resulting from a decrease in premium deficiency reserve of $15.2 million due to a smaller anticipated underwriting loss for the 2014 fiscal year, $4.7 million increase in unearned revenue, $0.6 million decrease in accounts payable and contracted liabilities, and $5.2 million increase of amounts due to RHBT.

At June 30, 2012, compared to June 30, 2011, other current liabilities increased $5.6 million mainly resulting from a decrease in premium deficiency reserve of $1.3 million, $8.4 million increase in unearned revenue and $1.5 million decrease in accounts payable and contracted liabilities.

The increase in net position for the 2013 year exceeded the prior year by $48.2 million mainly due to decreased managed care and life insurance expense of $2.2 million, decreased claim expense of $33.9 million, a $1.0 million reduction in administrative service fees, an increase of $0.8 million in other expenses, a $0.8 million decrease of nonoperating income, and a $12.7 million increase in premium revenue.

For the 2012 year, the decline in net position exceeded the prior year by $3.8 million mainly due to increased managed care and life insurance expense of $0.7 million, decreased claim expense of $1.0 million, a $2.1 million reduction in administrative service fees, an increase of $0.2 million in other expenses, and a $5.9 million reduction of investment income.

Comparing 2013 to 2012, fiscal year operating revenues increased $15.0 million mainly due to an increase in employer premiums and a decrease of $2.2 million in managed care and life insurance expenses.

In the prior year, net premiums decreased $0.8 million mainly due to an increase of $0.7 million in managed care and life insurance expenses.

Medical and prescription drug claims were 95.5% of total plan operating expenses for the three-year period. Current year total claim expenses were down $33.9 million mainly due to a reduction of $15.2 million to adjust the premium deficiency reserve, policy benefit reductions of $22.5 million, additional claim costs relating to the West Virginia autism bill of $3.0 million, additional federally mandated coverages through the PPACA legislation of $9.5 million, and the balance of the reduction due to reduced member utilization of covered health care. Additionally, claims experience indicates a 9.0% decrease in medical claims and an 8.0% decrease in drug claims, net of premium deficiency. In fiscal year 2012, claims expense was decreased by $1.3 million to recognize the premium deficiency reserve. Additionally, claims experience indicates a 6.9% increase in medical claims and a 7.1% increase in drug claims, net of premium deficiency.

Current year administrative service fees expense decreased $1.0 million due to a new contract with lower per member charges, which took effect at the beginning of the current year. Other expenses increased $0.9 million due to increased wellness services provided.

During fiscal year 2013, investment income was up $2.7 million from last year due to a larger amount of portfolio appreciation and flat interest and dividend earnings. For the previous year, investment income was down $5.9 million due to a smaller amount of portfolio appreciation and flat interest and dividend earnings.

Also, a $3.5 million transfer that was received in 2012 was not provided in 2013.

Year-end 2013 change in net position amounted to an incline of $39.1 million versus a decline of $9.1 million for the prior year for a positive difference between the two years of $48.2 million. As previously discussed, the improvement resulted from an increase in operating revenue of $15.0 million, a decrease in nonoperating revenue of $0.8 million and a reduction of total operating expenses of $34.0 million. The financial plan for 2013 indicated a decrease in total net assets of $28.0 million. However, it did not include the $15.2 million decrease of claims expense related to the premium deficiency reserve. Total claims costs for the current year were $68.5 million less than plan; however, the plan did not include the $15.2 million premium deficiency adjustment. Investment income was $6.3 million below plan, premium revenues were $5.4 million above plan, direct transfer was $3.5 million below plan, other revenue was $0.3 million below plan, managed care capitations and life insurance expenses were $3.1 million below plan, with administrative service fees and other $0.5 million above plan.

Year-end 2012 change in net position amounted to a decline of $9.1 million versus a decline of $5.3 million for the prior year for a negative difference between the two years of $3.8 million. Managed care and life insurance expenses were up $0.7 million. The effect of the recognition of the 2012 deficiency resulted in a $31.2 million increase in claims expense between the two years. Total claims expense was flat year to year. Investment income was down $5.9 million, and other expenses were up $0.2 million. The financial plan for 2012 indicated a decrease in total net position of $23.4 million. However, it did not include the $1.3 million decrease of claims expense related to the premium deficiency reserve. Total claims costs for the current year were $6.3 million less than plan; however, the plan did not include the $1.3 million premium deficiency adjustment. Investment income was $8.9 million below plan, premium revenues were $11.9 million above plan, managed care capitations and life insurance expenses were $1.7 million below plan, with administrative service fees and other $3.0 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 $878 compared to the national average cost of $1,389. It should be noted that PEIA achieved an increase in plan assets of $23,859,883, excluding the effect of the current year premium deficiency reserve.

It has been reported, based on inescapable relevant science, that many high-ticket medical interventions, which account for the majority of the direct cost of health care, either do not advantage patients at all or do so minimally. New U.S. Department of Health and Human Services rules are expected to be completed in 2013, which aim to improve quality of care. The rules require the exchange of patient data in structured formats, the use of "evidence-based medicine," and the use of standards and best practices for treating patients. It is hoped that the new evidence-based medicine requirement will significantly reduce health care costs and provide better medical outcomes for all.

In 2013, PEIA's claims costs declined 6.7%.

Premium increases totaling $18.5 million were placed into effect in 2013.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

No computer software costs were capitalized in fiscal year 2013 and PEIA has no long-term debt.

REQUEST FOR INFORMATION

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

West Virginia Public Employees Insurance Agency

Statements of Net Position

	June 30 2013	June 30 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,374,892**	$ 2,953,649
Equity position in internal investment pool	**81,982,762**	62,722,985
Premiums receivable:		
Due from State of West Virginia	**1,117,514**	1,811,293
Other, less allowance for doubtful accounts of $850,904 and $1,602,000, respectively	**11,630,106**	10,483,064
Accounts receivable:		
Provider refunds, less allowance for doubtful accounts of $703,654 and $310,000, respectively	**893,294**	1,295,291
Prescription rebates	**9,513,655**	5,192,604
Due from RHBT	**–**	4,547,302
Other	**639,874**	479,752
Total current assets	**113,152,097**	89,485,940
Noncurrent assets:		
Equity position in internal investment pools	**194,215,043**	183,309,385
Equity position in internal investment pool – restricted	**20,916,258**	13,469,234
Capital assets, net of accumulated depreciation of $9,464,611 and $7,932,822, respectively	**529,804**	2,055,266
Total noncurrent assets	**215,661,105**	198,833,885
Total assets	**328,813,202**	288,319,825
Liabilities		
Current liabilities:		
Claims payable	**62,615,423**	62,778,111
Premium deficiency reserve	**15,989,557**	31,234,883
Accounts payable	**568,516**	28,290
Unearned revenue	**20,612,603**	15,950,186
Other accrued liabilities	**4,583,318**	5,616,386
Due to RHBT	**5,179,525**	–
Total current liabilities	**109,548,942**	115,607,856
Noncurrent liabilities:		
Other accrued liabilities: Premium stabilization fund	**20,916,258**	13,469,176
Total liabilities	**130,465,200**	129,077,032
Net position		
Invested in capital assets	**529,804**	2,055,266
Unrestricted	**197,818,198**	157,187,527
Total net position	**$ 198,348,002**	$ 159,242,793

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2013	**2012**
Operating revenues:		
Premiums net of provisions for bad debts of $358,839 and $649,374, respectively	**$ 566,860,386**	$ 554,131,126
Less:		
Payments to managed care organizations	**(39,108,954)**	(38,454,781)
Basic life insurance premiums ceded	**(3,208,550)**	(4,258,175)
Optional life insurance premiums ceded	**(10,402,676)**	(12,238,766)
Net premium revenue	**514,140,206**	499,179,404
Administrative fees, net of refunds	**4,889,300**	4,846,750
Total operating revenues	**519,029,506**	504,026,154
Operating expenses:		
Claims expense, net	**468,373,297**	502,250,328
Administrative service fees	**13,264,405**	14,260,655
Other expenses	**9,219,439**	8,298,858
Total operating expenses	**490,857,141**	524,809,841
Operating (loss) income	**28,172,365**	(20,783,687)
Nonoperating revenues:		
Investment income, net of fees	**10,932,844**	8,199,257
Transfer in	**–**	3,500,000
Total nonoperating income	**10,932,844**	11,699,257
Change in net position	**39,105,209**	(9,084,430)
Total net position beginning of year	**159,242,793**	168,327,223
Total net position end of year	**$ 198,348,002**	$ 159,242,793

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Cash Flows

	Year Ended June 30	
	2013	**2012**
Operating activities		
Cash received from participants	**$ 514,855,905**	$ 507,413,902
Cash received from pharmacy rebates	**6,585,527**	12,647,095
Cash paid to employees	**(1,484,627)**	(1,496,060)
Cash paid to suppliers and others	**(8,209,609)**	(11,507,347)
Cash paid for claims	**(490,366,838)**	(512,144,934)
Net cash provided by (used in) operating activities	**21,380,358**	(5,087,344)
Noncapital financing activities		
Advances from RHBT	**9,726,827**	15,760,246
Transfer in	**–**	3,500,000
Net cash provided by noncapital financing activities	**9,726,827**	19,260,246
Capital and related financing activities		
Purchases of capital assets	**(6,326)**	(19,730)
Net cash used in capital and related financing activities	**(6,326)**	(19,730)
Investing activities		
Purchases of investments	**(50,732,460)**	(13,957,124)
Sale of investments	**47,855,410**	9,741,310
Investment earnings	**2,904,235**	4,276,224
Net cash provided by investing activities	**27,185**	60,410
Net increase in cash and cash equivalents	**31,128,044**	14,213,582
Cash and cash equivalents at beginning of year	**79,145,868**	64,932,286
Cash and cash equivalents at end of year	**$ 110,273,912**	$ 79,145,868
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 7,374,892**	$ 2,953,649
Equity position in internal investment pool – current	**81,982,762**	62,722,985
Equity position in internal investment pool – restricted	**20,916,258**	13,469,234
	$ 110,273,912	$ 79,145,868
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	**$ 28,172,365**	$ (20,783,687)
Adjustments		
Depreciation	**1,531,789**	1,865,652
Provision for uncollectible accounts	**(358,839)**	(649,374)
Decrease (increase) in operating assets:		
Premiums receivable	**(788,203)**	1,493,099
Due from State of West Virginia	**693,779**	1,427,388
Provider refunds receivable	**401,997**	(344,289)
Prescription refunds receivable	**(4,321,051)**	733,939
Other	**(160,124)**	77,615
(Decrease) increase in operating liabilities:		
Claims payable	**(162,688)**	4,005,136
Accounts payable	**540,226**	(626,315)
Premium deficiency	**(15,245,326)**	(1,252,647)
Unearned revenue	**4,662,417**	8,394,728
Other accrued liabilities	**(1,033,066)**	571,411
Other accrued liabilities -Life PSR	**7,447,082**	–
Total adjustments	**(6,792,007)**	15,696,343
Net cash provided by (used in) operating activities	**$ 21,380,358**	$ (5,087,344)
Noncash activities		
Increase in fair value of investments	**$ 8,028,608**	$ 3,923,032

See accompanying notes.

1. Reporting Entity

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

PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active employees of the State of West Virginia (State) and various related State and non-State agencies. Additionally, all participants may elect to purchase additional life insurance under the optional life insurance policy. All premium rates are established based upon projected coverage costs as reviewed and approved by the Finance Board of PEIA. See "Budgetary Requirements" for further discussion of this process. PEIA's enrollment consists of approximately 77,000 health and basic life insurance policyholders, and 14,000 policyholders with life insurance only. PEIA insures approximately 172,000 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 38,000 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 of West Virginia that is attributable to the transactions of PEIA. They do not purport to, and do not, present fairly the net position of the State of West Virginia as of June 30, 2013 and 2012, and the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles (GAAP).

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.

2. Summary of Significant Accounting Policies (continued)

Premiums Receivable

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

Accounts Receivable

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

Equity Position in Internal Investment Pools

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

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.

2. Summary of Significant Accounting Policies (continued)

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

Capital Assets

Capital assets with an initial cost of $1,000 or greater are recorded at cost. PEIA has assigned a useful life of three to five years for capital assets. Depreciation expense computed using the straight-line method was $1,531,789 and $1,865,562 for the years ended June 30, 2013 and 2012, respectively.

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 7). Year-end claims payable balances are generally liquidated within the next fiscal year. Claims relating to participants in managed care organizations (MCOs) as well as claims relating to participants covered under the optional life insurance plan are not considered in the liability, as PEIA has no liability for the participants who elect such coverage. Additionally, the estimated liability for unpaid claims and claims processing costs is recorded net of amounts ceded to reinsurers for basic life benefits, as management believes these reinsured risks are fully recoverable. However, in the event a reinsurer is unable financially to satisfy an obligation, PEIA is responsible for such liability. Claims expense is reported net of pharmacy rebate income of $10,906,578 and $11,913,156 for the years ended June 30, 2013 and 2012, respectively.

2. Summary of Significant Accounting Policies (continued)

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 $15,989,557 and $31,234,883 as of June 30, 2013 and 2012, 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.

2. Summary of Significant Accounting Policies (continued)

As of the June 2013 coverage month, PEIA provided health coverage to 125 state agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 542 local government entities with approximately 12,000 primary participants, and 24 college and university entities with approximately 11,000 primary participants. Approximately 95,000 dependents participated in PEIA health plans as well.

As of the June 2012 coverage month, PEIA provided health coverage to 124 state agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 541 local government entities with approximately 12,000 primary participants, and 24 college and university entities with approximately 11,000 primary participants. Approximately 93,000 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 $20,000 per spouse and $10,000 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 $20,000 for a spouse and $10,000 per child. Amounts collected by PEIA from employees for optional coverage totaled $10,366,107 and $12,154,913 during the fiscal years ended June 30, 2013 and 2012, respectively, and were remitted directly to the carrier.

2. Summary of Significant Accounting Policies (continued)

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.

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.

2. Summary of Significant Accounting Policies (continued)

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. As of June 30, 2013 and 2012, PEIA has restated net position to comply with this code section. In the event the reserve fund exceeds 15% of the actuarial recommended reserve of 20% to 25% of total projected costs, the excess is required to be transferred to RHBT. There were no excess reserves to be transferred for the years ended June 30, 2013 or 2012.

3. Cash and Cash Equivalents

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

	2013	2012
Cash and cash equivalents on deposit with State Treasurer	**$ 6,221,954**	$ 1,503,198
Deposits with outside financial institutions	**1,152,938**	1,450,451
Cash and cash equivalents reported on statement of net assets	**7,374,892**	2,953,649
Equity position in internal investment pool with BTI – current-unrestricted	**81,982,762**	62,722,985
Equity position in internal investment pool with BTI – noncurrent-restricted	**7,100,022**	7,738,716
Equity position in internal investment pool with Minnesota Life – noncurrent-restricted	**13,816,236**	5,730,518
Total cash and cash equivalents	**$ 110,273,912**	$ 79,145,868

4. Deposit and Investment Risk Disclosures

Deposits With Outside Financial Institutions

Custodial Credit Risk

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

As of June 30, 2013 and 2012, the carrying amount of PEIA's bank deposits was $1,152,938 and $1,450,451, respectively, and the respective bank balances totaled $1,722,781 and $1,577,223, respectively. Of the total bank balance, $1,722,781 and $1,576,673, respectively, were uninsured and collateralized with government-sponsored enterprise securities held by financial institutions. These securities are held in the name of the financial institution and not that of PEIA.

4. Deposit and Investment Risk Disclosures (continued)

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

Credit Risk

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

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

	June 30, 2013			
	Credit Rating		Carrying	Percent of
Investment Type	**Moody's**	**S&P**	**Value**	**Pool Assets**
Commercial paper	P-1	A-1+	$ 243,538	9.76%
	P-1	A-1	726,857	29.12
Corporate bonds and notes	Aa3	AA-	10,000	0.40
U.S. agency bonds	Aaa	AA+	66,603	2.67
U.S. Treasury notes*	Aaa	AA+	279,755	11.21
U.S. Treasury bills*	P-1	A-1+	34,993	1.40
Negotiable certificates of deposit	Aa1	AA-	10,000	0.40
	Aa2	A+	9,000	0.36
	Aa3	AA-	15,000	0.60
	P-1	A-1+	50,000	2.00
	P-1	A-1	160,000	6.41
	P-2	A-1	15,000	0.60
U.S. agency discount notes	P-1	A-1+	445,784	17.86
Money market funds	Aaa	AAAm	200,012	8.02
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AA+	188,826	7.57
U.S. agency notes	Aaa	AA+	40,500	1.62
			$ 2,495,868	100.00%

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

4. Deposit and Investment Risk Disclosures (continued)

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	Carrying Value	WAM (Days)
	(In Thousands)	
Repurchase agreements	$ 229,326	3
U.S. Treasury notes	279,755	132
U.S. Treasury bills	34,993	77
Commercial paper	970,395	43
Certificates of deposit	259,000	66
U.S. agency discount notes	445,784	47
Corporate bonds and notes	10,000	60
U.S. agency bonds	66,603	139
Money market funds	200,012	1
	$ 2,495,868	52

PEIA's investment in the BTI West Virginia Money Market Pool of $39,180,000 and $70,462,000 at June 30, 2013 and 2012, respectively, represents approximately 1.6% and 2.5% 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.

4. Deposit and Investment Risk Disclosures (continued)

PEIA's investment in the BTI West Virginia Short Term Bond Pool of $49,879,000 at June 30, 2013, represents approximately 2.0% of total investments in this pool and is reported as part of current equity position in internal investment pools on the statement of net position. PEIA acquired the West Virginia Short Term Bond Pool on April 3, 2013.

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.

4. Deposit and Investment Risk Disclosures (continued)

Asset Class	Policy Target 2013	Policy Target 2012	Strategic Allocation 2013	Strategic Allocation 2012
Domestic equity	**10.0%**	5.0%	**10.0%**	5.0%
International equity	**10.0**	5.0	**10.0**	5.0
Total equity	**20.0%**	10.0%	**20.0%**	10.0%
Fixed income	**80.0%**	90.0%	**50.0%**	60.0%
TIPS	**–**	–	**10.0%**	15.0%
Hedge fund	**–**	–	**20.0%**	10.0%
Cash	**–**	–	**–**	5.0%

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

	Asset Value at June 30 2013	Asset Value at June 30 2012
	(In Thousands)	
Asset allocation (actual)		
TIPS pool	**$ 18,391**	$ 27,918
Large cap domestic equity pool	**14,550**	6,562
Non-large cap domestic equity pool	**5,178**	2,221
International nonqualified pool	**5,595**	2,709
International equity pool	**13,878**	6,207
Short-term fixed income pool	**24**	9,172
Total return fixed income	**63,027**	71,567
Core fixed income	**33,756**	38,704
Hedge fund	**39,816**	18,249
Total	**$ 194,215**	$ 183,309

4. Deposit and Investment Risk Disclosures (continued)

Asset Class Risk Disclosures

U.S. Treasury Inflation Protected Securities (TIPS)

Credit Risk

The IMB limits the exposure to credit risk in the pool by primarily investing in U.S. Treasury inflation-protected securities. The following table provides the weighted-average credit ratings of the rated assets in the pool as of June 30, 2013.

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

Interest Rate Risk

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

Investment Type	Fair Value	Real Modified Duration (Years)
	(In Thousands)	
Short-term issue	$ 601	–
U.S. Treasury inflation-protected securities	653,371	7.8
Total investments	$ 653,972	7.8

4. Deposit and Investment Risk Disclosures (continued)

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 $18,391,000 and $27,918,000 at June 30, 2013, and 2012, respectively, represented approximately 2.8% and 3.8% 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 $14,550,000 and $6,562,000 at June 30, 2013 and 2012, respectively, represents approximately 0.61% and 0.32%, 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 $5,178,000 and $2,221,000 at June 30, 2013 and 2012, respectively, represents approximately 0.61% and 0.32%, 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 $122,091,000 and $87,448,000 at June 30, 2013 and 2012, 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 $5,595,000 and $2,709,000 at June 30, 2013 and 2012, respectively, represents approximately 4.6% and 3.1%, respectively, of total investments in this pool.

4. Deposit and Investment Risk Disclosures (continued)

International Equity Pool

This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risk. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. PEIA's amount invested in the International Equity Pool of $13,878,000 and $6,207,000 at June 30, 2013 and 2012, respectively, represents approximately 0.65% and 0.32%, 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, 2013, were as follows:

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

4. Deposit and Investment Risk Disclosures (continued)

This table excludes cash and securities held by the pool that are denominated in U.S. dollars. The fair value of the U.S. dollar denominated cash and securities is $417,554,000.

Short-Term Fixed Income Pool

Credit Risk

The WVIMB limits the exposure to credit risk in the Short-Term Fixed Income Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated 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, 2013.

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

This table includes securities received as collateral for repurchase agreements with a fair value of $79,531,000 as compared to the amortized cost of the repurchase agreements of $78,206,000.

Custodial Credit Risk

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

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The weighted-average maturity of the investments of the Short-Term Fixed Income Pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted-average maturities (WAM) for the various asset types in the Short-Term Fixed Income Pool as of June 30, 2013.

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

PEIA's amount invested in the Short-Term Fixed Income Pool at June 30, 2013, was $24,061, which represents approximately 0.01% of total investments in this pool. At June 30, 2012, PEIA's amount invested in the Short-Term Fixed Income Pool was $9,172,000, which represents approximately 2.51% of total investments in this pool.

4. Deposit and Investment Risk Disclosures (continued)

Total Return Fixed Income Pool

Credit Risk

The WVIMB limits the exposure to credit risk in the Total Return Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted-average credit ratings of the asset types in the fixed income pool as of June 30, 2013.

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

Unrated investments include investments in other funds valued at $474,821,000, investments made with cash collateral for securities loaned valued at $13,882,000 and option contracts purchased valued at $176,000. These unrated investments represent 20.6% of the fair value of the Pool's investments.

Custodial Credit Risk

At June 30, 2013, 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.

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The WVIMB monitors interest rate risk of the Total Return Fixed Income Pool by evaluating the 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, 2013.

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

The Total Return Fixed Income Pool invests in commercial and residential mortgage-backed, asset-backed securities and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The effective duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. The Total Return Fixed Income Pool held

4. Deposit and Investment Risk Disclosures (continued)

$527,975,000 and $432,847,000 of these securities at June 30, 2013 and 2012, respectively, which represented approximately 22.0% 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 $63,027,000 and $71,567,000 at June 30, 2013 and 2012, respectively, represented approximately 2.7% and 3.22%, 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, 2013.

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

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

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The WVIMB monitors interest rate risk of the Core Fixed Income Pool by evaluating the 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, 2013.

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

The Core Fixed Income Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2013, the Core Fixed Income Pool held $663,550,000 of these securities. This represents approximately 51.0% of the value of the pool's securities.

4. Deposit and Investment Risk Disclosures (continued)

PEIA's amount invested in the Core Fixed Income Pool of $33,756,000 at June 30, 2013, represented approximately 2.6% of total investments in this pool. At June 30, 2012, PEIA had $38,704,000, which represented approximately 3.22% 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, 2013, the Pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5% 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 $39,816,000 and $18,249,000 at June 30, 2013 and 2012, respectively, represented approximately 3.0% and 1.5%, respectively, of total investments in this pool.

5. 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 22 to 23 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 $20,916,258 and $13,469,176 as of June 30, 2013 and 2012, respectively, restricted to meet this obligation.

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

	2013	2012
Premium stabilization fund – beginning of the year	**$ 13,469,176**	$ 12,018,574
Life insurance dividends and interest received	**7,447,082**	1,450,602
Premium stabilization fund – end of year	**$ 20,916,258**	$ 13,469,176

6. Capital Assets

Capital asset activity for the years ended June 30, 2013 and 2012, was as follows:

	June 30 2012	**Additions**	**Disposals**	**June 30 2013**
		(In Thousands)		
Intangible assets	$ 8,730	$ –	$ –	**$ 8,730**
Equipment	1,258	6	–	**1,264**
Total capital assets	9,988	6	–	**9,994**
Intangible assets	(6,787)	(1,419)	–	**(8,206)**
Equipment	(1,146)	(112)	–	**(1,258)**
Total accumulated depreciation	(7,933)	(1,531)	–	**(9,464)**
Total capital assets, net	$ 2,055	$ (1,525)	$ –	**$ 530**

	June 30 2011	**Additions**	**Disposals**	**June 30 2012**
		(In Thousands)		
Intangible assets	$ 8,730	$ –	$ –	$ 8,730
Equipment	1,238	20	–	1,258
Total capital assets	9,968	20	–	9,988
Intangible assets	(5,035)	(1,752)	–	(6,787)
Equipment	(1,032)	(114)	–	(1,146)
Total accumulated depreciation	(6,067)	(1,866)	–	(7,933)
Total capital assets, net	$ 3,901	$ (1,846)	$ –	$ 2,055

7. Unpaid Claims Liabilities

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

	2013	2012	2011
	(In Thousands)		
Claims payable, beginning of year	**$ 62,778**	$ 58,773	$ 64,455
Incurred claims expenses:			
Provision for insured events of the current year	**478,869**	501,073	472,001
Increase (decrease) in provision for insured events of prior years	**4,750**	2,430	(1,250)
Total incurred claims expense	**483,619**	503,503	470,751
Payments:			
Claim payments attributable to insured events of:			
Current year	**436,560**	444,524	420,768
Prior years	**47,222**	54,974	55,665
Total payments	**483,782**	499,498	476,433
Claims payable, end of year	**$ 62,615**	$ 62,778	$ 58,773

The above payments are net of pharmacy rebates earned of $10,906,578, $11,913,156, and $11,141,990 for the years ended June 30, 2013, 2012, and 2011, respectively.

8. Employee Benefit Plans

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

8. Employee Benefit Plans (continued)

Covered employees are required to contribute 4.5% of their salary to PERS. PEIA contributed 14.0%, 14.5%, and 12.5% for the years 2013, 2012, and 2011, respectively. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. PEIA and employee contributions, both the statutorily required and actual contributions made, for the three years ended June 30 are as follows:

	2013	**2012**	**2011**
Employer contributions	**$ 210,052**	$ 218,497	$ 181,631
Employee contributions	**67,517**	67,809	65,387
Total contributions	**$ 277,569**	$ 286,306	$ 247,018

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

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

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.

9. Postemployment Benefits Other Than Pension Benefits (continued)

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, 2013, 2012, and 2011. PEIA's contributions to the RHBT were $70,415, $68,976, and $67,006 for fiscal years 2013, 2012, and 2011, respectively, which represent 88.0%, 20.6%, and 20.9%, respectively, of the contractually required contributions. The cumulative unpaid balances of $913,210, $903,646, and $638,504 for fiscal years 2013, 2012, and 2011, respectively, is recorded in other accrued liabilities in the statements of net assets. The State, on PEIA's behalf, paid $43,000 toward the annual required contribution for fiscal year 2008.

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. Litigation

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

Required Supplementary Information

West Virginia Public Employees Insurance Agency

Ten-Year Claims Development Information (Unaudited)

The table below illustrates how PEIA's earned premiums (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by PEIA as of the end of each of the years presented. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned and ceded premiums, administrative fees, other operating 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 reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual accident years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature accident years. The columns of the table show data for successive accident years.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
					(In Thousands)					
1) Premiums, investment, and other revenues										
Earned	$ 594,707	$ 611,313	$ 678,478	$ 523,611	$ 453,269	$ 474,209	$ 576,693	$ 576,731	$ 570,677	**$ 582,682**
Ceded	81,120	75,690	83,087	80,174	79,906	73,640	74,643	54,298	54,952	**52,720**
Net earned	513,587	535,623	595,391	443,437	373,363	400,569	502,050	522,433	515,725	**529,962**
2) Unallocated expenses	23,347	23,579	26,036	20,231	25,038	24,179	25,344	24,472	22,560	**22,484**
3) Estimated incurred claims and allocated claims adjustment expense, end of accident year:										
Incurred	512,517	562,356	601,181	440,016	457,004	473,929	502,035	526,299	556,025	**531,589**
Ceded	81,120	75,690	83,087	80,174	79,906	73,640	74,643	54,298	54,952	**52,720**
Net incurred	431,397	486,666	518,094	359,842	377,098	400,289	427,392	472,001	501,073	**478,869**
4) Paid (cumulative) claims and allocated claims adjustment expense as of:										
End of accident year	379,101	426,562	460,973	320,480	335,380	354,773	375,571	420,768	444,524	**$ 436,560**
One year later	428,176	487,303	507,194	362,605	373,609	398,798	429,976	475,499	$ 491,427	
Two years later	428,218	487,237	507,479	363,147	373,942	400,059	430,219	$ 475,818		
Three years later	428,218	487,237	507,479	363,147	373,942	400,059	$ 430,219			
Four years later	428,218	487,237	507,479	363,147	373,942	$ 400,059				
Five years later	428,218	487,237	507,479	363,147	373,942					
Six years later	428,218	487,237	507,479	363,147						
Seven years later	428,218	487,237	507,479							
Eight years later	428,218	487,237								
Nine years later	428,218									
5) Reestimated ceded claims and expenses	81,120	75,690	83,087	80,174	79,906	73,640	74,643	54,298	54,952	**52,720**
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of accident year	431,397	486,666	518,094	359,842	377,099	400,289	427,392	472,001	501,073	**478,869**
One year later	428,567	487,656	517,884	358,832	374,948	401,109	426,794	472,471	$ 496,773	
Two years later	428,687	487,536	517,854	359,112	374,778	400,879	426,814	$ 472,101		
Three years later	428,687	487,556	518,154	359,002	374,878	400,669	$ 426,734			
Four years later	428,687	487,556	518,144	359,002	374,878	$ 400,669				
Five years later	428,687	487,556	518,144	359,002	$ 374,878					
Six years later	428,687	487,556	518,144	359,002						
Seven years later	428,687	487,556	518,144							
Eight years later	428,687	487,556								
Nine years later	428,687									
7) (Decrease) increase in estimated net incurred claims and allocated claims adjustment expense from end of accident year	(2,710)	890	50	(840)	(2,220)	380	658	100	(4,300)	**–**

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

Other Financial Information

West Virginia Public Employees Insurance Agency

Form 7, Deposits Disclosure

June 30, 2013

	Carrying Amount	
Cash with Treasurer	$ 6,221,954	
Deposit in transit		
Cash in outside bank accounts	1,152,938	
Total carrying amount of deposits	7,374,892	
Cash equivalents (with BTI and Minnesota Life)	102,899,020	
Total cash	$ 110,273,912	(1)

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

Cash and cash equivalents	$ 7,374,892	(2)
Equity position in internal investment pool – current	81,982,762	(2)
Equity position in internal investment pool – noncurrent and restricted	20,916,258	(2)
Total cash equivalents	$ 110,273,912	(2)

(2) Agrees to audited statement of cash flows.

West Virginia Public Employees Insurance Agency

Form 8, Investments Disclosure

June 30, 2013

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value	
West Virginia Board of Treasury Investments (BTI):					
WV Money Market Pool	$ 89,357,654	$ –	$ 89,357,654	$ 89,357,654	
Total equity position in internal investment pool with BTI	$ 89,357,654	$ –	$ 89,357,654	$ 89,357,654	(2)
Minnesota Life Insurance:					
Cash and cash equivalents	$ –	$ 20,916,258	$ 20,916,258	$ 20,916,258	(1)(2)
West Virginia Investment Management Board (IMB) Investment Pools:					
Short-term fixed income	$ 24,060	$ –	$ 24,060	$ 24,060	
Total return fixed income	63,027,048	–	63,027,048	63,027,048	
Core fixed income	33,755,913	–	33,755,913	33,755,913	
TIPS	18,390,969	–	18,390,969	18,390,969	
Large cap domestic	14,549,953	–	14,549,953	14,549,953	
Non-large cap domestic	5,178,507	–	5,178,507	5,178,507	
International nonqualified	5,594,787	–	5,594,787	5,594,787	
Hedge fund	39,816,138	–	39,816,138	39,816,138	
International equity	13,877,668	–	13,877,668	13,877,668	
Total equity position in internal investment pools with IMB	$ 194,215,043	$ –	$ 194,215,043	$ 194,215,043	(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	$ 81,982,762	(1)
Equity position in internal investment pool – noncurrent and restricted	215,131,301	(1)
Total	$ 297,114,063	(3)

(3) Agrees to Form 8a.

West Virginia Public Employees Insurance Agency

Form 8-A, Deposits and Investments Disclosure

June 30, 2013

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	$ 7,374,892	(1)
Equity position in internal investment pools as reported	$ 297,114,063	(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, 2013

Total accounts receivable	$ 25,349,001	(1)
Less allowance for doubtful accounts	(1,554,558)	(1)
Net receivable	$ 23,794,443	

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

Premium receivable:		
Due from State of West Virginia	$ 1,117,514	(2)
Other	11,630,106	(2)
Add allowance for doubtful accounts	850,904	(2)
Accounts receivable:		
Provider refunds, net	893,294	(2)
Add allowance for doubtful accounts	703,654	(2)
Prescription rebates	9,513,655	(2)
Due from RHBT	–	(2)
Other	639,874	(2)
Total accounts receivable	$ 25,349,001	
Allowance for doubtful accounts:		
Premium receivable – other	$ 850,904	(2)
Provider refunds	703,654	(2)
	$ 1,554,558	

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

West Virginia Public Employees Insurance Agency

Form 10, Due (to) From Primary Government

June 30, 2013

Agency		**Total**
		(In Thousands)
West Virginia Lottery Commission	$	(2)
Workforce WV/Payroll-05303		2
Workers' Compensation Commission		(1)
		(1)
WV Public Employees Retirement Board		174
WV Public Employees Retirement Board		(132)
WV Teachers Retirement Board		(325)
Consolidated Retirement Bd/Judges Ret.		(7)
Deputy Sheriffs Retirement		(120)
Public Safety/Con.Pub.Emp.Ret.Bd.		(14)
		(424)
Senate		4
House of Delegates		(30)
Joint Comm on Govt and Finance		3
Supreme Court/Judicial		(44)
Governor's Office		–
Homeland Security – Emergency Management		–
Auditor's Office		–
Treasurer of State's Office		–
Tax Department		3
Tax Department – Budget Office		(1)
WV Office of Tax Appeals		(1)
Attorney General		11
Secretary of State		–
Department of Education		(16)
Division of Forestry		14
Library Commission		–
Culture and History		(2)
Department of Corrections		1
Anthony Correctional Center		–
Huttonsville Correctional Center		1
Pruntytown Correctional Center		(2)
Northern Correctional Facility		2
Northern Correctional Facility		2

West Virginia Public Employees Insurance Agency

Form 10, Due (to) From Primary Government (continued)

Agency	Total
	(In Thousands)
Mt Olive Correctional Facility	$ 5
Department of Corrections/St. Marys Corr	2
Department of Corrections/Denmar Facility	1
WV Division of Juvenile Services	74
Ohio County Correctional Center	(2)
Health Department	–
Veterans Affairs	(14)
Jackie Withrow Hospital	(4)
Welch Emergency Hospital	(3)
William R Sharpe Jr Hospital	(18)
Mildred Mitchell-Bateman Hospital	(111)
Lakin State Hospital	2
Lakin Correctional Facility	2
John Manchin Sr. Health Care	25
Hopemont State Hospital	13
Division of Rehabilitation Services	3
Department of Labor	–
Office of Miners Health, Safety and Training	2
Division of Environmental Protection	4
WV Division of Energy	–
Agriculture	(1)
Geological Survey	(1)
Department of Education and Arts	(6)
Military Affairs and Public Safety	–
Division of Protective Services	(1)
Environmental Quality Board	(3)
Public Port Authority	(1)
Public Safety	(23)
Adjutant General	–
Human Rights Commission	–
Fire Commission	(1)
Department of Highways	(3)
Motor Vehicles	7
Bureau of Senior Services	(1)
Criminal Justice/Highway Safety	–
Public Transit	(1)
Real Estate Commission	2

West Virginia Public Employees Insurance Agency

Form 10, Due (to) From Primary Government (continued)

Agency	**Total**
	(In Thousands)
Insurance Commission	$ (1)
WV Board of Accountancy	–
WV Board of Dental Examiners	–
WV Board of Pharmacy	–
WV Engineers Registration Board	–
WV Bd of Examiners/Registered Nurses	–
Department of Administration	4
WV Barbers and Beauticians Commission	8
Public Service Commission	(15)
WV Economic Development Authority	(1)
Natural Resources	(5)
Municipal Bond Commission	(2)
Board of Examiners in Counseling	–
WV Board of Social Worker Examiners	–
ABC Commission	–
Board of Respiratory Care	–
Department of Human Services	6
Division of Tourism	(2)
Martinsburg Correctional Center	–
WV Armory Board	–
Board of Medicine	–
Medical Imaging Board	–
WV Secondary Schools Activity Commission	6
Division of Financial Institution	(5)
WV DOT Office of Administrative Hearings	(2)
WV Military Authority	(7)
WV School for the Deaf and Blind	–
WV Real Estate Appraiser/Lic Cert Bd	–
	(125)
Total primary government	(550)
Total component units	1,668 (2)
	$ 1,118 (1)

(1) Agrees to the audited statement of net position.

(2) Agrees to Form 11.

West Virginia Public Employees Insurance Agency

Form 11, Component Unit – A/R Balances

June 30, 2013

Unit	**Amount**
(In Thousands)	
Higher Education	$ 1,633
Parkways, EDA, and Tourism	2
Regional Jail and Correction Facility Authority	1
Public Defender Corporation	42
WV EDA	–
Educational Broadcasting	(2)
School Building Authority	–
Racing Commission	1
WV Jobs Investment Trust	(2)
Housing Development Corporation	–
Water Development Authority	(6)
Dept of Transportation-Rail	(1)
SWMB	–
WSWP - TV	–
	$ 1,668 (1)

(1) Agrees to Form 10.

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

The Finance Board 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, 2013, and the related statements of revenues, expenses and changes in 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 15, 2013.

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.

Ernst & Young LLP

October 15, 2013

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