WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
AN ENTERPRISE FUND OF THE STATE OF WEST VIRGINIA

Financial Statements, Required Supplementary Information
and Other Financial Information

For the Six Months Ended December 31, 2005
and
Independent Auditors' Report

WEST VIRGINIA WORKERS' COMPENSATION COMMISSION
Financial Statements, Required Supplementary Information
and Other Financial Information
December 31, 2005
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Suttle & Stalnaker
CERTIFIED PUBLIC ACCOUNTANTS

Business Advisors and Consultants

INDEPENDENT AUDITORS' REPORT

The Board of Managers
West Virginia Workers' Compensation Commission

We have audited the accompanying balance sheet of the West Virginia Workers' Compensation Commission (WCC) as of December 31, 2005, and the related statements of revenues, expenses and changes in net assets (deficit) and cash flows for the six months then ended. These financial statements are the responsibility of the WCC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the WCC are intended to present the financial position, and the changes in the 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 the WCC. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of December 31, 2005 and the changes in its financial position and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the WCC at December 31, 2005 and the results of its operations and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

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As described in Note 1, as a result of legislation, all assets and liabilities of the West Virginia Workers' Compensation Commission were transferred either to the West Virginia Offices of the Insurance Commissioner or to a private mutual insurance company effective after the close of business on December 31, 2005. Since all assets and liabilities were transferred in total, no adjustments have been reflected in the accompanying financial statements.

The management's discussion and analysis on pages 5 through 8 and the unaudited supplemental claims information on pages 38 through 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Suttle & Stalnaker, PLLC

Charleston, West Virginia
January 26, 2007

MANAGEMENT’S DISCUSSION AND ANALYSIS

WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Workers' Compensation Commission (the WCC) annual financial report presents a discussion and analysis of the financial performance of the WCC for the reporting six months ended December 31, 2005. Please read it in conjunction with the financial statements, which follow this section. The following table summarizes the financial position and results of operations of the WCC as of and for the six month period from July 1, 2005 to December 31, 2005.

	(in thousands) **December 31, 2005**
Assets	
Cash and cash equivalents	$ 1,419,894
Other current assets	48,362
Office equipment and furniture	8,035
Total assets	$ 1,476,291
Liabilities and Deficit	
Current reserve for losses and loss adjustment expenses	$ 374,600
Other current liabilities	39,935
Noncurrent reserve for losses and loss adjustment expenses	3,218,800
Other noncurrent liabilities	1,784
Total liabilities	3,635,119
Invested in capital assets, net of related debt	8,035
Restricted for:	
Coal Workers Pneumoconiosis	64,041
Employers Excess Liability	26,411
Unrestricted Deficit	(2,257,315)
Total net assets (deficit)	(2,158,828)
Total liabilities and net assets (deficit)	$ 1,476,291
Revenues, Expenses and Changes in Deficit	
Premiums	$ 387,553
Other operating revenue	19,450
Total operating revenue	407,003
Claims and claim adjustment expenses	192,365
Other operating expenses	59,092
Total operating expenses	251,457
Total nonoperating revenues	18,717
Transfers out	(1,690)
Change in net assets deficit	172,573
Net assets (deficit), July 1, 2005	(2,331,401)
Net assets (deficit), December 31, 2005	$ (2,158,828)

OVERVIEW OF THE FINANCIAL STATEMENTS

On February 16, 2005, the West Virginia Legislature enacted "Senate Bill 1004" which created a mechanism to transition the state's monopolistic Workers' Compensation Commission into a private employers' mutual insurance company (BrickStreet Mutual Insurance Company) and also laid the foundation for an open, competitive compensation market by July 1, 2008. On December 31, 2005 the Workers' Compensation Commission (WCC) ceased to exist as a state entity. Accordingly, these final financial statements for the WCC have been prepared to show the financial position of the WCC on the last day of operation, and the results of operations and cash flows for the final six month period of the entity's existence.

The WCC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities and insurance enterprises where applicable. The WCC includes Workers' Compensation (WCF), Coal-Workers' Pneumoconiosis (CWPF) and Employers' Excess Liability (EELF). All three combined comprise the WCC, which was an agency of the State of West Virginia. The primary activity of the WCC was to provide workers' compensation insurance for all West Virginia employers, state agencies and other governmental units through WCF as set forth in Chapter 23 of the WV State Code (the Law). The WCC's financial statements are presented on the accrual basis of accounting. The three basic financial statements presented within the financial statements are as follows:

- Balance Sheet - This statement presents information reflecting the WCC's assets, liabilities and fund net assets (deficit). The deficit represents the amount that total liabilities exceed total assets. The balance sheet is categorized as to current and non-current assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement date. The WCC's investment balances are included as part of current assets, as the WCC has monies invested on an overnight basis by the West Virginia Investment Management Board.

- Statement of Revenues, Expenses and Changes in Net Assets (Deficit) - This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses during the fiscal year. The major source of operating revenues is premium income. The major sources of operating expenses are losses and loss adjustment expenses related to claims, and general and administrative expenses. Nonoperating revenues (expenses) consist primarily of investment gains and losses. The change in net assets (deficit) 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 that reflects cash flows from operating, financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the six month period.

FINANCIAL HIGHLIGHTS

The termination of the WCC on December 31, 2005 transferred the WCC's regulatory powers to the West Virginia Offices of the Insurance Commissioner and to the Industrial Council established by "Senate Bill 1004" to assist the West Virginia Offices of the Insurance Commissioner in the regulation of the state's workers' compensation system. "Senate Bill 1004" also transitioned the WCC from a state run worker's compensation insurer into a private employer's mutual who will serve as the sole provider of workers' compensation insurance in the state until the markets open in 2008. As a result of this transfer, certain assets and liabilities transitioned to the newly formed mutual insurance company (BrickStreet Mutual Insurance Company), and the residual assets and liabilities in the former WCC fund became part of the West Virginia Offices of the Insurance Commissioner effective January 1, 2006.

The total deficit of the WCC decreased $173 million during the six month reporting period, primarily due to premium levels that remained steady while payments to claimants decreased. Payments to claimants for the six month period ended December 31, 2005 (fiscal year 2006) decreased by $43 million from the same six month period during fiscal year 2005. The savings resulted from changes in claims management practice such as the implementation of a preferred drug list, the use of Presley-Reed treatment guidelines and the enforcement of physical medicine visit limitations.

The WCC's cash balance available for investment is not sufficient to produce investment earnings equal to the annual unpaid claims liabilities amortization which is necessary to avoid expansion of the deficit in future periods. For the six month period ended December 31, 2005, the $88 million of amortized discount exceeded the investment income of $19 million. For fiscal year 2005, the $192 million of amortized discount exceeded investment income of $74 million. This deficiency in 2005 was fully offset through the additional deficit related premium charges incorporated into the rate making process. In future periods, the deficiency will be addressed through a variety of funding mechanisms discussed in Note 6 to the financial statements.

FINANCIAL STATEMENTS

WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
BALANCE SHEET
DECEMBER 31, 2005
(In Thousands)

Assets	2006
Current assets	
Cash and cash equivalents *(Notes 2 and 3)*	$ 1,419,894
Premiums receivable, net	28,247
Disabled workers' relief fund receivable *(Note 2)*	20,115
Total current assets	1,468,256
Noncurrent assets	
Office equipment and furniture, net of accumulated depreciation of $3,199 *(Note 2)*	8,035
Total assets	$ 1,476,291

Liabilities and Net Assets (Deficit)

Current liabilities	
Estimated liability for unpaid claims and claim adjustment expenses *(Notes 2 and 5)*	$ 374,600
Premium advance deposits *(Note 2)*	33,813
Compensated absences	856
Accrued expenses and other liabilities	5,266
Total current liabilities	414,535
Noncurrent liabilities	
Estimated liability for unpaid claims and claim adjustment expenses (discounted at 5.0%; undiscounted $5,790,000) *(Notes 2 and 5)*	3,218,800
Compensated absences	1,784
Total noncurrent liabilities	3,220,584
Total liabilities	3,635,119

Net Assets (Deficit)

Invested in capital assets, net of related debt	8,035
Restricted for	
Coal Workers Pneumoconiosis	64,041
Employers Excess Liability	26,411
Unrestricted deficit *(Note 6)*	(2,257,315)
Total net assets (deficit)	(2,158,828)
Total liabilities and net assets (deficit)	$ 1,476,291

See accompanying notes to financial statements.

WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS (DEFICIT)
SIX MONTHS ENDED DECEMBER 31, 2005
(In Thousands)

	2006
Operating revenue	
Net premium revenue	$ 387,553
Other operating revenue, net	19,450
Total operating revenue	407,003
Operating expenses	
Claims and claim adjustment expenses *(Note 5)*	192,365
General and administrative	58,629
Depreciation	463
Total operating expenses	251,457
Operating income	155,546
Nonoperating revenue	
Investment earnings	15,681
Net increase (decrease) in the fair value of investments	3,036
Net nonoperating revenue	18,717
Income before transfers	174,263
Transfers out	(1,690)
Change in net assets (deficit)	172,573
Net assets (deficit), July 1, 2005	(2,331,401)
Net assets (deficit), December 31, 2005	$ (2,158,828)

See accompanying notes to financial statements.

WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
STATEMENT OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31, 2005
(In Thousands)

	2006
Cash flows from operating activities	
Receipts from policyholders	$ 417,146
Payments to claimants and providers	(235,359)
Payments to employees	(40,533)
Payments to suppliers	(21,236)
Net cash provided by operating activities	120,018
Cash flows from noncapital financing activities	
Transfers out	(1,690)
Net cash used by noncapital financing activities	(1,690)
Cash flows from capital and related financing activities	
Purchases of capital assets	(3,278)
Net cash used by capital and related financing activities	(3,278)
Cash flows from investing activities	
Investment earnings	15,681
Net increase in the fair value of investments	3,036
Net cash provided by investing activities	18,717
Net increase in cash and cash equivalents	133,767
Cash and cash equivalents - July 1, 2005	1,286,127
Cash and cash equivalents - December 31, 2005	$ 1,419,894
Reconciliation of operating income to net cash used by operating activities	
Operating income	$ 155,546
Adjustments to reconcile operating income to net cash used by operating activities:	
Loss on disposal of assets	13
Depreciation	463
Change in assets and liabilities:	
Premium receivable, net	172,676
Disabled workers' relief fund receivable	(1,515)
Premium advance deposits	(161,018)
Estimated liability for claims and claim adjustment expenses	(42,900)
Compensated absences	(3,154)
Accrued expenses and other liabilities	(93)
Net cash provided by operating activities	$ 120,018

See accompanying notes to financial statements.

1. Financial Reporting Entity

On February 16, 2005, the West Virginia legislature enacted "Senate Bill 1004" which established a framework for the privatization of the state's monopolistic workers' compensation system and created the means to transition the Workers' Compensation Commission into a domestic employers' mutual insurance company. On December 31, 2005 the West Virginia Workers' Compensation Commission (WCC) ceased to exist as a state entity and all regulatory duties for workers' compensation insurance transitioned to the West Virginia Offices of the West Virginia Insurance Commissioner, as did the administrative oversight of certain assets and liabilities of the former WCC. On January 1, 2006, the former WCC became a private sector insurance company named BrickStreet Mutual Insurance Company.

The WCC was an agency of the State of West Virginia (the State) and, accordingly, will be reported as a part of the primary government in the State's Comprehensive Annual Financial Report (CAFR).

West Virginia was one of five states with an exclusive state-managed workers' compensation insurance fund (WCF). The successor to the WCF, BrickStreet Mutual Insurance Company will function as the sole provider of workers' compensation insurance in the State until July 1, 2008, which means that private insurance companies cannot offer coverage to employers. In accordance with Chapter 23 of the Workers' Compensation Law (the Law), generally, every employer who has a payroll must have coverage except for employers in the agriculture industry with five or fewer employees, volunteer organizations, domestic workers, and employers qualifying for territorial coverage.

In addition to the mandatory workers' compensation insurance, eligible employers were able to elect to subscribe to Coal-Workers' Pneumoconiosis (CWPF) and Employers' Excess Liability (EELF). Specific accounts established by the Law included the Catastrophe Reserve, Second Injury Reserve, Other/Supersedes Reserve (known collectively as the Surplus Fund) and the Disabled Workers' Relief Fund (DWRF). These accounts are accounted for as part of WCF.

WCF, organized in 1913, provided for the payment of benefits to all employees sustaining personal injuries in the course and as a result of their covered employment. The Surplus Fund provided coverage for catastrophe hazard, second injury hazard and all losses not otherwise specifically provided for by the Law. DWRF was created for the relief of persons who were awarded benefits prior to 1971 and who are receiving benefits pursuant to a permanent total disability or death benefit award in amounts less than 33 1/3% of the average weekly state wage.

1. Financial Reporting Entity (continued)

CWPF was established in 1973 to comply with the Federal Coal Mine Health and Safety Act of 1969 to provide benefits to coal miners who are totally disabled or to beneficiaries of coal miners who die as a result of coal-workers' pneumoconiosis. In 1983, EELF was established to provide optional insurance coverage for employers who may be subjected to liability for any excess of damages over benefits paid.

The financial statements of the WCC are intended to present the financial position, and the 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 the WCC. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of December 31, 2005, and the changes in its financial position and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

West Virginia Code §23-1-1a established the Workers' Compensation Board of Managers, (the Board of Managers) to oversee the workers' compensation system. Among the responsibilities of the Board of Managers, as related to the WCC, were: recommending legislation and establishing regulations designed to ensure the effective administration and financial viability of the WCC; approval of base premium rates; analyzing opportunities for internal operational improvements, including the establishment and monitoring of performance measurements; making recommendations to the governor and the legislature related to the second-injury fund and the establishment of vocational standards to be used in the decisions on permanent total disability awards; and to consider such other matters related to the WCC as any member of the Board of Managers desires.

In February 1995, the West Virginia State Legislature adopted broad legislation that affected the actuarially determined estimated liability for unpaid claims and which was expected to positively affect the on-going operations of the WCC. The legislation, approved under the title "Senate Bill 250," changed a variety of processes, including: minimum deposits and premium requirements; penalties for late filing; rules for successions; verification by other state agencies of a company's good standing before issuance of permits (such as mining, contractor's license, etc.); a safety program for self-insureds; enhanced criminal penalties for employers who willfully violate premium requirements; premium rate increases; and changes in the methodology of determining eligibility for, and computation of, benefits.

1. Financial Reporting Entity (continued)

In March 1999, the West Virginia Legislature approved "Senate Bill 579" which further reformed the workers' compensation laws. "Senate Bill 579" was considered to be a refinement of "Senate Bill 250" and was intended to positively impact the WCC from an operational standpoint. Among the changes enacted by this legislation were the elimination of the premium penalty tax, modification of the method of calculating penalties for late reporting and other improprieties, determination and disposition of abandoned property, provision for premium tax settlements and relief from accrued interest and penalties, authorization for the write-off of approved uncollectible receivables, the lowering of the threshold for consideration of a permanent disability award, and the restoration of the one hundred four weeks benefit to dependents of deceased permanent total disability award recipients.

During the years ended June 30, 2001 and 2002 certain negative claims payment trends developed. These trends continued into fiscal 2003. As a result, a special legislative session was held in June 2003. During that session, the West Virginia Legislature enacted "Senate Bill 2013" and several companion pieces of legislation. "Senate Bill 2013" made major changes to the workers' compensation laws that became effective in fiscal year 2004.

Major benefit changes in "Senate Bill 2013":

- Removal of additional cost-of-living increases for fatal and permanent total disability benefits
- Discontinuation of any new permanent total disability and fatal benefits after age 70
- Increase in the threshold for new permanent total disability claims filed from 40% to 50%
- Elimination of the rule of liberality in claims adjudication
- Reduction of maximum permanent partial disability benefits from 100% to 70% of the state average weekly wage

Employer rate changes in "Senate Bill 2013":

- A one-time increase in employer premium base rates beginning July 1, 2003 (The employer base rate increase for any class is capped at a maximum of 15% and once set were to remain unchanged for a three-year period.)
- Elimination of second injury coverage for employers
- Implementation of the employer violator rules that give the WCC the power to:
    - Revoke business licenses of defaulted companies
    - Collect premiums from related companies that share common ownership with defaulted companies

1. Financial Reporting Entity (continued)

Organizational changes in "Senate Bill "2013":

The Workers' Compensation Division of the Bureau of Employment Programs was reconstituted as the West Virginia Workers' Compensation Commission as of October 1, 2003. The Workers' Compensation Commission was a separate agency of the State of West Virginia and was no longer a division of the Bureau of Employment Programs. In addition, the Performance Council was replaced with the Board of Managers. The Board of Managers was comprised of 11 voting members and 4 nonvoting legislative advisory members. The eleven voting board members consist of:

- The Governor or his or her designee
- The chief executive officer of the West Virginia Investment Management Board
- The executive director of the West Virginia Development Office
- Eight members serving staggered four-year terms appointed by the Governor with advice and consent of the Senate.

In order to address the substantial deficit that existed in the workers' compensation fund and in order to resolve the financial crisis caused by the deficit in the best interest of the public, the Governor convened a special session of the West Virginia Legislature in February, 2005.

During the special session, the West Virginia Legislature enacted "Senate Bill 1004", effective February 16, 2005, that established a framework for the privatization of workers' compensation insurance in West Virginia and establishes a timeline for the transition to an open competitive market by July 1, 2008. The legislation defines the requirements for the formation of a domestic employers' mutual insurance company (the Company) by January 1, 2006 and provides for the regulation and phasing in of a competitive workers' compensation insurance market beginning July 1, 2008.

"Senate Bill 1004" established a workers' compensation debt reduction fund in the state treasury for the deposit of monies received after June 30, 2005, including an annual transfer from the state excess lottery revenue, certain funds to be received from the tobacco master settlement agreement, dedicated personal income tax proceeds, employer premium surcharges and for new and additional severance taxes imposed beginning December 1, 2005. The net proceeds from collection of these monies are to be dedicated to paying down the unfunded liability in the workers' compensation fund, or paying debt service on bonds sold to raise funds to pay down the unfunded liability in the workers' compensation fund.

With the passage of "Senate Bill 1004", a "workers' compensation old fund", "workers' compensation new fund", " mutualization transition fund", "workers' compensation uninsured employers' fund", "self-insured guaranty risk pool", "self-insured security risk pool", "private carrier guaranty fund" and an "assigned risk fund" were established in the state treasury. The executive director of the workers' compensation commission had full authority to administer the old fund, the new fund, the mutualization transition fund, the uninsured employers' fund, the self-insured guaranty risk pool, the self-insured security risk pool and the private carrier guaranty fund until termination of the WCC.

1. Financial Reporting Entity (continued)

The "workers' compensation old fund" (old fund) consists of those funds transferred to it from the workers' compensation fund and those funds due and owing the workers' compensation fund as of June 30, 2005. The old fund remains the property of the state and does not novate or otherwise transfer to the Company. Disbursements from the old fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, for any claim with a date of injury on or before June 30, 2005.

The "workers' compensation new fund" (new fund) is a fund owned and operated by the WCC and, upon termination of the WCC, the successor organization of the WCC, BrickStreet Mutual Insurance Company will consist of the funds transferred to it from the workers' compensation fund and any other applicable funds. The new fund liabilities will be all claims payment obligations (indemnity and medical expenses) for all claims, actual and incurred but not reported, for any claim with a date of injury on or after July 1, 2005. However, any payments made on these claims before January 1, 2006 will be incurred by the workers' compensation fund and new fund liabilities will begin with claims payments becoming due and owing on said claims on or after January 1, 2006.

On March 1, 2005, thirty-five million dollars was transferred from the workers' compensation fund into the mutualization transition fund as mandated by "Senate Bill 1004". Disbursements were made from the mutualization transition fund upon requisitions signed by the executive director, and, upon termination of the WCC, by the Insurance Commissioner, and shall be reasonably related to the legal, operational, consultative and human resource related expenses associated with the establishment of the Company and the transferring of personnel from the WCC to the Company. For financial statement presentation purposes the expenditures incurred and the remaining cash balance of the mutualization transition fund are included as part of the workers' compensation fund.

The Company will enter into an agreement with the West Virginia Department of Personnel for the provision of services and training to any former WCC employee of the Company who is laid off during the first year of the Company's operation and requires additional training to obtain other gainful employment. The fees required for those services and training will be in an amount established by the West Virginia Department of Personnel, must not exceed $2 million in the aggregate, and will be paid out of the mutualization transition fund. All other unencumbered funds remaining in the mutualization transition fund as of termination of the WCC will be transferred unto the private carrier guaranty fund or, if the governor's proclamation has not been issued, back to the workers' compensation fund.

1. Financial Reporting Entity (continued)

The "uninsured employer fund" (uninsured fund) is the fund held by the West Virginia State Treasurer's Office consisting of those funds transferred to it from the workers' compensation fund and any other source. The Insurance Commissioner will assess each private carrier and all self-insured employers an amount to be deposited in the fund. To establish the amount of the assessment, the Insurance Commissioner will determine the amount of money necessary to maintain an appropriate balance in the uninsured fund for each fiscal year and will allocate a portion of that amount to be payable by private carriers, a portion to be payable by self-insured employers, and a portion to be paid by any other appropriate group.

An injured worker may receive compensation from the uninsured fund if: he or she meets all jurisdictional and entitlement provisions of Chapter 23 of the code; he or she files a claim with the Insurance Commissioner; and he or she makes an irrevocable assignment to the Insurance Commissioner a right to be subrogated to the rights of the injured employee. Upon receiving a claim the Insurance Commissioner will immediately notify the employer of the claim. The employer has the burden of proving that it provided mandatory industrial insurance coverage for the employee or that it was not required to maintain industrial insurance for the employee.

The Insurance Commissioner has the right to recover all payments made on behalf of an employer that is found to be liable, including interest on any amounts paid. In addition, the Insurance Commissioner may impose an administrative fine of not more than ten thousand dollars against an employer if the employer fails to provide mandatory coverage. Disbursements from the uninsured fund will be made based upon requisitions signed by the Insurance Commissioner beginning on or after January 1, 2006.

The "self-insured guaranty risk pool" is the fund held by the West Virginia State Treasurer's Office consisting of those funds transferred to it from the guaranty pool created pursuant to 85 CSR § 19 (2004) and any future funds collected through continued administration of that exempt legislative rule as administered by the Insurance Commissioner. Disbursements will be made from the self-insured guaranty risk pool upon requisitions signed by the Insurance Commissioner. Beginning on January 1, 2006, the Company will administer the self-insured guaranty risk pool for the same term and administrative fee as provided in the administration of the old fund.

The "self-insured security risk pool" is the fund held by the West Virginia State Treasurer's Office consisting of those funds paid into it through the Insurance Commissioner's administration of 85 CSR §19 (2004). Disbursement from said fund shall be made from the self-insured security risk pool upon requisitions signed by the Insurance Commissioner. The obligations of the fund shall be as provided in 85 CSR §19 and will cover the claims liabilities of bankrupt or defaulted self-insured employers with dates of injury prior to July 1, 2004; provided that the liabilities of the self-insured security risk pool will be limited to those self-insured employers who default on their claims obligations after the termination of the WCC.

1. Financial Reporting Entity (continued)

The "private carrier guaranty fund" is the fund held by the West Virginia State Treasurer's Office consisting of the deposit of all unencumbered funds remaining in the mutualization transition fund upon the termination of the WCC. The fund will provide benefits to an employee whose employers' private insurance carrier is found to be insolvent by a court of competent jurisdiction in the insurer's state of domicile or has otherwise defaulted on its payment obligations and is subject to an administrative action by the Insurance Commissioner.

The "assigned risk fund" is the fund held by the West Virginia State Treasurer's Office that will consist of assessments charged to each private carrier and all self-insured employers and collected by each private carrier and remitted to the Insurance Commissioner. The liabilities of the assigned risk fund will be limited to the claims of those employers who have been assigned as adverse risk, beginning on or after July 1, 2008. To qualify for adverse risk assignment, an employer must have been categorically declined coverage by at least two insurers that are not affiliated with each other. The employer will have the burden of establishing that at least two insurers are unwilling to provide coverage at any premium level that is reasonably related to the risk presented by the employer.

The coverage provided by the assigned risk fund will be pursuant to a pooling arrangement managed by the Insurance Commissioner. The Insurance Commissioner may contract with any third party, including any private carrier, to administer this pooling arrangement. Costs necessary to operate this pooling arrangement will be funded by premiums paid by covered employers, surcharges, if any, to covered employers and assessments to private carriers providing industrial insurance in this state. Beginning on or after July 1, 2008, disbursements will be made from the assigned risk fund upon requisitions signed by the Insurance Commissioner.

As part of the regulatory transition process, the transfer of the Workers' Compensation Commission's fraud investigation and prosecution unit to the West Virginia Offices of the Insurance Commissioner was completed on July 1, 2005.

Effective upon termination of the WCC, the office of judges and the board of review transferred to the West Virginia Offices of the Insurance Commissioner, which has the oversight and administrative authority previously held by the executive director and the board of managers of the WCC. Upon termination of the WCC, other regulatory personnel and functions also necessary for the regulation of the workers' compensation insurance industry also transferred to the West Virginia Offices of the Insurance Commissioner.

1. Financial Reporting Entity (continued)

For the calendar quarter beginning October 1, 2005 and the first and second calendar quarters of 2006, all self-insured employers will remit to the Insurance Commissioner on a quarterly basis the administrative component of their fiscal year 2006 rate. For the fiscal year beginning July 1, 2006, self-insured employers will remit an administrative charge to the Insurance Commissioner in an amount determined by the Commissioner. All self-insured employer advance deposits will transfer from the WCC to the West Virginia Offices of the Insurance Commissioner upon termination of the WCC.

All employers, beginning January 1, 2006 and then continuing through June 30, 2008, are required to purchase their workers' compensation insurance exclusively from the newly established private mutual company, which has been named BrickStreet Mutual Insurance (BrickStreet), unless they are permitted to self-insure their obligations. BrickStreet will assume responsibility for all new fund obligations of the subscriber policies that novate to BrickStreet or which are issued thereafter. For the fiscal years beginning July 1, 2006 and 2007, BrickStreet will charge the actuarially determined base rates for each fiscal year. The base rates will be calculated by the National Council on Compensation Insurance (NCCI) and submitted for approval by the Insurance Commissioner.

Beginning July 1, 2008, the worker's compensation insurance market will be opened to all private carriers who have been approved by the Insurance Commissioner to do business in West Virginia.

Pursuant to §23-2c-16 of the West Virginia State Code, BrickStreet shall serve as the initial third-party administrator of the Old Fund, the Uninsured Employer Fund, the Self-insured Employer Guaranty Risk Pool, the Self-Insured Security Risk Pool and the Private Carrier Guaranty Fund from the termination of the WCC and thereafter for a term of at least six months but not more than three years pursuant to an agreement to be entered into between the Insurance Commissioner and the company prior to the termination of the WCC. An affiliated company of BrickStreet Mutual Insurance Company, BrickStreet Administrative Services, has served as the administrator of the state's workers' compensation related fund, beginning January 1, 2006. BrickStreet is to be paid a reasonable fee for services provided.

2. Significant Accounting Policies

Basis of Presentation

The WCC operates as an insurance enterprise fund subject to Governmental Accounting Standards Board Statement 10 (GASB 10), "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," Governmental Accounting Standards Board Statement 30 (GASB 30), "Risk Financing Omnibus - An Amendment of GASB Statement No. 10," and Financial Accounting Standards Board Statement 60 (FASB 60), "Accounting and Reporting for Insurance Enterprises." An enterprise fund is used to account for the operations of state agencies providing goods or services to the general public on a user-charge basis, or for any activity whose principal revenue sources meet any of the following criteria: debt backed solely by fees and charges; legal requirement to recover cost; or policy decision to recover cost.

In September 1993, GASB issued Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." As permitted by the Statement, the WCC has elected not to adopt FASB pronouncements issued after November 30, 1989, unless the GASB specifically adopts such FASB pronouncements.

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

Basis of Accounting

As an enterprise fund, the WCC uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

Budgetary Data

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

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash is pooled with funds of other state agencies and invested on an overnight basis by the West Virginia Investment Management Board (IMB) for the benefit of the WCC. For purposes of the statement of cash flows, the WCC considers its share of the pooled deposits to be cash equivalents in accordance with GASB 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

In accordance with GASB 40, "Deposits and Investment Risk Disclosures - an amendment of GASB 3", the following risk disclosure information is provided for WCC funds being held by the IMB in the following investment pools:

Large Cap Domestic

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. These types of securities are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. At December 31, 2005, this pool did not hold securities of any one issuer in excess of five percent of the value of the pool in accordance with West Virginia statutes.

Non-Large Cap Domestic

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. These types of securities are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. At December 31, 2005, this pool did not hold securities of any one issuer in excess of five percent of the value of the pool in accordance with West Virginia statutes.

International Qualified

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at December 31, 2005, was $383,147. This investment although denominated in U.S. dollars, is exposed to foreign currency risk. This pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

(In Thousands, Unless Otherwise Noted)

2. Significant Accounting Policies (continued)

International Nonqualified

This pool holds an institutional mutual find that invests in equities denominated in foreign currencies. The value of this investment at December 31, 2005, was $46,829. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk. This pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk.

International Equity

This pool is not exposed to credit risk, interest rate risk, or custodial credit risk. At December 31, 2005, this pool did not hold securities of any one issuer in excess of five percent of the value of the pool in accordance with West Virginia statutes. This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. The amounts (in U.S. dollars) of the securities and cash denominated in foreign currencies as of December 31, 2005 as follows:

Currency	Equity Securities	Cash	Total
Australian Dollar	$ 24,515	$ 237	$ 24,752
Brazil Cruzeiros Real	17,927	-	17,927
British Pound	107,334	416	107,750
Canadian Dollar	46,986	133	47,119
Danish Krone	6,158	194	6,352
Euro	166,241	67	166,308
Hong Kong Dollar	62,610	723	63,333
Indian Rupee	8,213	-	8,213
Indonesian Rupiah	3,029	-	3,029
Israeli Shekel	14,501	-	14,501
Japanese Yen	190,034	1,084	191,118
Malaysian Ringgit	5,919	25	5,944
Mexican New Peso	5,624	-	5,624
New Taiwan Dollar	31,567	124	31,691
New Zealand Dollar	5,147	423	5,570
Norwegian Krone	5,966	443	6,409
Philippine Peso	12,903	37	12,940
Singapore Dollar	27,323	210	27,533
South African Rand	10,381	23	10,404
South Korean Won	44,434	-	44,434
Swedish Krona	17,835	5	17,840
Swiss Franc	36,690	612	37,302
Thailand Baht	6,359	-	6,359
Total	$ 857,696	$ 4,756	$ 862,452

(In Thousands, Unless Otherwise Noted)

2. Significant Accounting Policies (continued)

Short-Term Fixed Income

Credit Risk - The IMB limits the exposure to credit risk in the Short-Term Fixed Income pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15 percent 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 December 31, 2005.

Security Type	Moody's	S&P	Carrying Value	Percent
Agency notes	Aaa	AAA	$ 317,549	48.7%
Commercial paper	P1	A-1	129,811	19.9%
U.S. Treasury bills	Aaa	AAA	109,921	16.9%
Agency discount notes	P1	A-1	84,935	13.0%
Certificates of deposit	P1	A-1	10,000	1.5%
Money market funds	Aaa	AAA	153	0.0%
Total rated investments			$ 652,369	100.0%

This table includes securities received as collateral for repurchase agreements valued at $306,574.

Concentration of Credit Risk - West Virginia statutes prohibit the Short-Term Fixed Income pool from investing more than five percent of its assets in securities issued by a single private corporation or association. At December 31, 2005, the pool did not have investments in any one private corporation or association that represented more than five percent of assets.

Custodial Credit Risk - At December 31, 2005, the Short-Term Fixed Income pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102 percent and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

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 pool as of December 31, 2005.

(In Thousands, Unless Otherwise Noted)

2. Significant Accounting Policies (continued)

Security Type		Carrying Value	WAM (days)
Repurchase agreements	$	304,000	3
Commercial paper		129,811	16
US Treasury bills		109,921	11
Agency discount notes		84,935	9
Agency notes		10,974	85
Certificates of deposit		10,000	41
Money market fund		153	1
Total assets	$	649,794	10

Foreign Currency Risk - At December 31, 2005, the Short-Term Fixed Income pool has no securities that are subject to foreign currency risk.

Fixed Income

Credit Risk - The IMB limits the exposure to credit risk in the Fixed Income pool by requiring all corporate bonds to be rated B or higher at the time of purchase. Convertible bonds must be rated Baa or higher by Standard & Poor's or BBB or higher by Moody's. The following table provides the weighted average credit ratings of the asset types in the Fixed Income pool as of December 31, 2005.

Security Type	Moody's	S&P		Fair Value	Percent of Assets
Corporate bonds and notes	Baa	BBB	$	339,622	18.1%
U. S. Treasury bonds and notes	Aaa	AAA		276,661	14.7%
Corporate asset backed securities	Aaa	AAA		49,827	2.7%
Agency bonds	Aaa	AAA		32,013	1.7%
U. S. Treasury bill	Aaa	AAA		11,933	0.6%
Agency discount notes	P1	A-1		495	0.0%
Money market funds	Aaa	AAA		336	0.0%
Total rated investments			$	710,887	37.8%

Unrated securities include commingles investment pools value at $1,168,212. This table includes securities received as collateral for repurchase agreements valued at $4,999.

Concentration of Credit Risk - West Virginia statues prohibit the Fixed Income pool from investing more than five percent of its assets in securities issued by a single private corporation or association. At December 31, 2005, the Fixed Income pool did not have investments in any one private or association that represented more than five percent of assets.

(In Thousands, Unless Otherwise Noted)

2. Significant Accounting Policies (continued)

Custodial Credit Risk - At December 31, 2005, the Fixed Income pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102 percent and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest Rate Risk - The IMB monitors interest rate risk of the Fixed Income pool by assessing the modified duration of the investments in the pool. The following table provides the weighted average modified duration for the various asset types in the Fixed Income pool as of December 31, 2005.

Security Type	Fair Value	Modified Duration (years)
Commingled investment pools	$ 1,168,212	4.4
Corporate bonds and notes	339,622	6.7
U. S. Treasury bonds and notes	276,661	8.0
Corporate asset backed securities	49,827	6.7
Agency bonds	27,013	8.4
U. S. Treasury bill	11,933	0.2
Repurchase agreements	4,900	0.0
Agency discount notes	495	0.4
Money market fund	336	0.0
Total assets	$ 1,878,999	5.4

The Fixed Income pool invests in commercial and residential mortgage-backed and asset-backed securities. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At December 31, 2005, the Fixed Income pool held $49,827 of these securities. This represents approximately 2.7 percent of the value of the fixed income pools.

Foreign Currency Risk - The Fixed Income pool has no securities that are exposed to foreign currency risk.

2. Significant Accounting Policies (continued)

Fixed Income Qualified

This pool holds positions in institutional mutual funds with a combined value of $865,133 at December 31, 2005, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted average modified duration of the underlying securities is 5.0 years. This pool is not exposed to custodial credit risk, concentration of credit risk, or foreign currency risk.

Fixed Income Nonqualified

This pool holds positions in institutional mutual funds with a combined value of $397,177 at December 31, 2005, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted average modified duration of the underlying securities is 5.2 years. This pool is not exposed to custodial credit risk, concentration of credit risk, or foreign currency risk.

Premiums Receivable and Rate Setting

Fund underwriting and rate-setting policies were established by the Board of Managers. Premium rates are determined by risk classification and claims experience. The amount of premium to be paid by employers is determined by multiplying the rate (including any experience modification) by wages paid during the period. The WCC retains all risk associated with the coverage of the plan.

Premiums receivable at the balance sheet date represent management's best estimate of the net realizable value of premiums and premium related revenue due from employers.

Employers electing to be self-insured participate in DWRF. The WCC's consulting actuary has estimated that the self-insurer's portion of the estimated liability for unpaid DWRF claims is $20,115, discounted at 5.0% as of December 31, 2005. It is anticipated that such amounts will be collected from self-insurers as claims are paid, and accordingly the amounts are recognized as DWRF receivable. Because the estimated liability is contingent on future events, the WCC has not evaluated collectibility of the associated receivable.

2. Significant Accounting Policies (continued)

Allowance for Doubtful Accounts

As a result of implementing improvements for the fiscal year ended June 30, 2003 that allow for better identification in the recognition of all outstanding policy receivables as of the balance sheet date, an allowance for doubtful accounts was established beginning with the fiscal year ending June 30, 2003. The adequacy of the allowance is determined by management based on several factors, including historical payment experience, review of past due accounts, and business and economic conditions. The allowance for doubtful accounts at December 31, 2005 was $111,377.

Office Equipment and Furniture

Office equipment and furniture are stated at cost. Depreciation for office equipment and furniture are computed using the straight-line method over the estimated economic useful lives ranging from 10 to 20 years.

Premium Advance Deposits

Employers were required to maintain a deposit in an amount equal to the most recent quarter's premium. The deposit serves as an advance on future premiums. Upon termination of the Workers' Compensation Commission, the premium advance deposits were applied to the premiums payable for the final quarter of the WCC. Employers were required to settle the difference between the calculated premium and the amount on deposit by either paying the amount due or applying for a refund of the excess deposit.

Estimated Liability for Unpaid Claims and Claim Adjustment Expenses

The liability for unpaid claims and claim adjustment expenses represents management's estimate, developed in conjunction with the assistance of the WCC's consulting actuary, of the WCC's ultimate net cost of all unpaid claims and claim adjustment expenses incurred as of the balance sheet date. Changes in estimates of such costs are recognized in results of operations in the period in which the changes in estimates are made.

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

2. Significant Accounting Policies (continued)

Compensated Absences, Including Postemployment Benefits

Employees fully vest in all earned but unused vacation and the WCC accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. Under the provision of §5-16-13 of the West Virginia Code, WCC employees, upon retirement, may apply their accumulated annual and/or sick leave toward extending their health care insurance coverage. Under the provisions of the same statute, employees may alternatively choose to apply their accumulated annual and/or sick leave toward additional credited service in the computation of their retirement benefits. In accordance with GASB 16, "Accounting for Compensated Absences," the WCC recognizes an obligation for unused sick leave as it is earned if it is probable that the employees will be compensated upon termination or retirement.

Other Operating Revenue

Other operating revenue is comprised of monies received on self-insured buy-ins and buy-outs, bankruptcy recoveries, post audit payments, interest on premiums collected from reinstated accounts, reinstatement and late filing fees, penalties, and any other miscellaneous operating fees and revenue.

Transfers

During the six month period ended December 31, 2005, the WCC transferred $1.69 million dollars to the West Virginia Offices of the Insurance Commissioner for the administrative expenses associated with the transfer of the Office of the Inspector General from the WCC to the West Virginia Offices of the Insurance Commissioner.

Net Assets

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

<u>Invested in capital assets, net of related debt</u> - This component of net assets consists of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Significant Accounting Policies (continued)

Restricted net assets - Restricted net assets should be reported when constraints placed on the net assets use are either externally imposed (for instance, by creditors, laws or grantors) or imposed by law through constitutional provisions or enabling legislation. Such constraints limit the WCC's ability to use the resources to pay current liabilities. In accordance with the respective enabling legislation, net assets accumulated for CWPF and EELF are restricted for payment of related CWPF and EELF expenses.

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

3. Cash and Cash Equivalents

The WCC is required by the Code to invest any funds in excess of current disbursement needs with the IMB. Investments are reported by the IMB at fair value and are accounted for by the WCC accordingly. Such funds are available to the WCC with overnight notice, and are considered cash equivalents. Earnings for the IMB investment pools are determined monthly and distributed to pool participants at the beginning of the next month based on their pro rata participation in the pools. Stockholdings are limited to 60% of the portfolio.

4. Leases

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

(In Thousands, Unless Otherwise Noted)

4. Leases (continued)

All State agencies are required to have language in their lease agreements that allows termination by either party with 30 days notice. The WCC has entered into several such agreements. The WCC has provided the same disclosures for these "operating" leases as would be required if they were noncancelable. These leases are accounted for as operating leases with the lease payments recorded as rent expense as they become payable. Contingent rentals on operating leases are determined based on usage of the equipment. In addition, certain operating leases for office space include rent escalation provisions based on increases in the lessor's real property taxes over taxes paid in a base year and annual renewal options.

Future minimum scheduled rentals under operating leases at December 31, 2005, were as follows:

2006	$	3,186
2007		3,107
2008		2,899
2009		2,777
2010		2,771
Thereafter		2,771
Total minimum lease payments	$	17,511

Rental expense was $1,527 for the six month period ended December 31, 2005.

5. Estimated Liability for Unpaid Claims and Claim Adjustment Expenses

GASB standards state "the practice of presenting claims liabilities at the discounted present value of estimated future cash payments (discounting) is neither mandated nor prohibited." GASB standards provide that, if discounting is used, the pool should use a rate that is determined by giving consideration to such factors as the pool's expected settlement rate for those liabilities and its expected investment yield rate. Based on the expected investment yields on the WCC's investment portfolio, the estimated liability for unpaid claims and claim adjustment expenses (claims liability) has been discounted using a rate of 5.0% at December 31, 2005.

(In Thousands, Unless Otherwise Noted)

5. Estimated Liability for Unpaid Claims and Claim Adjustment Expenses (continued)

At December 31, 2005, the total undiscounted claims liability for the WCC approximated $ 5.79 billion. Invested assets of WCF are not sufficient at current investment rates to retire the claims liability and WCF has a significant deficit. If discounting of the WCF claims liability were limited to anticipated investment income, the WCC's claims liability would have increased by approximately $1.88 billion to a claims liability of approximately $5.47 billion, and the WCC's total deficit would increase to approximately $4.07 billion at December 31, 2005.

The following schedule represents the reconciliation of the unpaid claims liability for the WCC discounted at 5.0% at December 31, 2005 , including an analysis of changes in aggregate liabilities for claims and claim adjustment expenses for the period. Losses include claim adjustment expenses.

	Six months ended December 31, 2005
Unpaid claims and claim adjustment expenses at July 1, 2005	$ 3,636,300
Claims and claim adjustment expenses:	
Provision for insured events of the current fiscal year	137,941
Changes in provision for insured events of prior fiscal years	(33,822)
Amortization of discount	88,246
Total claims and claim adjustment expenses	192,365
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(18,471)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(218,309)
Total payments	(236,780)
Change in provision for DWRF receivable	1,515
Total unpaid claims and claim adjustment expenses at December 31, 2005	$ 3,593,400

These amounts reflect payments that have been processed through our claims system each year. Cash payments shown in the Statement of Cash Flows may differ from these totals depending on the release dates of the payments.

6. Deficit Funding Plan

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

In order to reduce the substantial deficit that continues to exist in the workers' compensation fund and to identify sources of revenue to address the immediate and long-term solvency of the fund and to resolve the financial crisis caused by the deficit, the legislature passed "Senate Bill 1004" on February 16, 2005.

With the passage of "Senate Bill 1004" a framework for the privatization of workers' compensation insurance in West Virginia was established. The legislation defines the requirements for the formation of a domestic employers' mutual insurance company (BrickStreet Mutual Insurance Company) by January 1, 2006 and provides for the regulation and phasing in of a competitive workers' compensation insurance market beginning July 1, 2008.

As a result of "Senate Bill 1004", the WCC terminated effective December 31, 2005 and upon the termination of the WCC, the WCC's powers transferred to the Offices of the Insurance Commissioner and the Industrial Council established by "Senate Bill 1004" to assist the Insurance Commissioner in the regulation of state workers' compensation system.

With the passage of "Senate Bill 1004" a "workers' compensation old fund" (old fund) was established. It consists of those funds transferred to it from the workers' compensation fund after December 31, 2005 as determined by the governor's proclamation and those funds due and owing the workers' compensation fund as of June 30, 2005. The old fund remains the property of the state and does not novate or otherwise transfer to the private sector. Disbursements from the old fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, for any claim with a date of injury on or before June 30, 2005.

6. Deficit Funding Plan (continued)

"Senate Bill 1004" further establishes a workers' compensation debt reduction fund in the state treasury for the deposit of monies received after June 30, 2005, including certain funds designated in Code §4-11a-2(d): $30 million to be received annually until 2025 from the tobacco master settlement agreement, and Code §29-22A-10,10b: an estimated $11 million to be received annually from the video lottery income, and Code §11-13V-4: new and additional severance taxes imposed estimated to yield an approximate $90.2 million annually, Code §11-21-96: personal income tax proceeds of approximately $45 million annually, and code §23-2C-3(f)(3): monthly premium surcharges to be collected for all WV employers expected to yield $54 million annually. The net proceeds from collection of these monies are to be dedicated to paying the unfunded liability in the workers' compensation fund until fully paid or paying debt service on bonds sold to raise funds to pay the unfunded liability in the workers' compensation fund.

7. Pension Plan

Plan Description. **-** The WCC contributes to the West Virginia Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the West Virginia Consolidated Public Retirement Board (CPRB). PERS provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 5, Article 10 of the West Virginia Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. CPRB issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report can be obtained by writing to CPRB, Capitol Complex, Building 5 Room 1000, Charleston WV 25305.

Funding Policy. **-** Plan members are required to contribute 4.5% of their annual covered salary and the WCC was required to contribute 9.5% of covered employees' salaries for the prior fiscal year and is required to contribute 10.5% for the current fiscal year. The contribution requirements of plan members and the WCC are established and may be amended by the PERS Board of Trustees, subject to limitations set by the West Virginia Legislature. The WCC's contributions to PERS for the years ended December 31, 2005 was $12,808. Of this amount, $11,238 was to provide for five year of additional PERS service for those employees that transferred from the WCC to BrickStreet.

8. Commitments and Contingencies

Contingent Liability for Self-Insured Employers

An employer who has been granted self-insured status for workers' compensation insurance coverage must post security with the WCC for an actuarially determined amount of their liabilities incurred with dates of injury prior to July 1, 2004. Payments made for claims of employees of defaulted self-insured employers for injuries prior to July 1, 2004 will be made from the Self-Insured Security Pool established by Legislative Rule 19. The assets of the Security Pool consist of the proceeds received from the security held by the WCC and any necessary assessments made to active self-insured employers for the default of a self-insured employer. To date, no assessments have been made for the Security Pool since its establishment in 2004.

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

To the extent a self-insured employer cannot meet its obligations under the Law, the two self-insured pools discussed above remain contingently liable for all policy benefits. The only sources of revenue permitted under the law to fund the Security Pool and the Guaranty Pool must be obtained from self-insured employers. Self-insured employers are considered joint and severally liable for the obligations of a defaulted self-insured employer. The WCC has estimated the liabilities of self-insurers who have not defaulted at $295 million as of December 31, 2005, discounted at 5.0%. This estimate has been derived excluding any contingency margin that is included in the liability estimated used for security requirement purposes. At December 31, 2005 the security held by the WCC from self-insured employers was $373 million, including $21.9 million in security received from six self-insured employers who were required to post prospective security. The amount has not been included in the estimated liabilities for unpaid claims and claim adjustment expenses because the likelihood of future self-insurer defaults has not been estimated.

Risk Management

The WCC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

8. Commitments and Contingencies (continued)

The WCC has obtained health coverage for its employees through its participation in the Public Employees Insurance Agency (PEIA). In exchange for the payment of premiums to PEIA, the WCC has transferred its risk related to health coverage for employees. Additionally, the WCC has obtained coverage for job-related injuries through its participation in its own public entity risk pool. Accordingly, the WCC retains the risk associated with the payment of claims reported and claims incurred but not reported.

The WCC participates in the West Virginia State Board of Risk and Insurance Management (WVBRIM), a public entity risk pool, to obtain coverage for general liability and property damage. WVBRIM is a State agency established by the Legislature in 1957 to provide property and liability insurance coverage for state and local governmental entities including the WCC. This coverage is offered in exchange for an annual premium. There have been no claim settlements exceeding the WCC's general liability insurance coverage for the past three fiscal years.

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

Premium Advance Deposits

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

9. Segment Information

The WCC provides three types of insurance coverage. Segment information for each type of coverage for the six months ended December 31, 2005 is as follows (in thousands):

	Workers' Compensation (WCF)	Coal-Workers' Pneumoconiosis (CWPF)	Employers' Excess Liability (EELF)	Total
Fixed asset additions	$ 3,278	$ -	$ -	$ 3,278
Fixed asset deletions	31	-	-	31
Total assets	1,191,802	254,278	30,211	1,476,291
Estimated liability for unpaid claims and claim adjustment expenses	3,400,400	189,200	3,800	3,593,400
Net assets (deficit)	(2,249,280)	64,041	26,411	(2,158,828)
Operating revenues	394,317	5,484	7,202	407,003
Operating income	147,981	632	6,933	155,546
Depreciation	463	-	-	463
Change in net assets	158,605	6,265	7,703	172,573

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
Supplemental Revenue and Reserve Development Information
(Unaudited)

GASB standards require the presentation of ten years supplemental revenue and reserve development information, if available. The table on the following page illustrates how the WCC's earned revenues and investment income compare to related costs of loss and other expenses assumed (on a discounted basis) as of the end of each of the last 10 years, (six months ended December 31, 2005 for the fiscal 2006 information) as available.

The rows of the table are defined as follows:

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

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

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

WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
Supplemental Revenue and Reserve Development Information
(Unaudited)
As of December 31, 2005
(Dollars in Millions)

	Fiscal and Policy Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Premium	$509.8	$519.2	$556.9	$582.3	$597.2	$600.2	$568.7	$678.8	$736.0	$387.6
Investment income (loss)	98.0	139.1	97.3	106.7	32.1	(23.7)	47.3	23.8	74.1	18.7
Total income (1)	607.8	658.3	654.2	689.0	629.3	576.5	616.0	702.6	810.1	406.3
Other expenses (2)	44.8	40.2	47.2	51.7	51.4	59.5	61.2	66.0	73.8	59.1
Original incurred loss (3)	240.8	329.7	339.2	233.9	261.9	428.9	411.0	353.4	307.6	137.9
Cumulative payments (4):										
Year 1	66.5	70.5	80.5	78.8	82.0	88.8	87.1	71.0	72.6	18.5
Year 2	146.6	175.7	186.7	197.2	207.6	220.5	194.2	152.1	113.9	
Year 3	196.7	229.2	249.2	273.3	283.8	291.3	244.1	168.9		
Year 4	226.4	266.2	297.6	325.2	327.6	327.1	255.8			
Year 5	248.0	298.1	332.7	355.9	352.8	336.3				
Year 6	268.5	322.7	354.9	374.6	359.6					
Year 7	286.1	339.7	369.0	380.2						
Year 8	298.6	351.8	373.9							
Year 9	306.9	355.8								
Year 10	311.5									
Re-estimated incurred claims and expenses (5):										
Year 1	240.8	329.7	339.2	233.9	261.9	428.9	411.0	353.4	307.6	137.9
Year 2	322.8	351.0	399.2	409.6	421.6	488.8	470.7	316.6	306.7	
Year 3	328.2	380.2	398.7	440.1	488.6	512.8	385.9	310.8		
Year 4	345.1	386.5	425.9	498.2	497.1	429.5	382.7			
Year 5	336.8	406.1	476.8	512.0	454.8	441.7				
Year 6	354.2	438.9	473.4	471.1	448.5					
Year 7	381.3	436.0	457.3	473.7						
Year 8	380.6	428.9	456.8							
Year 9	377.9	429.9								
Year 10	367.7									
Increase (decrease) in estimated incurred claims and expense from end of policy year (6)	126.9	100.2	117.6	239.8	186.6	12.8	(28.3)	(32.2)	(0.9)	-

See accompanying independent auditors' report

WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
Supplemental Reconciliation of Claims Liabilities by Type of Contract Information
(Unaudited)
(In Thousands)

The table below presents WCF, CWPF and EELF's changes in claims liabilities discounted at 5.0% as of December 31, 2005. Losses include claim adjustment expenses.

	December 31, 2005			
	WCF	CWPF	EELF	Total
Unpaid claims and claim adjustment expenses at June 30, 2005	$ 3,443,300	$ 189,200	$ 3,800	$ 3,636,300
Claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	135,335	1,726	880	137,941
Changes in provision for insured events of prior fiscal years	(31,133)	(1,759)	(930)	(33,822)
Amortization of discount	83,477	4,674	95	88,246
Total claims and claim adjustment expenses	187,679	4,641	45	192,365
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(18,362)	(108)	(1)	(18,471)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(213,732)	(4,533)	(44)	(218,309)
Total payments	(232,094)	(4,641)	(45)	(236,780)
Change in provision for DWRF receivable	1,515	-	-	1,515
Total unpaid claims and claim adjustment expenses at December 31, 2005	$ 3,400,400	$ 189,200	$ 3,800	$ 3,593,400

OTHER FINANCIAL INFORMATION

Suttle & Stalnaker
CERTIFIED PUBLIC ACCOUNTANTS

Business Advisors and Consultants

INDEPENDENT AUDITORS' REPORT ON
OTHER FINANCIAL INFORMATION

The Board of Managers
West Virginia Workers' Compensation Commission

We have audited and reported separately herein on the financial statements of the West Virginia Workers' Compensation Commission as of and for the six months ended December 31, 2005. Our audit was made for the purpose of forming an opinion on the financial statements of the Workers' Compensation Commission, taken as a whole. The information on pages 44 through 46 is presented for purposes of additional analysis of the financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Suttle & Stalnaker, PLLC

Charleston, West Virginia
January 26, 2007

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WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
Schedule of Balance Sheet Information
December 31, 2005
(In Thousands)

	Workers' Compensation (WCF)	Coal Workers' Pneumoconiosis (CWPF)	Employers' Excess Liability (EELF)	Total
Assets				
Current assets				
Cash and cash equivalents	$ 1,135,405	$ 254,278	$ 30,211	$ 1,419,894
Premiums receivable, net	28,247	-	-	28,247
Disabled workers' relief fund receivable	20,115	-	-	20,115
Total current assets	1,183,767	254,278	30,211	1,468,256
Noncurrent assets				
Office equipment and furniture, net	8,035	-	-	8,035
Total noncurrent assets	8,035	-	-	8,035
Total assets	$ 1,191,802	$ 254,278	$ 30,211	$ 1,476,291
Liabilities				
Current liabilities				
Estimated liability for unpaid claims and claim adjustment expenses	$ 366,500	$ 8,100	$ -	$ 374,600
Premium advance deposits	32,776	1,037	-	33,813
Compensated absences	856	-	-	856
Accrued expenses and other liabilities	5,266	-	-	5,266
Total current liabilities	405,398	9,137	-	414,535
Non current liabilities				
Estimated liability for unpaid claims and claim adjustment expenses	3,033,900	181,100	3,800	3,218,800
Compensated absences	1,784	-	-	1,784
Total noncurrent liabilities	3,035,684	181,100	3,800	3,220,584
Total liabilities	3,441,082	190,237	3,800	3,635,119
Net Assets (Deficit)				
Net assets (deficit)	(2,249,280)	64,041	26,411	(2,158,828)
Total liabilities and net assets	$ 1,191,802	$ 254,278	$ 30,211	$ 1,476,291

See accompanying independent auditors' report.

WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
Schedule of Revenues, Expenses and Changes in Net Assets (Deficit) Information
Six Months Ended December 31, 2005
(In Thousands)

	Workers' Compensation (WCF)	Coal Workers' Pneumoconiosis (CWPF)	Employers' Excess Liability (EELF)	Total
Operating revenue				
Net premiums	$ 374,867	$ 5,484	$ 7,202	$ 387,553
Other operating revenue, net	19,450	-	-	19,450
Total operating revenue	394,317	5,484	7,202	407,003
Operating expense				
Claims and claim adjustment expenses	187,679	4,641	45	192,365
General and administrative	58,194	211	224	58,629
Depreciation	463	-	-	463
Total operating expense	246,336	4,852	269	251,457
Operating income	147,981	632	6,933	155,546
Nonoperating revenue				
Investment earnings	13,098	2,271	312	15,681
Net increase (decrease) in the fair value of investments	(784)	3,362	458	3,036
Net nonoperating revenue	12,314	5,633	770	18,717
Income before transfers	160,295	6,265	7,703	174,263
Transfers out	(1,690)	-	-	(1,690)
Change in net assets	158,605	6,265	7,703	172,573
Net assets (deficit), July 1, 2005	(2,407,885)	57,776	18,708	(2,331,401)
Net assets (deficit), December 31, 2005	$ (2,249,280)	$ 64,041	$ 26,411	$ (2,158,828)

See accompanying independent auditors' report.

WEST VIRGINIA
WORKERS' COMPENSATION COMMISSION
Schedule of Cash Flows Information
Six Months Ended December 31, 2005
(In Thousands)

	Workers' Compensation (WCF)	Coal Workers' Pneumoconiosis (CWPF)	Employers' Excess Liability (EELF)	Total
Cash flow from operating activities				
Receipts from policyholders	$ 408,159	$ 5,911	$ 3,076	$ 417,146
Payments to claimants and providers	(230,673)	(4,641)	(45)	(235,359)
Payments to employees	(40,296)	(211)	(26)	(40,533)
Payments to suppliers	(21,038)	-	(198)	(21,236)
Net cash provided by operating activities	116,152	1,059	2,807	120,018
Cash flows from noncapital financing activities				
Operating transfers out	(1,690)	-	-	(1,690)
Net cash used by noncapital financing activities	(1,690)	-	-	(1,690)
Cash flows from capital and related financing activities				
Purchases of capital assets	(3,278)	-	-	(3,278)
Net cash used by capital and related financing activities	(3,278)	-	-	(3,278)
Cash flows from investing activities				
Investment earnings	13,098	2,271	312	15,681
Net increase (decrease) in the fair value of investments	(784)	3,362	458	3,036
Net cash provided by investing activities	12,314	5,633	770	18,717
Net increase in cash and cash equivalents	123,498	6,692	3,577	133,767
Cash and cash equivalents - July 1, 2005	1,011,907	247,586	26,634	1,286,127
Cash and cash equivalents - December 31, 2005	$ 1,135,405	$ 254,278	$ 30,211	$ 1,419,894
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income	$ 147,981	$ 632	$ 6,933	$ 155,546
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Loss on disposal of assets	13	-	-	13
Depreciation	463	-	-	463
Change in assets and liabilities				
Premium receivable, net	168,517	2,592	1,567	172,676
Disabled workers' relief fund receivable	(1,515)			(1,515)
Premium advance deposits	(153,160)	(2,165)	(5,693)	(161,018)
Estimated liability for unpaid claims and claims adjustment expense	(42,900)	-	-	(42,900)
Compensated absences	(3,154)	-	-	(3,154)
Accrued expenses and other liabilities	(93)	-	-	(93)
Net cash provided by operating activities	$ 116,152	$ 1,059	$ 2,807	$ 120,018

See accompanying independent auditors' report.